

Submission on the 12th Five Year Plan

Hong Kong General Chamber of Commerce

As the country is formulating the 12th Five Year Plan, the Hong Kong General Chamber of Commerce (the Chamber) has prepared this paper regarding the possible role of the Hong Kong Special Administrative Region (HKSAR), with the interests of the country's development in mind. The Chamber is submitting this paper to the HKSAR Government and the Central Government for consideration, with a view to present recommendations on how Hong Kong may capture the historic opportunity to contribute to the country's next phase of reform and development.

The inclusion of the HKSAR in the 11th Five Year Plan has been most encouraging for the Hong Kong business community, motivating businesses to participate in the country's development. Recognizing the evolving role in the context of the country's continuous development, we present recommendations on how Hong Kong businesses may continue to contribute in four specific aspects, namely the service sector, Hong Kong's integration with the Pearl River Delta, the financial industry, and regional cooperation in trade.

The Chamber comes up with these suggestions after consultation with our members, who embody the diverse and internationalised nature and values of Hong Kong's business community. Many of our suggestions are based on studies and discussions in the Chamber and with our stakeholders over a number of years, and represent our long term view about Hong Kong and its role in the country's developments.

1. Hong Kong's Historical and Future Role in China's Development

1.1 Hong Kong's role in the last 30 years

Hong Kong has been proactive in playing its role in contributing to the country's economic development in the past 30 years. As one of the biggest investors in the Mainland, Hong Kong's export of its manufacturing activities to the Mainland and provision of trade-related services has contributed to China's development as the "factory of the world".

In the Pearl River Delta, Hong Kong's role and contribution is most notable and significant. Hong Kong's manufacturing base has been relocated to the PRD, propelling the region into one of the fastest growth areas and a major economic engine in the whole country. On the other hand, Hong Kong has made use of its international port facilities and management expertise to help export Chinese-made products to the world, providing comprehensive upstream and downstream logistics services in support of China's successful export-led growth.¹

¹ Alex Fong, 'Seize the Day', CEO Message, The Bulletin (HKGCC monthly magazine), October 2008

During the period covered by the 11th Five Year Plan, with the support of the Central Government, Hong Kong has maintained its position as the international centre for finance, trade and shipping, through which Hong Kong continues to contribute to the economic development of the country². The cooperation between the Mainland and Hong Kong has been strengthened in respect of infrastructural construction, industrial development, resource utilization and environmental protection.

It is during the implementation of the 11th Five Year Plan that Hong Kong's importance as an international financial and business center was reaffirmed in the national economic development strategy. In addition, it is recognised that the real value of Hong Kong is in its free market entrenched with international norms and global connectivity.

Hong Kong has managed to achieve an intricate and effective combination of international and Mainland connectivity. As international capital is attracted to Hong Kong to invest in Mainland enterprises and other businesses with Mainland operations, Hong Kong becomes at the same time more international and more Mainland-oriented.

The essence of these two directions is turned into a huge advantage by Hong Kong because of its ability to synergise the interests and values of China and the outside world. That Hong Kong has been able to achieve this delicate task is attributable to favourable external factors in the economic reforms and opening up in the Mainland as well as Central Government policy support.

Hong Kong's businesses have always been responding proactively to the country's challenges and opportunities arising from the economic reforms and development. Looking ahead at the period covered by the 12th Five Year Plan, Hong Kong should continue to build on its position as the international centre for finance, trade and shipping, while at the same time add new dimensions to this existing role, with the objective of expanding its contribution to the country's economic development.

1.2 Hong Kong's role in the next 30 years

Businesses understand that Hong Kong's role will change as the country enters a new phase of economic development under the 12th Five Year Plan. The national strategy is expected to shift the emphasis to developing higher value-added economic activities, creating stronger domestic demand, promoting the gradual internationalisation of the RMB, and encouraging enterprises to "go out".

Hong Kong's businesses understand that the developments in the next five year period will lay the foundation for China's economic progress in the next 30 years or so. We are convinced that because of the country's vast and deep economic potential, in addition to having established itself as the factory of the world, China will develop into a prominent service-oriented economy in its next stage of development.

