

28 August 2017

Mr Patrick Nip Tak-kuen, JP  
Secretary for Constitutional and Mainland Affairs  
12/F, East Wing, Central Government Offices  
2 Tim Mei Avenue, Tamar  
Hong Kong

Dear Patrick,

**Bolster the Flows of Capital, People, Goods and Services in the Greater Bay Area**

1. At our doorsteps, the Greater Bay Area (GBA) represents a key priority for Hong Kong to utilise and enhance our long-standing strengths to seize the opportunities it opens up. **Enhanced, and preferably seamless, cross-border movements of capital, people, goods and services within the GBA are essential ingredients for its successful development.** As cities in the GBA fall under different customs zones as well as legal and administrative systems, such improvement in cross-border movements will depend much on positive efforts to strengthen cross-institutional cooperation and collaborative interaction across the region. In light of the opportunities and challenges brought about by the GBA, the Chamber is putting forward the following suggestions for the Government's consideration:

***I. Revisiting the Hong Kong 2030+ study from a regional perspective***

2. Spearheaded by the Government, the *Hong Kong 2030+* study is branded as a “vision-driven, pragmatic and action-oriented strategic plan”, which highlights challenges that Hong Kong will face in creating a quality living environment. In an earlier Chamber submission, we, in principle, welcomed the Government's proposals under the updated master plan, but worried about how various master plans such as “Hong Kong 2030+,” “Hong Kong Smart City Blueprint,” “Hong Kong's Climate Action Plan 2030+” and “Railway Development Strategy 2014” might align with each other ([see here](#)).

3. Indeed, the submission raised the concern that the *Hong Kong 2030+* study did not adequately explore wider opportunities presented by regional cooperation, such as those brought by the GBA development. For instance, with the increasing connectivity with the neighbouring cities, we may be able to further diversify our economic mix, so that Hong

Kong could become an even more embedded centre of trade, finance and professional services, thereby expanding Hong Kong's overall economic pie. Therefore, we suggest that **the Government should take a fresh look at the overall development strategy of Hong Kong from a broader perspective, and develop a more comprehensive regional-inclusive plan accounting for better cooperation with Shenzhen and other GBA cities.**

## ***II. Strengthening capital flow by utilising Hong Kong's financial architecture***

4. As suggested in the *Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area* signed on 1 July, Hong Kong can solidify its position as an international financial centre through contributing to the development of the GBA. To strengthen capital flow both within and outside the region, **Hong Kong should consider measures to help facilitate further RMB internationalisation, establish the Commodity-Connect, and bolster our status as the asset management centre in the region.**

5. To strengthen our position as the leading offshore RMB centre, **the Hong Kong Government should discuss with our Mainland counterparts to extend the pilot scheme for the free trade zones to act as the designated fund flow-back channel to cities in the GBA.** By doing so, it will provide alternative channels for offshore RMB to flow back to onshore, thereby giving more options for the liquidity sitting offshore. Such an arrangement will also improve the sensitivity to interest rates and market demand for offshore RMB funds, which in turn should expedite the RMB internationalisation process.

6. As the top IPO market in the world, Hong Kong's financing and refinancing market is second to none in the region, comprising a broad-based international source of investments. On the back of the success of the Shanghai- and Shenzhen-Hong Kong Stock Connects, **the establishment of the Commodity-Connect between Hong Kong and Shenzhen will bring mutual benefits to the financial markets and investors.** Since many international companies are currently using Hong Kong as a platform for managing risk in the region, they could then diversify their asset holdings by entering the highly liquid commodity futures market. As for commodity traders in Southern China, where commodity prices are not synchronized with those in the international market, the launch of the Commodity-Connect will offer a solution.

7. With a high concentration of international fund managers and capital, Hong Kong offers a diversified basket of investment products for investors. As of the end of 2016, there were 2,779 SFC-authorized collective investment schemes, and 133 Exchange Traded Funds (ETFs) listed. Through the Mutual Recognition of Funds (MRF) scheme in January 2017, 54 cross-border funds (6 local funds and 48 funds in the Mainland) were approved to be traded publicly. The Chamber believes that **both Hong Kong and the Mainland are set to benefit from the enhanced connectivity and tradability should the MRF be liberalised and an increased number of local funds be open to Mainland investments.** With almost half of Hong Kong's fund assets are managed overseas, extending the coverage of the MRF to include Hong Kong's overseas-managed funds may provide a broader spectrum of

investment vehicles for Mainland investors, as well as incentivize foreign asset managers to establish operations in Hong Kong.

