

For Information  
On 7 January 2010

## **Special Meeting of the House Committee Hong Kong / Guangdong Economic Co-operation**

### **Purpose**

This paper briefs Members on the recent work and major co-operation initiatives in relation to Hong Kong / Guangdong economic co-operation.

### **Background**

2. Ever since the “Four Modernisations”, Hong Kong has participated in the reform and opening up of the Mainland while Hong Kong-owned enterprises have made substantial investments in Guangdong and other provinces. Over the past 30 years, Hong Kong and Guangdong have laid a solid foundation for economic co-operation. Exchanges between the two places have become more frequent. While industrialization in the Mainland has been substantially completed, Hong Kong has successfully built up our local service industries in the process.

3. Looking ahead, Hong Kong should continue to complement the Mainland’s “Bringing In and Going Out” policy and capitalize on the Mainland’s enhancement of the secondary industries and speeding up of the development of the tertiary industries. We should consolidate the traditional industries where Hong Kong has enjoyed clear advantages and at the same time vigorously develop new industries such as innovation and technology, educational services, medical services, environmental industry, testing and certification, and cultural and creative industries. In this regard, we will continue to deepen and broaden the Hong Kong / Guangdong economic co-operation, and expedite cooperation with the Mainland including Guangdong in the joint development of industries, infrastructure development and human resource training, with a view to upgrading the economic structure of Hong Kong, creating more development opportunities, and providing a long term solution to the restrictions of a small-scale economy. Our overall objective is to tap into the enormous domestic market and market for service industries in the Greater Pearl River Delta (PRD) region, which has a population of 50 million, as an initial step, and then to gain access to the markets in the Pan-PRD region which has a population of more than 400 million, thereby playing an

important bridging role for the Mainland.

### **Implementation of the “Outline of the Plan for the Reform and Development of the Pearl River Delta”**

4. Since the promulgation of the “Outline of the plan for the Reform and Development of the Pearl River Delta” (the Outline) by the National Development and Reform Commission in January 2009, the future development and reform of the PRD has been elevated to the national strategic level. The Hong Kong Special Administrative Region (HKSAR) Government has seized the opportunity to foster liaison with the Guangdong Province and sought to reach agreement on elevating Hong Kong / Guangdong co-operation to a new level by jointly taking forward the implementation of the Outline, and to strive for more breakthroughs in various areas. Major efforts made include:

- (a) subsequent to the promulgation of the Outline in January, the Chief Secretary for Administration (CS), the Vice-Governor of Guangdong Province and the Secretary for Economy and Finance of the Macao Special Administrative Region jointly chaired the Liaison and Co-ordinating Meeting of Hong Kong, Guangdong and Macao in February 2009. The three sides reached consensus on the key focus areas and mechanisms for cooperation under the Outline;
- (b) From April to June 2009, CS led business delegations to visit the nine municipalities in the PRD, so as to gain a better understanding of the implementation of the Outline by the relevant municipalities. The visits also allowed the Hong Kong businessmen to explore possibilities of strengthening co-operation with the nine municipalities. A forum was held in July 2009 to further strengthen ties between the two governments and the trade of the two places; and
- (c) The 12<sup>th</sup> Plenary of the Hong Kong/ Guangdong Co-operation Joint Conference (Joint Conference) and the Hong Kong / Shenzhen Co-operation Meeting were held in August and November 2009 respectively to enable Hong Kong and Guangdong, and Hong Kong and Shenzhen to jointly review the progress of the co-operation initiatives and discuss future development direction. A number of agreements on taking forward individual areas of co-operation were also signed.

5. To translate the Outline's macro policies into concrete measures which would be conducive to the development of both places, tremendous efforts have been made by Guangdong and Hong Kong, including the formulation of the Framework Agreement for Hong Kong / Guangdong Co-operation (Framework Agreement) which would lay the foundation for striving to incorporate the relevant initiatives into the National 12<sup>th</sup> Five-Year Plan. Drafting of the Framework Agreement is near completion. We are also working with Guangdong and Macao to devise specialized plans on two areas, namely "Building a Quality Living Area" and "Infrastructural Development" to improve the living environment and upgrade the infrastructure of the three places.