² Institute for International Economic Research NDRC, *Guidelines of the Eleventh Five-Year Plan for National Economic and Social Development*, 2006

Over the next five years, Hong Kong should proactively play its new role in facilitating the country's strategic developments. Hong Kong should continue to anchor its position on the basis of integration with the PRD, and seek to contribute to the development of the whole country. Hong Kong and its businesses have always been adept in changing its role according to developments. With the support from the Central Government and the HKSAR Government, Hong Kong businesses are confident that we will be able to continue leveraging our strengths in contributing to the country's growth and progress³.

2. Development of China's Service Sector

Hong Kong as an advanced service-oriented economy will play a unique and strategic role during the 12th Five Year Plan period, when the country is expected to significantly expand the service sector. Our service sector, contributing to more than 90% of the GDP⁴, is highly developed and competitive. In comparison, services constitute about 42%⁵ of the Mainland economy. We also notice the considerable difference in the size of the service economy between coastal and inland areas. Mainland statistics show that in 2009 the eastern region contributed to 58.2% of the national service economy, compared to the central region's 17.2%, the west's 16.7%, and the northeast's 7.9%⁶. Hong Kong therefore has a lot to offer in facilitating the development of the Mainland's service sector. Such views have been consistently advocated by the Hong Kong Coalition of Service Industries (HKCSI)⁷ over the years.

2.1 Vigorous implementation of CEPA at local levels

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the concept of which was first mooted in the Chamber and HKCSI, has been a key driver for Hong Kong businesses to participate in the Mainland market. Through expanding Hong Kong service industry's presence in the Mainland market under CEPA, Hong Kong will be able to help propel the Mainland's service industry to higher planes through Hong Kong's international network, quality assurance and best practices.

Hong Kong's participation in the PRD market can help lift the overall competitiveness of the PRD region. Market-driven, globally-oriented Hong Kong businesses will not only set high benchmarks for the relevant sectors and PRD players, but also help break down internal production and sales barriers through introducing international market forces into the PRD.

³ Alex Fong, 'Out of Crisis Comes Opportunities', CEO Message, The Bulletin (HKGCC monthly magazine), November 2008

⁴ Census & Statistics Department HKSAR, 'Hong Kong Social and Economic Trends', 2009 Edition

⁵ National Bureau of Statistics of China, 'Statistical Communiqué of the People's Republic of China on the 2009 National Economic and Social Development', 25 February, 2010

⁶ China Statistics Press, 'China Statistical Yearbook 2009', 2009 Edition

⁷ The Hong Kong Coalition of Service Industries was founded in 1990 by the Chamber as its service policy think tank. With representatives from more than 50 service sectors, the HKCSI is the major private sector voice for Hong Kong's service industries.

It is important to reap full benefits from CEPA, which requires rigorous promotion and implementation at the local levels. Much has been said about the problems of implementing CEPA at local levels, a phenomenon sometimes described as “small doors remaining closed despite the opening of the big door”. It would go a long way to support the effective implementation of CEPA if a joint Mainland-Hong Kong administrative body at national level can be formed specifically for the task.

2.2 Mutual recognition of professional standards

Professional services, representing one of Hong Kong’s economic pillars, have much to offer for the Mainland’s drive to elevate the service industry standards. Mutual recognition of professional standards and waiver of some existing requirements (such as those related to nationality and residence) according to the “early and pilot implementation” policy will promote faster growth in the service sector, as noted in the report of Hong Kong’s Greater Pearl River Delta Business Council⁸.

2.3 Human capital development

One of the key drivers of the service sector’s development is the quality of human capital. Hong Kong is a leading service economy of international standard. It is well placed to provide different levels of professional and management training to assist Mainland companies in improving productivity and reaching international standards.

In this regard, it will be a big boost if Hong Kong is designated in the 12th Five Year Plan as a “service sector knowledge transfer centre”. Hong Kong’s universities, consultancies and specialist companies are equipped with the required expertise and resources to transfer the know-how.

A manpower study by the HKCSI in 2009 has identified a number of potential collaboration opportunities for the Mainland and Hong Kong⁹:

- Universities and training institutions should open up a new segment in higher education in Hong Kong in the areas of academic and professional training for mature students, especially from the Mainland. The professional sector in need of manpower (e.g. accountants and architects) could be a driving force for this segment.
- The quota limiting Mainland students in taking up self-financed sub-degree and degree programmes should be relaxed.