### *III. Enhancing the movement of people and goods through port and airport partnership*

8. The GBA initiative provides an excellent opportunity for the region's ports and airports to solidify their positions. Hong Kong is a distribution centre for goods in South China and a major transshipment hub while the other ports are mainly handling direct cargo. The strengthened collaboration between these ports should enhance the overall capability and capacity of the whole GBA. Meanwhile, better airspace coordination among the GBA airports could improve airport capacity, route efficiency and flight safety.

9. **With the completion of the Zhuhai-Hong Kong-Macao Bridge and the Express Rail Link in sight, the improved land connectivity would be conducive to structured cooperation among the region's airports and ports in terms of passenger and cargo transfers.** For business travellers who use business jets to travel in the region, they would welcome any transport plan of utilizing the Bridge or helicopter flights between Hong Kong and other GBA airports. A helicopter arrangement between the airports could be established as a pilot scheme under the GBA initiative, subject, of course, to airspace and helicopter slot availability. To further grow the air cargo business in the GBA, collaboration between the Hong Kong and Zhuhai airports should be encouraged, so as to capture the opportunities generated by the rapid development in the west GBA. We look to the Government for leadership in working with the Zhuhai authorities in facilitating developments on this front.

### *IV. Introducing pilot schemes in the Lok Ma Chau Loop to stimulate people and capital flows*

10. The fight for talent is a global phenomenon, and the success in attracting and retaining talent, especially higher-level talent, to work in Hong Kong and the region is of the utmost importance for the development of the GBA. Recognising that free flow of people is essential to make the collaboration in the GBA sustainable, **the Government should consider some sort of visa system that would give rights to selected categories of GBA residents to come to Hong Kong for work and business. Such visas could be granted to workers in the Loop under a pilot scheme, and could follow the practice of the APEC cards.**

11. Another pilot scheme which could be considered using the Loop as a testing ground is to relax the application requirements for research funding to stimulate innovation- and creativity- related activities. In short, **research funding sourced in both Hong Kong and Mainland could be open to all research institutes setting up in the Loop.** While such a cross-border arrangement will require governments' collaboration, it will strengthen research

cooperation between the Mainland and Hong Kong institutions, and thereby boost the overall competitiveness of the GBA on innovation and technology.

#### ***V. Introducing special working visa and tax arrangements to enhance people flow***

12. Under the *Arrangement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income* with the Mainland, **a Hong Kong resident who works or stays in the Mainland exceeding in the aggregate 183 days in any 12-month period should report to the Mainland government and be subject to the Mainland’s individual income tax schedule.** In practical terms, this arrangement not only hinders the mobility of Hong Kong professionals working in the Mainland (i.e. people flow), but could also slow down the development of the GBA. Therefore, **the Chamber proposes that considerations should be given to extending the length of the Substantial Presence Test to, say, 200 days, or to providing Hong Kong residents the option of paying Hong Kong tax.**

13. It is noted that to encourage overseas talent working in Qianhai, Qianhai has provided subsidies for individual income tax since 2013. According to the policy, “[f]or the individual income tax from wages and salaries paid by overseas high-level and short-supplied talent working in the preferential industries in Qianhai, the amount exceeding 15% of taxable income from wages and salaries shall be given full subsidy by Shenzhen Municipal People’s Government”. Hengqin has adopted a similar policy. **The Chamber hopes that similar preferential policies could be implemented in Nansha and potentially in the entire GBA** so as to encourage talent flow in the area. Alternatively, **the Government could negotiate with the relevant Mainland authorities to issue a special working visa to Hong Kong citizens working in the GBA who will then be subject to a concessionary tax rate.**

14. Meanwhile, it is also noted that a concessionary rate of 15% on corporate income tax for encouraged industrial enterprises (i.e. modern logistics, information services, science and technology services, and cultural creative industries) has been introduced in Hengqin and Qianhai within the GBA.<sup>1</sup> To encourage more Hong Kong investment going into these industries in the GBA, the Chamber hopes that **the Government can convince the other local governments in the GBA to adopt similar tax concessions.**

