

**CENTRAL POLICY UNIT
HONG KONG SPECIAL ADMINISTRATIVE REGION**

**CONSULTANCY STUDY ON
SOCIAL, ECONOMIC AND POLITICAL
DEVELOPMENTS
IN THE MAINLAND,
WITH PARTICULAR EMPHASIS ON
REGIONAL DEVELOPMENTS AND
THE GUANGDONG PROVINCE**

SIXTH BI-MONTHLY REPORT

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EXECUTIVE SUMMARY

1. The case of toxic milk powder calls for stronger Hong Kong-Mainland cooperation in monitoring food safety

This September, the Mainland found a number of baby formulae to be tainted with melamine, a chemical substance which can cause urinary tract stones. Hong Kong panicked, as children who consumed certain brands of Mainland milk were diagnosed with kidney stones. The uncovering of substandard food products reflects lack of self-discipline among Mainland businessmen. The government is thus left to take up most of the monitoring and supervision responsibilities. With most of Hong Kong's foodstuffs imported from the Mainland, the two sides should work even closer in terms of gate keeping, monitoring and regulating the industry to ensure food safety. The most urgent task now is to unify the food safety standards in Hong Kong and the Mainland. Currently, the Mainland adopts much looser standards in regulating melamine content in food; strict standards only apply to products with high dairy content such as baby formula, powdered and liquid milk; other melamine-tainted non-dairy foodstuff such as egg and meat are likely to continue to find their way to Hong Kong. If the authorities fail to guard against these products, Hong Kong residents may be consuming excessive levels of melamine to the detriment of their health. As such, Hong Kong and the Mainland should look deeper into the food safety standards adopted by each side and work towards a mutually agreeable set of benchmarks.

2. Opportunities for Hong Kong arising from China's move to promote East Asian cooperation

Trade among East Asian countries experienced rapid growth in recent years, the strategic development of "10+3" cooperation, which focuses on the economic aspects is not only consistent with global trends but is also a means for the Asian region to advance its level of economic development. The outbreak of the global financial crisis in 2008 further raised the urgency and willingness of the 13 constituents to speed up the establishment of a common monetary fund. On October 24, 2008, China, Japan, South Korea and the 10 ASEAN leaders reached an agreement to start a US\$80 billion foreign exchange pool and set up a multilateral currency swap scheme for the Asian region, signaling an important move towards the unification of the 13 East Asian countries. On this basis, the development of an Asian bond market can be promoted to help strengthen the region's infrastructure

support. Should things go smoothly, “10+3” could well outperform the achievements made under the North American Free Trade Agreement (NAFTA), and become the third economic power after European Union and NAFTA. Hong Kong would enjoy vast potentials with the fostering of closer cooperation within the “10+3” region, as the city has long been playing the intermediary role in providing transport, business and financial services for its constituents.

3. Globalization, integration of regional economies and Pan-YRD cooperation

The expansion of YRD cooperation is inevitable given the positive results achieved under the Pan-PRD cooperation efforts in recent years, and the growing trend of widening regional development on the Mainland. In August 2008, the State Council passed the move to promote regional cooperation in the Pan-YRD region, and to strengthen cooperation in the region’s economic, technical and human resources areas to spur the development of China’s Central and Western Region. Located near the YRD region, Anhui and Jiangxi boast of abundant land resources and low-cost labour, plus vast market potentials, providing the YRD with an ideal hinterland. As YRD industries relocate towards these two provinces, enterprises in Jiangsu, Zhejiang and Shanghai would be able to upgrade their industries at a faster pace. Advanced development in the fields of business services, convention and exhibition, logistics, information services, and technological services, in particular, would bring new opportunities for Hong Kong’s services industries. Moreover, the rapid expansion of the YRD region would also trigger a series of development in its periphery, opening unprecedented potential for Hong Kong’s services providers to tap the markets in the Central provinces of Anhui and Jiangxi. Cooperation can be strengthened in the areas of transportation infrastructure and tourism.

4. Beijing’s plans to develop into an international financial centre and its impact on Hong Kong

In May 2008, Beijing announced the “Opinions on Promoting the Development of the Capital’s Financial Industry”, and proposed the introduction of a comprehensive set of policy support system, a multi-level financial market, multi-faceted organization of financial institutions and multi-dimensional financial services; transforming Beijing into an internationally-influential financial hub. As the capital of Mainland China, Beijing is home to all State Council departments overseeing the economy, the central bank and regulators of the banking, securities and insurance industries. Compared with other Mainland cities, Beijing’s strength as a financial hub lies in its unique position as the place where major policies are

formed, where authorities can be accessed, and where important information is generated. However, there is still much to be done for Beijing to be able to transform into a full-fledged international financial centre. As the Mainland has not fully-opened its capital account, it is impossible for Beijing to become an international financial platform capable of providing global financial services. In effect, Beijing is not a material threat to Hong Kong's position as an international financial centre. It would be worthwhile for Beijing to first learn from the experiences of Hong Kong and strengthen its pool of human resources, as well as ability to regulate the financial industry and provide innovative financial services.