⁸ Ad Hoc Group on the Outline of the Plan for the Reform and Development of the Pearl River Delta, The Greater Pearl River Delta Business Council, *Study Report in response to ‘The Outline of the Plan for the Reform and Development of the Pearl River Delta’*, September 2009, P. 12-13
http://www.cmab.gov.hk/doc/study_report.pdf (Accessible as of 26 February 2010)

⁹ HKCSI, *Report of the HKCSI Study Group on Education and Manpower*, February 2009

- Accredited institutions, including both universities and their continuing education arms, should be encouraged to attract more Mainland students to undertake part-time and distance-learning courses, as well as short term studies.
- During their study in Hong Kong, Mainland students should be allowed to undertake internship and part-time jobs which do not necessarily have to be on campus or in a field directly related to their study.

With the support of the Central Government, the implementation of the above measures will enable Hong Kong to make maximum contribution through knowledge transfer, while at the same time strengthen Hong Kong's credentials as an education and training hub for the service industries.

3. Integration with the PRD

3.1 PRD and Hong Kong's "Six Industries"

The Outline of the Plan for the Reform and Development of the Pearl River Delta 2008-2020 ("the Outline")¹⁰ has provided a framework for Hong Kong to develop close collaborations with the PRD in fostering regional development. First and foremost, the Outline has defined the PRD as a "pilot region for further reforms" which will continue its historic mission as the "experimental field" for nationwide reforms and an "important international gateway for expanding the opening-up program".

The Outline envisions the PRD to be a world-class base for advanced manufacturing and modern service industries. Through deepening integration, Hong Kong will help the PRD develop its service industries that match and complement the service sector in Hong Kong¹¹, creating a world-class cluster of services (shipping, logistics, trade, conferences and exhibition, and innovation) that serves the manufacturing base in the region.

The HKSAR Government has identified "Six Industries" that Hong Kong enjoys distinct advantages for development¹². One of the major advantages enjoyed by the "Six Industries" is their potential to complement the PRD's developments. For instance, in the sector of testing and certification, Hong Kong's trusted quality assurance can be leveraged in the development of region-wide standards and best practices. Mutual recognition of testing and certification results will help integrate the two markets further¹³.

¹⁰ National Development and Reform Commission, *Outline of the Plan for the Reform and Development of the Pearl River Delta*, December 2008

http://www.china.org.cn/government/scio-press-conferences/2009-01/08/content_17075239.htm
(Accessible as of 26 February 2010)

¹¹ Andrew Brandler, 'Chamber Visits Beijing', Chairman Message, The Bulletin (HKGCC monthly magazine), July 2009

¹² HKSAR, *2009-10 Policy Address*, October 2009

<http://www.policyaddress.gov.hk/09-10/eng/index.html> (Accessible as of 26 February 2010)

¹³ Working Group for Testing and Certification Industry, *Meeting notes*, (Unpublished), 23 September 2009

On a wider basis, the PRD and Hong Kong will forge a multi-layer community of industries in the peripheral areas and the Pan-Pearl River Delta Region, in which the different layers will complement each other and reinforce growth. To facilitate this strategic development, it is crucial for Hong Kong's advanced logistics industry to be allowed to take part in developing a supply chain of international standard in the PRD. Hong Kong's contribution will be mainly about standards setting with reference to international practices, sharing best practices, training of personnel and on the ground servicing.

3.2 Innovation and Technology

As one of the "Six Industries", Hong Kong has a lot to offer in innovation and technology, working with the PRD to develop the region into a world-class base for advanced manufacturing and modern service industries as envisioned in the Outline and in the context of the 12th Five Year Plan.

Hong Kong's universities are established and managed according to international norms. For those which are equipped with technological research capabilities, they can work with their counterparts and leading industries in the PRD, and those in other parts of the country, in respect of research and development, as well as the nurturing of talents, with a view to contributing to the country's independent innovation system¹⁴.

On the other hand, the Hong Kong Science and Technology Parks (HKSTP) can play a strategic role in fostering niche technologies which have major potential applications in the Mainland, such as RFID, LED lighting and renewable energy¹⁵. The HKSTP is also well placed to play a pivotal role as aggregator and integrator of international R&D best practices which have a direct relevance to areas of focus in the 12th Five Year Plan, such as sustainability and the environment.

3.3 Environmental Protection

3.3.1 Regional Approach and Low Carbon Economy

Environmental issues transcend geographical borders and this is most evident in the PRD and Hong Kong. There is common interest not only in controlling pollution according to common standards but also in building up a cross-border green industry.