### **Recent Co-operation Achievements and Future Major Co-operation Areas**

6. Over the years, cooperation between Hong Kong / Guangdong co-operation has continued to develop on the basis of "One Country, Two Systems". Since 2003, the Joint Conference has been co-chaired by the Chief Executive of the HKSAR and the Governor of Guangdong Province. CS and the Vice-Governor of Guangdong Province have also co-chaired the Working Meeting of the Joint Conference to provide steer and to take forward the co-operation initiatives through the expert groups set up under the Joint Conference. There are currently some 20 expert groups and each is led by the relevant bureaux / departments of the HKSAR Government and their counterparts in Guangdong to implement initiatives under their respective areas of co-operation. Recent co-operation achievements attained and future major co-operation areas include:

#### ***(I) Fostering Flow of Key Economic Factors such as People, Goods, Information and Capital***

##### ***(a) The Significance of Cross-boundary Infrastructure Development and Transport Linkages***

7. The Outline supports closer co-operation of the PRD region with Hong Kong and Macao in various aspects including cross-boundary transport infrastructure development. Planning for cross-boundary transport infrastructure plays a crucial role in fostering the flow of key economic factors such as people, goods, information and capital between Hong Kong and the Mainland. By strengthening co-ordination in the development of cross-boundary transport infrastructure, Hong Kong can play a catalytic role in promoting the development of the PRD region. Through a co-ordinated regional development, we can offer more timely and effective contribution to the development of the nation. In this aspect, we will continue to work with the Guangdong

Government to take forward various cross-boundary infrastructural projects.

8. The Hong Kong-Zhuhai-Macao Bridge (HZMB) is one of the key projects on the agenda of Hong Kong / Guangdong co-operation. The State Council has approved the Feasibility Study report of the HZMB Project, and the works in respect of the HZMB Main Bridge commenced on 15 December 2009. The parties concerned will continue to work closely together to ensure the timely completion of the Bridge as well as its proper management and operation after commissioning, so that the Bridge can attain maximum economic benefits.

9. For the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Chief Executive-in-Council authorized the plan for the Hong Kong section of the railway scheme on 20 October 2009. The Finance Committee is considering the relevant funding applications. We will start the commencement works as soon as possible after the funding approval and aim at completing the project by 2015.

10. In respect of the rail link between the Hong Kong and Shenzhen airports, the initial feasibility study has concluded that the project is technically possible. The rail corridor can serve multiple purposes and support the development of Qianhai in Shenzhen and Northwest New Territories. Hong Kong and Shenzhen signed a co-operation arrangement in August 2009 and agreed to continue with the planning of the rail link.

11. Regarding the Liantang / Heung Yuen Wai Boundary Control Point project, the geotechnical investigation and preliminary design (including environmental impact assessment) for the Hong Kong side commenced in April 2009. The relevant engineering impact assessments are expected to be completed by the end of 2010. Hong Kong and Shenzhen reached consensus on work schedule with target commissioning not later than 2018.

*(b) Quota System on Cross-boundary Private Cars*

12. The Guangdong and Hong Kong governments have agreed in principle to relax the current quota system on cross-boundary private cars on an incremental basis so as to allow private car owners who are not eligible for the basic quotas to apply for ad hoc quotas to commute between the two places. The two sides plan to roll out a trial scheme at the Shenzhen Bay Port. If successful, the trial scheme will be fully implemented at the HZMB in future to help increase its utilization. The two sides have set up an expert group to discuss the implementation and technicalities of the trial scheme and aim to reach agreement on the overall implementation details as soon as possible.