5. Pilot-testing of Guangdong-Hong Kong logistics zones

To speed up Guangdong's establishment of a modern industrial system, keep up with the overall strategy of modernizing its logistics industry, and implement the Supplement V to CEPA, which aims to test the waters for further opening up of Mainland services industries to Hong Kong participants and deepen the cooperation between Guangdong and Hong Kong, piloting-testing logistics zones housing both Hong Kong and Guangdong ventures are being developed in the cities of Guangzhou, Shenzhen and Foshan. Hong Kong's extensive experience and advanced set ups would be helpful in promoting the development of Guangdong's logistics industry. By joining efforts, the two sides will be better equipped to cultivate the vast Mainland logistics market. Hong Kong industry players are familiar with international practices, possess solid global network and are well-versed with the latest industry applications of electronic technologies. These strengths can assist Guangdong enterprises when tapping overseas markets. Guangdong industry players, meanwhile, are familiar with the Mainland way of operation and have long established local networks. With pilot-testing zones established, the two sides will be able to provide clients with more comprehensive and more efficient services. Guangdong and Hong Kong should also take advantage of this opportunity to explore other possibilities for cooperation in the logistics industry; examples of these include reform and integration of management systems, coordinating infrastructure development, assimilating technologies and industry standards, and human resources development and exchange.

6. A new mode of environmental cooperation is ushered in with the "Green Greater-PRD" concept

During the 11th Meeting of the Guangdong/Hong Kong Cooperation Joint Conference held on August 8, 2008, an environment- and sustainable

development-oriented plan for “Developing the Greater-PRD Region into a Green and Quality Living Area” was announced. The plan moves away from the traditional ways of cooperating in individual pollution-control projects and adopts a comprehensive, all-rounded, and forward-looking mode of environmental cooperation encompassing the entire Greater-PRD region. Building on the foundation already established when Guangdong and Hong Kong joined efforts in tackling air and water quality control and monitoring, the two sides would expand cooperation to areas such as recycling industries, clean production, renewal energy sources, environment surveillance, information exchange, and promoting environmental protection. The move would help the Greater-PRD region develop in an environment-friendly and sustainable mode. The change in the mode of cooperation is also a sign that the two governments have taken the initiative to respond to the need for regional development and highlights their strong sense of responsibility, laying solid grounds for geographically wider, functionally broader and higher levels of regional cooperation during the 11th and even 12th Five-Year Plan period.

7. Coordinating the development of industries in Foshan and Hong Kong

Closely tied to Guangzhou, Foshan is well positioned to benefit from the spill-over effects of Guangzhou’s rapid development. Currently, the two cities are working towards integrating with each other to create a vibrant “Guangzhou-Foshan Metropolitan Area”. In light of this, Foshan needs to build on its existing strengths and prioritize the development of a modern manufacturing industry by introducing high-technology, high value-added, non-polluting and low-energy consuming contents into its traditional manufacturing industry. Going forward, cultural and creative industries would also be developed so that Foshan can fully transform its industrial structure and enhance its competitiveness. With the faster pace of restructuring of Foshan industries, Hong Kong’s investment in Foshan can be more diverse. If resources of both sides can be effectively utilized, economic and trade cooperation between Foshan and Hong Kong would be able to achieve new heights.

8. Expanding the cooperation between Shantou and Hong Kong

Having fallen to its trough and trailed behind all other Guangdong municipalities during the Tenth Five Year Plan period, Shantou came up with the strategy of developing “three economic belts” in 2004: first is an economic belt for the cities in the eastern district, second is an industrial belt and third is an ecology belt. The

intention is to take advantage of the natural strengths of Shantou to reinstate its status as a major coastal economy. With the past few years' hard work, Shantou has started to recover. Under the new development plan, Shantou has reconsidered the strengths of its coastal location, enabling it to achieve rapid economic development via industrialization, and providing new opportunities to foreign investors. Given such a backdrop, there is much room for Shantou and Hong Kong to step up cooperation. In particular, stronger economic and trade cooperation can be fostered under the CEPA framework, and as an international financial centre, Hong Kong can serve a role in facilitating investment inflow into Shantou as well as assisting Shantou enterprises to "go out".