Since the release of the Chamber's policy paper "Restoring Blue Skies: Review of the Policy Agenda on Air Pollution"¹⁶ in April 2008, we have been advocating a regional

¹⁴ Ad Hoc Group on the Outline of the Plan for the Reform and Development of the Pearl River Delta, The Greater Pearl River Delta Business Council, *Study Report in response to 'The Outline of the Plan for the Reform and Development of the Pearl River Delta'*, September 2009

¹⁵ One notable example is DuPont's decision to establish its Thin Film Photovoltaic Business Headquarters and Research and Development Centre in HKSTP and a major production facility in Shenzhen. The centre is the first major technology co-operation project of the "Shenzhen Hong Kong Innovation Circle"

¹⁶ Hong Kong General Chamber of Commerce, *Restoring Blue Skies: Review of the Policy Agenda on Air Pollution*, April 2008 <http://www.chamber.org.hk/appa/> (Accessible as of 26 February 2010)

approach in resolving the environmental issues. The policy paper was submitted to the HKSAR Government and many of the 43 proposals in the paper have been implemented by the HKSAR Government, such as measures to enable Hong Kong companies to take a more active role in CDM projects through CEPA. Going forward, Hong Kong will need to continue working with Guangdong to address issues like green house gas emission control and trading, clean energy, aid for industry, as well as waste treatment and trade.

The business community in Hong Kong has called for the development of Hong Kong into a leading low carbon city in China, an objective seen as befitting Hong Kong as an advanced metropolitan city.¹⁷ Hong Kong should work closely with Mainland authorities on climate change issues, including setting carbon reduction targets and implementing low carbon solutions with a regional perspective, such as the setting of common standards, as well as exploring collective procurement by Hong Kong and PRD cities with low carbon objectives.

3.3.2 Circular Economy

In the past year, the Chamber has, as another follow-up action to the 43 recommendations, commissioned a consultancy study on regional cooperation on waste treatment, focusing on the feasibility and possible models for a circular economy¹⁸. Indeed, the Outline has also called for the planning for the development of a circular economy by “actively exploring local price and financial policies conducive to resource-conserving and circular economic development”. The Outline envisages the building up of “a batch of industrial parks that will meet the requirements of circular economic development, and shape resource-efficient and resource-recycling industrial chains”.

It is noted that major initiatives have been undertaken in this area by the Central Government as part of its national stimulus initiative - both to encourage and assist upgrading to new and more energy efficient domestic appliances, and to ensure that disposed items are comprehensively recycled. Hong Kong can play a significant role in shaping and driving those initiatives in cooperation with the PRD.

The consultancy study commissioned by the Chamber concludes that Hong Kong and the PRD will complement each other in the efforts to develop a circular economy, in particular in the reuse and recycling of electronic products and waste.

There are diverse manufacturing activities taking place across the PRD which require specific skills and technologies. These business activities are being developed in certain cities to suit the needs of an industry or businesses located there. They have the potential to leverage off each others' activities given the right facilitation. The linking of PRD

¹⁷ Hong Kong Business Coalition on the Environment, “Business Community Urged Determined Action against Climate Change”, Press release, available at http://www.chamber.org.hk/info/press_release/ (Accessible as of 26 Feb 2010). The Coalition is a partnership of various business and private sector organizations formed to create a coherent voice addressing environmental matters.

¹⁸ Hong Kong General Chamber of Commerce, Report on a Circular Economy for Hong Kong, (Unpublished), January 2010

cities with primary and secondary manufacturing industries with recovered materials from both the PRD and Hong Kong is an effective way of closing the circular economy.

Joint efforts should be made by the PRD and Hong Kong to identify complementary primary and secondary manufacturing industries for creating the closed loop for a circular economy¹⁹. It should be noted that the establishment of a circular economy will bring potential of job creations at different levels.

Hong Kong can play a key role in this circular economy in attracting the right companies dealing with the materials of interest. Hong Kong's focus can be the mid-stream value-added processes, working closely with PRD counterparts so that resources (such as land and labour) and skills are aligned. Hong Kong may also serve as a platform where overseas technologies (including remanufacturing and reconditioning) could be applied and validated for use in the region.