(c) *Facilitate Movement Across the Boundary*

13. As exchanges between Hong Kong and Guangdong have become more frequent, we will continue to implement measures to facilitate the movement of people and goods across the boundary. Since March 2009, we have rolled out Express e-Channels at Lo Wu control point (more than 900 000 Hong Kong residents have enrolled). We will consider extending the service to other control points. Moreover, we have allowed Macao residents visiting Hong Kong to use e-Channels since December 2009. We will actively consider extending e-Channels to visitors from the Mainland. As regards the facilitation of movement of goods across the boundary, we plan to roll out the Road Cargo System (ROCARS) in early 2010 to facilitate customs clearance of road cargoes. Upon the promulgation of ROCARS, all cross-boundary trucks, except those selected for inspection, will enjoy seamless customs clearance at the land boundary for truckers using the system. The system will also bring us in line with the development of electronic customs clearance on the Mainland (e.g. alignment of data format and data model by the two Customs authorities), conducive to maintaining the competitiveness of Hong Kong as the regional trade centre.

(d) *Financial Co-operation*

14. As regards financial co-operation, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) Supplement VI has introduced several initiatives relating to the financial industry. The initiatives on establishing “cross-location sub-branches” for the banking sector and joint venture securities investment advisory companies (“JV firms”) for the securities sector are dedicated for “early and pilot implementation” in Guangdong. The “cross-location sub-branches” measures have taken effect in October 2009, and the banking sector has responded positively. As regards JV firms, the HKSAR Government is actively following up the implementation details. Currently we are actively engaged in the preparation work for CEPA Supplement VII, and will continue to leverage on the “early and pilot implementation” policy to enhance the two-way flow of financial institutions, talent and capital, etc. between Hong Kong and Guangdong.

15. The Renminbi (RMB) trade settlement pilot scheme has commenced operation since July 2009. Under the scheme, cross-border trade transactions between relevant cities in the Mainland China (including Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan) and Hong Kong SAR, Macao SAR and ASEAN countries are eligible for settlement in RMB. During the Chief Executive’s duty visit to Beijing in December 2009, Premier Wen Jiabao advised that the Central People’s Government will continue to promote cross-boundary

RMB trade settlement in Hong Kong, and explore ways to develop other RMB business such as RMB financing in trade, account and project, as well as RMB direct investment in Hong Kong.

*(e) Modern Information Services Industry Co-operation*

16. Guangdong and Hong Kong carried out a number of concrete plans and have made encouraging progress in promoting modern information services industry co-operation. Recognised certification authorities of Hong Kong and Guangdong and their partners will jointly launch pilot projects, which utilize electronic certificate/electronic signature, in order to promote secure cross boundary e-transactions. As for Radio-frequency identification (RFID), Guangdong and Hong Kong have jointly launched an electronic ear tag management pilot project to strengthen the trace management of live pigs imported to Hong Kong for food safety. The industries in the two places have also actively organised a number of exchange activities to promote business matching between Hong Kong and Guangzhou, Shenzhen, Zhuhai and Foshan.

17. We will continue to collaborate with Guangdong to take forward cooperation in such areas as the interoperability of information infrastructural facilities in the two places, RFID technology research and application, information portal construction, service outsourcing, digital entertainment, open source software, mobile and wireless applications.

***(II) Assisting Hong Kong Enterprises to Restructure, Upgrade and Develop the Mainland Domestic Market***

*(a) Facilitate the Trade to Adjust to Changes in the Mainland's Policy on Processing Trade*

18. The HKSAR Government will continue to closely liaise with relevant Guangdong authorities so as to follow up on the implementation of measures to facilitate the restructuring and upgrading of Hong Kong-owned enterprises. The HKSAR Government will also actively reflect to the Guangdong Province the trade's views on necessary measures to facilitate them in opening up the Mainland domestic market, such as stepping up protection on intellectual property rights and streamlining the procedures for Hong Kong-owned enterprises to open distribution and retail shops, etc. Furthermore, we will continue to keep in touch with the Guangdong authorities to explore how to better facilitate Hong Kong-owned enterprises to take part in business-matching and exhibition/sales activities organized by Guangdong, with a view to assisting them in opening up new business opportunities.