#### ***VI. Pursuing a circular economy through an increased flow of spent materials***

15. On the back of the improving connectivity within the GBA, greater collaboration will offer opportunities to pursue a circular economy in the region, which this Chamber proposed back in 2010. By definition, a circular economy is a way of minimizing excessive consumption and a means of re-using and recycling spent materials which would otherwise be treated as waste. Riding on the GBA cities’ industrial capacity for absorbing and re-

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<sup>1</sup> [Finance and tax \[2014\] No. 26](#)

manufacturing recyclable materials, and Hong Kong's management and supply chain expertise, there are potentials to build a circular economy for the region.

16. As the development of a regional model of circular economy would involve jurisdictions with currently different environmental standards, the Chamber recognises that there is a need for substantial government-to-government coordination and negotiation, in the areas of setting guidelines and finding solutions to deal with challenges in order to effectively pursue a circular economy. As such, **the Government should start the discussion with GBA counterparts on the establishment of a regional circular economy, which hopefully could help address the waste problem faced by Hong Kong as well as other GBA cities.** In addition, incorporation in the GBA blueprint and successful handling of other environmental issues (e.g. air, water and land pollution) will have a material positive impact on people's health and livelihoods in the decades ahead, as would be reasonably expected by a GBA population of increasing affluence, education and wealth. The resulting enhancement in the region's quality of life should increase the GBA's attractiveness to both businesses and talent.

#### ***VIII. Establishing a GBA Office and a GBA Working Committee to strengthen regional understanding, contact and information flow***

17. Having gone through rapid development in the past decades, the 11 GBA cities have developed their own unique advantages, expertises, economic structures and needs, and such information may not be completely understood or transparent to many local businesses both here and across the GBA. **The Government should set up a GBA Office to formulate proposals, strategies, and policy directions, and define Hong Kong's potential participatory role in the development and economic growth of the GBA.** The Office will be the agency to facilitate smooth and effective implementation of the GBA policies, coordination with relevant governments in the region, and dissemination of official GBA information to the general public. An annual senior official meeting and the establishment of working-level contact points among the GBA cities should also be developed.

18. The Government should consider integrating existing resources to help Hong Kong businesses gain a better understanding of the GBA opportunities and act on them in a more effective manner. Currently, the Economic and Trade Office in Guangdong, InvestHK, the Trade Development Council, and the Hong Kong Productivity Council are all undertaking promotion and industrial services activities in the GBA in a parallel manner. In addition, many industry and business associations are also providing different kinds of services for and information on the development of the GBA.

19. As such, **the Government should set up a working committee to promote regular exchanges among these public and statutory agencies and business associations.** This will lead to more effective and focused flow of information which will help Hong Kong enterprises better grasp the development opportunities in the GBA.

### *Conclusion*

20. Over the past few decades, the overall development of the Pearl River Delta, or the GBA, has arguably lacked intra-regional coordination and collaboration. Each working on its own and without proper consideration of the development of neighbouring cities, the GBA cities have often found themselves developing similar industries in parallel. As the Central Government is putting emphasis on the development of the GBA, it is hoped that cities within the region can leverage each other's strengths and uniqueness, and foster the overall GBA development by focusing on industries supplementary and complementary to each other. All in all, a new cooperation model is needed to unify and optimise all city economies in the GBA.

21. Looking ahead, Hong Kong must focus on the areas where it possesses competitive advantages, leveraging its established expertise as an international financial, shipping and logistics, offshore RMB, and dispute resolution centre. The unique features offered by the "one country, two systems", Hong Kong's adherence to the rule of law, our proximity to the GBA manufacturing base, our expertise in financial and professional services as well as our international exposure should allow us to play an instrumental role in the development of the GBA. Riding on such development, Hong Kong may be able to achieve some breakthroughs in areas where we have encountered bottleneck in recent years, such as those related to housing and land shortage, opportunities for youth, education, and elderly care.

22. This submission reflects the initial feedback on the GBA development by the Chamber. We have also sent an identical letter to the Secretary for Commerce and Economic Development for his consideration and we look forward to facilitating further exchanges between the Government and the business community going forward.

Yours sincerely,



Stephen Ng  
Chairman