Mutually aligned regulations must be put in place in both the PRD and Hong Kong in regard to the producer responsibility scheme and waste charging to drive the behaviour of producers and consumers towards re-use and recycling. Legislation should be considered to favour goods that are suitable for recycling and remanufactured/reconditioned products, i.e. those incorporating "design for environment" (DfE) features. A common green labelling should be introduced to distinguish such goods and promote green procurement strategies. These measures will help create a market for environmentally friendly products in the region.

Supply chain and logistics businesses should be encouraged to consider the opportunities arising from the development of a circular economy. Capital and land to develop the circular economy should be set aside in the PRD and Hong Kong to host the facilities needed for the logistical operations: the processing, storage and shipment of materials around the region. A proper legal framework and governance has to be put in place for moving waste and recycled resources around.

3.4 Cooperation between the Hong Kong and Shenzhen Exchanges

Hong Kong and Shenzhen have already established on-going cooperation in financial infrastructure, like clearing and settlement of HK dollar, RMB and US dollar. The cooperation should be further strengthened under the 12th Five Year Plan.

The first overseas Exchange Traded Funds (ETF) tracking the Shenzhen Stock Exchange Index has recently been listed on the Hong Kong Stock Exchange. The listing of SZSE 100ETF in Hong Kong signifies not just a substantial strengthening of the cooperation between Shenzhen and Hong Kong, but also provides a new channel for overseas investors to invest in China's capital markets. The Shenzhen Stock Exchange is now

¹⁹ Alex Fong, 'Growing the Green Economy to Sustain Development', CEO Message, The Bulletin (HKGCC monthly magazine), July 2009

planning to launch the Hang Seng Index ETF this year²⁰. This development will help enrich the region's product mix and attracting more investors to the region. Overall, there is much potential for more cooperation between the exchanges in Shenzhen and Hong Kong.

4. Financial Industry Development: “Shangkong”

Under the 12th Five Year Plan, it is important for Hong Kong to continue contributing to the country's development in the capacity as China's most international financial centre. This role is unique for Hong Kong because of historical development and the advantages it derives and enjoys from such development.

International scholars have begun to recognise the potentially huge competitiveness of the partnership between Hong Kong and Shanghai, as the shift of financial gravity to the East unfolds in the wake of the Lehman-triggered financial crisis. Prof. Jeffrey Garten of the Yale School of Management has coined a term “Shangkong” to describe the Shanghai-Hong Kong partnership.²¹

Prof. Garten has noticed that the links between Hong Kong and Shanghai have been strengthening and such a process could be augmented by a continuous transfer of financial know-how from Hong Kong. He also envisages the possibility of a common set of financial sector regulations for the two cities in time.

The Chamber agrees that there is huge potential for Hong Kong to bolster cooperation between the exchanges in Shanghai and Hong Kong, with a view to create a globally leading partnership in the financial arena²². The Shanghai Stock Exchange is planning to launch an ETF that tracks H-share companies later this year²³. As a way forward, we hope that the Shanghai and Hong Kong stock exchange can work closely on the introduction of the dual-listed ETFs. In addition to ETFs, cooperation on launching other products such as RMB-denominated products, futures, callable bull/bear contracts between Shanghai and Hong Kong can also be further studied in order to sustain further development through financial innovation.

On the other hand, Hong Kong is in a position to facilitate the RMB's internationalisation by providing a testing ground for new measures and operating as a hub for offshore RMB-related businesses.

²⁰ “Zhang Yujun said the Shenzhen Stock Exchange is ... considering launching an ETF that tracks Hong Kong's benchmark Hang Seng Index”, *Shanghai Stock Exchange Plans H-Share ETF This Year*, Wall Street Journal, 21 January 2010

<http://online.wsj.com/article/BT-CO-20100121-705832.html> (Accessible as of 26 February 2010)

²¹ Jeffrey Garten, *Amid economic rubble, Shangkong will rise*, Financial Times, 10 May 2009

<http://www.ft.com/cms/s/0/dfbd55ea-3d8c-11de-a85e-00144feabdc0.html> (Accessible as of 26 February 2010)

²² Mayee Lang, *Shanghai's Rising IFC Dreams*, The Bulletin (HKGCC monthly magazine), July 2009

²³ Dow Jones Newswires, *Shanghai Stock Exchange Plans To Launch H-Share ETF This Year*, 21 Jan 2010.

There are three major areas in which Hong Kong will be able to make significant contributions to the development of the country's financial system.