19. The Hong Kong Economic and Trade Office in Guangdong (GDETO) of the HKSAR Government has played an important bridging role and has maintained close liaison between the trade and government authorities of Guangdong Provinces and other provinces / municipalities. The services provided by GDETO include the organization / co-organization of study missions for Hong Kong enterprises with reference to the need of the trade so as to help update them on the latest economic / trade developments and investment environment in the relevant provinces / region. The GDETO also publishes the “GDETO Newsletters” weekly to provide major commerce associations and semi-governmental organizations in Hong Kong with latest information on commerce and trade-related policies / regulations and the economic developments in the relevant provinces / region, as well as on the economic and trade activities in the relevant provinces / region. To promote Hong Kong / Guangdong co-operation, we will strengthen the functions and establishment of the GDETO, and establish a designated unit in Shenzhen for liaison with Shenzhen.

*(b) Development of Qianhai*

20. On the development of Qianhai, the Hong Kong and Shenzhen governments signed a Letter of Intent in Taking Forward Co-operation on modern service industries in Qianhai at the Joint Conference held in August 2009. Both sides reviewed the work progress in the past few months, and reached consensus on the respective role in taking forward the co-operation initiative during the Hong Kong / Shenzhen Co-operation Meeting held in November. The Shenzhen Municipal Government will take up the leading role, and be responsible for the development and management of the Qianhai area, while the HKSAR Government will provide comments on the study and formulation of issues like development planning and policies. To facilitate the discussion of Qianhai development, both sides agreed to collect extensively, through multiple channels and means, the views of experts of the concerned fields on various related issues, such as the mode of development, industry development, new policies, infrastructural development and operational management. The joint expert group has started discussion on the detailed co-operation direction and content.

*(c) CEPA and Guangdong Pilot Measures*

21. The Mainland and Hong Kong signed the CEPA Supplement VI in May 2009, announcing 29 liberalisation measures in 20 services areas. With the conclusion of the CEPA Supplement VI, there are thus far a total of about 250 liberalisation and facilitation measures under CEPA encompassing 42 service areas, among which 34 measures are for pilot implementation in

Guangdong covering 21 service sectors in various key industries including legal, construction, medical, tourism, telecommunications, convention and exhibition, banking, securities and rail transport.

22. The HKSAR Government is committed to following up the problems encountered by the Hong Kong business community in entering the service industries in the Mainland under CEPA. We organise CEPA Consultative Forums and maintain liaison with professional bodies and associations to gather views from the trade. We also reflect and follow up the views and requests of the trade through various channels including the “CEPA Joint Steering Committee”, and the “Expert Group on Implementing CEPA Services” under the Joint Conference.

23. The governments of Hong Kong and Guangdong signed a co-operation agreement in August 2009 with a view to expediting the implementation and stepping up the publicity of CEPA Supplements V and VI as well as the Guangdong pilot measures. The two sides also co-organise forums to enhance the promotion and publicity of CEPA.

24. The HKSAR Government is preparing for a new round of CPEA consultation. We will strive to expand the scope of services liberalisation and Guangdong pilot measures, with a view to further assisting the Hong Kong business community in tapping the services market in the Mainland.

*(d) Tourism Co-operation*

25. The Mainland implemented a host of measures to facilitate Guangdong residents to visit Hong Kong, including –

- (1) allowing eligible Shenzhen non-permanent residents and their close relatives to apply group travel endorsements in Shenzhen to visit Hong Kong in group tours;
- (2) making available a one-year multiple-entry Individual Visit (IV) endorsement for Guangdong residents in Shenzhen to visit Hong Kong; and
- (3) allowing non-Guangdong residents residing in Shenzhen to apply for IV endorsements in Shenzhen to visit Hong Kong.