4.1 Offshore RMB Centre

Increasingly the RMB is used as the currency for trade settlement. The RMB is also being used more frequently in China's trade with ASEAN countries and other emerging economies²⁴. Leveraging its robust financial system, legal framework and trade expertise, Hong Kong has been fitting into this development by handling RMB trade settlement activities in its system, providing the benefits of efficiency and security.

On the other hand, Hong Kong as a well-established centre for international investments can further expand its RMB-related activities to facilitate the internationalisation process of the RMB²⁵, on the basis that Hong Kong has already started RMB businesses in respect of deposits, currency exchanges, and sovereign bonds. In February 2010, announcements were made that RMB project financing and RMB corporate bonds would be allowed.

To further enhance the breadth and depth of the RMB business, Hong Kong should continue to explore, with the support of the Central Government, the launching of RMB-denominated investment products, such as futures, ETFs and other derivatives for risk management purposes. With the policy support of the Central Government for Hong Kong to develop these products, RMB liquidity will be built up in an offshore environment - an essential condition for an effective offshore centre. With a critical mass of liquidity, Hong Kong may then develop a market which provides valuable information on RMB interests rates indicators.

It is worth noting that although at present there is no RMB-denominated product listed on the Hong Kong Stock Exchange, our bourse is ready to support the listing, trading and clearing of RMB-denominated products. Its multi-currency securities trading and clearing systems are capable of supporting the processing of RMB transactions.

4.2 Centre for Capital Formation and "Going Out"

Hong Kong has always been playing an instrumental role in facilitating the capital raising activities of Mainland enterprises and the role can be further strengthened under the 12th Five Year Plan, during which Hong Kong should continue to work closely with the stock

²⁴ Alex Fong, 'How Can Businesses Benefit from RMB Cross-border Trade Settlement?', CEO Message, The Bulletin (HKGCC monthly magazine), September 2009

²⁵ Michael Vrontamitis & Neil Daswani, 'Can You Settle This Invoice in RMB?', The Bulletin (HKGCC monthly magazine), January 2010

exchange in Shanghai to meet the capital raising needs of enterprises, especially those which seek dual-listing²⁶.

An important driver for the offshore RMB business is the launch of RMB-denominated listing in the Hong Kong stock market. The move will allow Mainland companies to raise RMB capital offshore, in addition to raising capital in the Mainland market under dual-listing arrangements in Shanghai and Hong Kong – an important feature for “Shangkong”.

Allowing the launch of RMB-denominated listing in the Hong Kong stock market will also help build up liquidity in Hong Kong and enhance its foundation as an offshore centre facilitating the internationalisation of the RMB. Last but not least, it will also provide more options of financial products to attract investors. The benefits are therefore threefold.

Through initial public offerings (IPOs) in Hong Kong Mainland companies can attract sizable amounts of international capital. But the IPO and post-IPO processes also serve the companies’ objective of “going out”, as the value of getting their IPOs in Hong Kong is not limited to the funds raised, but the process through which the companies will gear up to reach international standards in financial management and corporate governance.

Hong Kong also provides a platform for Mainland companies to enhance their corporate branding and international recognition. Overall, Hong Kong’s professional services are able to assist Mainland companies in managing risks entailed in their “going out” to tap international capital and expand markets²⁷. Mainland companies pursuing IPOs in Hong Kong are effectively paving the way for setting up their regional or global operations in an international business environment. In order to enable Hong Kong to continue to play this important role, Hong Kong must maintain its international environment and high standards.

4.3 Wealth Management Centre

As a wealth management centre, Hong Kong provides an important channel for Mainland investors who increasingly aspire to be more proactive in managing their wealth. Hong Kong is an ideal and logical wealth management centre for Mainland individuals and institutions, especially those who are in Guangdong and other southern provinces. It was highlighted in a recent report of China Merchants Bank, entitled “China Private Wealth Report 2009” (2009 中國私人財富報告)²⁸, that most of the high net worth individuals in

²⁶ Lawrence J. Lau, *Perspectives on the Chinese Economy*, June 2009

<http://www.cuhk.edu.hk/governance/officers/lawrence-j-lau/presentations/english/090624.pdf> (Accessible as of 26 February 2010)

²⁷ ‘A Conversation with Chamber CEO Alex Fong’, *The Bulletin* (HKGCC monthly magazine), February 2009

²⁸ China Merchants Bank & Bain & Company, *China Private Wealth Report 2009*

http://www.bain.com/bainweb/Publications/publications_detail.asp?id=27168&menu_url=publications_reults.asp (Accessible as of 26 February 2010)

the Mainland regarded Hong Kong as their first choice for investment. For instance, it would be far easier for the investors in the region to meet their Hong Kong-based relationship managers in person.

Hong Kong's expertise in financial services and wealth management can be transferred to and adapted for the Mainland market. For example, the CEPA measures facilitating the establishment of "cross-location" sub-branches by banks and joint venture securities investment advisory companies offer Hong Kong's players a niche in contributing to the development in Guangdong under the "early and pilot implementation" principle.

To continue to make good use of the synergy between Hong Kong and the Mainland, the CEPA mechanism has to be fully leveraged to lower the threshold for Hong Kong financial institutions and financial services practitioners, so that they can enter the market to promote the growth and innovation of the Mainland's financial industry.

5. Regional Cooperation in Trade

5.1 Free Trade Agreements

As China continues to engage in more bilateral free trade agreements (FTAs), Hong Kong may continue to play its unique role as a regional shipping centre and entreport in the region, facilitating bilateral trade between the Mainland and other economies²⁹.

It is understood that the Central Government has worked out an agreement with the HKSAR Government regarding privileges negotiated by the Mainland with trading partners that are relevant to the HKSAR. For example, goods covered by the recently commenced China-ASEAN FTA transported to the Mainland through Hong Kong would also be considered "direct consignment" for the purposes of customs declaration, provided that the goods have been verified and confirmed in Hong Kong to be transshipment without involvement in trading in other areas. Such arrangement preserves Hong Kong's important role without affecting the interests of China or ASEAN countries.

Hong Kong will be able to continue playing its role as a shipping centre and entreport if the Central Government incorporates Hong Kong into other FTAs signed between China and its trading partners, in line with the arrangement that if a free trade agreement signed between China and another economy contains commitments that are more favourable than CEPA's, they will be incorporated in the liberalisation programmes under CEPA.

However, a mechanism remains to be formed on how to communicate these developments to the business community, so that they can reap the benefits.

²⁹Alex Fong, *Business Connect with China in a Rapidly Globalizing Economy*, CEO Message, The Bulletin (HKGCC monthly magazine), May 2007

5.2 Trade in Services

The Chamber and HKCSI are deeply worried that the services business community is not on track to achieve, in the current Doha round of WTO negotiations, any real new market access for services. The current Doha round of WTO negotiations looks as though it will not deliver for services.

The Chamber and HKCSI, which have been active in promoting liberalisation in trade in services, will continue to support the HKSAR Government in its efforts to deliver immediate improvements in the services offers and to bring the Doha Round to rapid closure. But we are also calling for efforts to ensure the final Doha deal includes a built-in agenda of ongoing, MFN-based negotiations on services.³⁰ There has to be full ministerial recognition that the global business community can wait no longer to get on with services negotiations and full ministerial commitment to get on with them immediately.

6. Conclusion

The development under the 12th Five Year Plan presents unprecedented opportunities for Hong Kong to fit into the country's high level policy framework and strategic initiatives.

For Hong Kong to make maximum contribution to the country's developments, it is crucial that Hong Kong will be able to position itself in the 12th Five Year Plan in an appropriate way. It is considered that the following broad framework can be combined:

“Hong Kong shall continue to be an international centre for finance, trade, tourism and logistics.

With the Central Government's support, Hong Kong shall continue to leverage its comparative advantage in the service industries and contribute to the next phase of development in the country, principally through deepening its integration with the Pearl River Delta and transferring know-how through close cooperation, market participation and training services.

As the country's major international financial centre, Hong Kong shall continue to cooperate closely with the stock exchanges in Shanghai and Shenzhen.

Hong Kong shall serve as a major testing ground for measures promoting the gradual internationalisation of the RMB, as well as a major offshore centre facilitating RMB-trade settlement and RMB-related investments.

Hong Kong shall be a wealth management centre for the Mainland.

³⁰ Jane Drake-Brockman, HKGCC and HKCSI business delegation to the Global Services Summit, *Concluding Doha and Building Support for a Post-Doha Multilateral Services Negotiation*, October 2009

As an important shipping centre and free port, Hong Kong shall continue to play its existing role in servicing the external trade of the country.

Hong Kong shall work closely with the PRD in environmental protection and build up a sustainable circular economy in the region."

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