These measures facilitate Shenzhen residents to visit Hong Kong for shopping and leisure, thereby driving Hong Kong’s tourism and related sectors and boosting our economy. Guangdong Province is Hong Kong’s largest visitor

source market in the Mainland, accounting for nearly 80% of all Mainland visitors. We are in active discussion with Mainland authorities on expanding the applicable area of these facilitation measures to the entire Guangdong Province. In assisting the travel industry to develop the Mainland market, the Administration is pursuing with Mainland authorities the proposal to allow Hong Kong travel agents to operate in Guangdong group tours for Mainland residents going to Taiwan and other overseas destinations.

### ***(III) Promoting Quality Living and Better Business Environment***

#### ***(a) Nurturing Talent***

26. Education co-operation and exchanges between Guangdong and Hong Kong have been developing rapidly in recent years. Areas of co-operation are also growing in breadth and depth. These developments are in line with the Mainland's strategies in enhancing science and technology and nurturing talent. They will facilitate Hong Kong's further development as the regional education hub and enhance understanding of the Mainland among the education sector and our students.

27. In the higher education sector, Hong Kong and Guangdong co-operation initiatives include offering joint programmes, and collaboration in education and research between students and teaching staff. Furthermore, Hong Kong higher education institutions have admitted quite a number of students from Guangdong. In the 2008/09 academic year, there were over 1,100 students from Guangdong studying in our higher education institutions. Apart from co-operation in the higher education sector, Hong Kong and Guangdong have also enhanced co-operation in the area of vocational education including teacher training, student exchange, joint programmes and in-service training for Hong Kong-owned enterprises in Guangdong Province. Since 2005, the Vocational Training Council (VTC) has provided training to over 1,100 teachers and employees of Hong Kong-owned enterprises in Guangdong Province. In addition, VTC is offering joint programmes and establishing a design institute in conjunction with its counterparts in Guangdong. Remarkable progress has also been made in the basic education sector including teacher training and exchange programmes, sister school scheme and the operation of classes for Hong Kong children in Minban schools on a pilot basis in Shenzhen. We will continue with our work in these areas.

28. Looking ahead, we encourage our higher education institutions to make full use of the increased quota to enroll more non-local students. We will also explore the possibility of allowing our higher education institutions to operate on their own in the Mainland on a pilot basis, allowing Mainland

students to pursue studies in non-local programmes at degree level or above in Hong Kong and allowing Mainland students to pursue senior secondary education at non-public schools in Hong Kong. The above measures will provide more quality education opportunities for students in Hong Kong, the Mainland and the region.

*(b) Development of Lok Ma Chau Loop*

29. The Planning and Engineering Study on Development of Lok Ma Chau Loop commenced in mid-2009 and is expected to be completed by the end of 2011. Both the Hong Kong and Shenzhen Governments initially agreed that higher education could be the leading use in the Loop, and complemented with high-tech research and development facilities as well as cultural and creative industries. The Loop should be developed along the principle of sustainable development to build up an area for fostering cross-boundary talent and exchange of knowledge and technology. This is in line with the Outline in supporting the establishment of higher education institutions in the PRD region by the universities in Hong Kong and Macao. It will help promote human resources development in the Greater PRD and South China regions.

*(c) Town Planning*

30. The “Planning Study on the Co-ordinated Development of the Greater Pearl River Delta Townships” commissioned jointly by Guangdong, Hong Kong and Macao was completed and the findings were published in October 2009. The study made a number of recommendations on the spatial development strategy, cross-boundary transportation, co-operation in the development of cross-boundary areas, ecological/environmental protection and coordination mechanisms in the Greater PRD region for reference by the respective Governments when formulating policies on regional co-operation. Based on the recommendations, Hong Kong, Guangdong and Macao are considering to commission a “Study on the Action Plan for the Bay Area of Pearl River Estuary” to explore feasible proposals for the co-ordinated development of the Bay Area.

*(d) Improve the Regional Air Quality*

31. Hong Kong and Guangdong authorities have been working closely to improve the regional air quality. To this end, both sides agreed in 2002 to reduce the four major air pollutant emissions by 20% - 55% by 2010. The two governments are pressing ahead with the necessary measures in order to achieve the emission reduction targets. Satisfactory progress is being made, and our joint efforts are beginning to bear fruits. The average concentration level of

sulphur dioxide and particulate matters in the region have recorded considerable decrease in recent years.

*(e) Co-operation in Industries*

32. On medical aspect, we will capitalise on the technology, expertise and resources of the Mainland and Hong Kong in developing vaccines with a view to enhancing co-operation in research and development and continuing to actively promote the work in this area. With regard to the liberalisation measures in respect of medical services in the package of “Guangdong Pilot Measures” under CEPA Supplement V, the health authorities of both sides conducted a conference in September 2009 to review the situation of Hong Kong service providers who have applied to establish outpatient clinics in Guangdong Province and obtain the “medical practitioner’s qualification certificate” through accreditation. Views have also been exchanged on the implementation of the scheme.

33. The governments of Hong Kong and Shenzhen worked together to invite DuPont, a US enterprise, to set up facilities in both sides. DuPont’s global thin film photovoltaic business headquarters and research centre in the Hong Kong Science Park were opened in March 2009, and the relevant manufacturing facilities commenced operation in November 2009. This project is the first major technology collaboration project under the “Shenzhen-Hong Kong Innovation Circle”. Combining the strengths of both the Mainland and Hong Kong, we will continue to work with Shenzhen to attract more overseas enterprises to carry out technology projects in the two places.

*(IV) Consider Views of Stakeholders and Enhance Level of Co-operation*

34. The Greater Pearl River Delta Business Council (the Business Council) was established under the Joint Conference in 2004 to allow Hong Kong enterprises, trade sectors and commerce associations to have interactive discussions with their Guangdong counterparts and to jointly identify opportunities for co-operation. Over the years, the Business Council has provided many professional and targeted advice to the HKSAR Government on fostering closer economic co-operation within the Greater PRD region. The Business Council has also released a study report in response to the Outline in September 2009. The study report covers two major areas (industries and livelihood matters) grouped into seven key headings with 47 strategic suggestions. The Business Council will continue to maintain close ties and communication with the China Council for the Promotion of International Trade Guangdong Sub-Council and the Guangdong’s Association for Promotion of Co-operation Among Guangdong, Hong Kong and Macao established in

September 2009 in enhancing co-operation within the PRD region.

35. Through the “Task Force to Support the Processing Trade” established in end July 2007, the relevant HKSAR Government Bureaux and Departments discuss with representatives of supporting organizations and the trade measures to cope with the adjustments in the Mainland’s processing trade policy, and to promote industrial restructuring, upgrading, and relocation. We also reflect the trade’s views to relevant Mainland authorities and follow up with them. The Task Force has met eight times since its establishment. Under the Hong Kong/Guangdong Expert Group on the Restructuring and Upgrading of the Processing Trade formed under the 10<sup>th</sup> Plenary of the Joint Conference, we will join forces with Guangdong Province to study the problems and difficulties encountered by Hong Kong enterprises during the course of restructuring and upgrading, with a view to suggesting feasible measures to help the enterprises to upgrade and restructure their businesses.

36. The HKSAR Government also disseminates to the trade the latest information on Mainland policy and measures on processing trade through different channels such as websites and seminars.

### **Look Ahead for Furthering Hong Kong / Guangdong Economic Co-operation**

37. To take forward Hong Kong / Guangdong economic co-operation is one of the priority tasks of the HKSAR Government and a consensus among the communities in the two places. Following the promulgation of the Outline which spelt out in clear terms that Hong Kong / Guangdong co-operation is a national policy, the two governments have progressively deepen their economic co-operation, and liaison and exchanges at the community level have become more frequent. In the coming years, we will actively complement the Mainland in the preparation of the National 12<sup>th</sup> Five-Year Plan, and seek to incorporate the relevant Hong Kong / Guangdong co-operation initiatives into the plan, to allow Hong Kong to give full play to its unique advantages and make new contributions to the opening up and reform and modernization of the Mainland.

### **Advice Sought**

38. Members are invited to note the contents of this paper.

Constitutional and Mainland Affairs Bureau  
January 2010