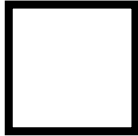


Hong Kong in the Region



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16:45	:	SHANGHAI
17:10	:	TAIPEI
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Preface

This topical paper constitutes part of the research series under “Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030” (Hong Kong 2030+). The findings and proposals of the paper form the basis of the draft updated territorial development strategy which is set out in the Public Engagement Booklet of Hong Kong 2030+.

1

Introduction

- 1.1 Hong Kong has long been the premium gateway of trade and investment into and out of the Mainland as well as between countries across Asia and the rest of the world. It has developed and maintained extensive economic links with both the Mainland and the international community.
- 1.2 Within the Mainland, Hong Kong has a particularly close relationship with the Pearl River Delta Region (PRD Region). For the past three decades or so, it has contributed to, as well as benefited from, the PRD Region's rapid economic development. Within the broader Asian context, Hong Kong has also maintained strong economic ties with other Asian countries. The Association of Southeast Asian Nations (ASEAN),¹ in particular, is Hong Kong's second largest trading partner after the Mainland.²
- 1.3 Therefore, in deriving a proper planning vision and strategy transcending 2030, we need to take into account the neighboring areas and the broader region, including the PRD Region and the Asian countries. This paper will examine,

from a strategic planning perspective, how the potential of Hong Kong could be further enhanced to capitalise on the changing regional context.

1.4 This paper will cover the following topics:

- The close relationship between Hong Kong and the PRD Region, and between Hong Kong and ASEAN;
- Initiatives and planning studies that have guided and facilitated the close relationship between Hong Kong and the PRD Region;
- Development trends in the context of regional dynamics;
- Development trends of key industries in light of the regional dynamics; and
- Key issues and observations.

2

Relationship between Hong Kong and the PRD Region, and between Hong Kong and the ASEAN Region

2.1 Hong Kong has maintained strong economic ties with the PRD Region and ASEAN.³ The PRD Region is not just our neighbours. The social, cultural and economic links between Hong Kong and the PRD Region have become so intertwined that a city-region is rapidly taking shape. The close connections are manifested in the economic arena, cross-boundary travel pattern, and the spatial pattern of development. At the same time, Hong Kong has also developed strong economic partnership with the ASEAN countries. The characteristics of these relationships are examined below.

Economic Relationship between Hong Kong and the PRD Region

2.2 Hong Kong and the Mainland are close economic partners (Table 1). The Mainland has long been Hong Kong's largest trading partner, and Hong Kong was the Mainland's second largest trading partner in 2015. Hong Kong is also the

Mainland's second largest export market.⁴ Furthermore, Hong Kong is a major gateway for companies wishing to enter the Mainland's market. Close to 81% of the regional headquarters with parent companies outside Hong Kong are responsible for business operations in the Mainland in addition to those in Hong Kong.⁵

	Value (US\$ million)	Mainland's ranking among trading partners
Total exports	248,271	1
Domestic exports	2,620	1
Re-exports	245,652	1
Imports	254,365	1
Total trade	502,636	1
Trade balance	-6,094	

Table 1: Hong Kong's total trade with the Mainland (2015)⁶

2.3 In addition, Hong Kong has been the Mainland’s largest source of realised foreign direct investment, accounting for a cumulative value of about HK\$6,459 billion, or 51% of the national total as at end-2015.⁷ Guangdong is a popular location for Hong Kong’s investment. Most of the investment is in industrial production, hotels and tourist-related services, real estate, retail trade, infrastructure construction and various business and communications services.

2.4 The Mainland is also one of the major sources of Hong Kong’s inward direct investment. At end-2014, direct investment from the Mainland accounted for about HK\$3,494 billion, or 30% of the total position of inward direct investment in Hong Kong.⁴ As at June 2016, there were 137 companies from the Mainland with regional headquarters in Hong Kong. Another 174 companies had set up regional offices in Hong Kong (Table 2).⁵

Country	Regional headquarters	Regional Offices
USA	286 (20.7%)	480 (20.4%)
Japan	239 (17.3%)	420 (17.9%)
Mainland	137 (9.9%)	174 (7.4%)
UK	124 (9.0%)	223 (9.5%)

Table 2: Top four countries with largest number of regional headquarters/offices in Hong Kong⁵

2.5 The economic relationship between Hong Kong and the PRD Region has been rapidly evolving. During the 1980s and 1990s, the economic relationship between Hong Kong and Guangdong was characterised as a “Front Shop, Back Factory” arrangement, with Hong Kong investing in light manufacturing industries in the PRD Region. Hong Kong was the driver of industrialisation of the PRD Region, and, in the process, Hong Kong has matured into a service-oriented

economy, offering professional services and acting as a springboard for foreign companies to enter the Mainland market and to facilitate Mainland firms to “go global”.

- 2.6 Meanwhile, Guangdong has embarked on a rigorous industrial restructuring programme to focus more on modern and high value-added industries and the service sector. The Province discourages the establishment of low value-added manufacturing industries. Existing factories are expected to either upgrade or relocate to the eastern and western parts of Guangdong.
- 2.7 Cities such as Guangzhou and Shenzhen, as leaders of the PRD Region, have drastically moved up the value chain. They have upgraded their manufacturing capabilities and become major centres of business and high-technology production. The tertiary sector has also grown to become a major contributor of economic growth.
- 2.8 Gradually, a new economic relationship between Hong Kong and the PRD Region that is based on cooperation and

competition is taking shape. On the one hand, cooperation is taking place in areas ranging from manufacturing industries to the tertiary sector including finance, logistics and other sophisticated professional services. On the other hand, there will also be pressure on Hong Kong to buttress its traditional strengths and to innovate so as to retain an edge over its competitors.

- 2.9 The flourishing of the PRD economy has led to remarkable results. In 2014, the PRD Region had the population of about 57.6 million representing about 4.2% of the national population, but its gross domestic product (GDP) of RMB 5765 billion (about US\$ 938.9 billion⁸) was equivalent to about 9.1% of the national GDP.⁹ The Greater PRD Region, which includes the PRD, Hong Kong and Macao with a total population of 65.4 million and a total GDP of about US\$ 1.3 trillion in 2014,¹⁰ has become one of the world's most dynamic economic regions. Further statistics of different places and regions to illustrate the respective sizes of their economies can be found in Table 3.

	Mainland	Guangdong	Pearl River Delta	Guangzhou	Shenzhen	Macao	Hong Kong
Area (km²)	9,600,000 ¹¹	179,705 ¹²	54,754 ¹³	7,434 ¹⁴	1,997 ¹⁵	30.3 ¹⁶	1,106 ¹⁷
Population (mil)	1367.82 ¹⁸	107.24 ¹⁹	57.63 ²⁰	13.08 ¹⁴	10.78 ¹⁵	0.64 ¹⁶	7.24 ¹⁷
GDP (billion Yuan)	63,614 (72,838 billion HKD) ²¹	6,781 (7,764 billion HKD) ²²	5,765 (6,601 billion HKD) ²³	1,671 (1,913 billion HKD) ¹⁴	1,600 (1,832 billion HKD) ¹⁵	398.9 billion (456.7 billion HKD) ¹⁶	2,258 billion (HKD) ^{24, 25}
Average GDP Annual Growth Rate	9.8% (2001-14) ²¹	8.6% (2011-14) ²⁶	9.6% (2011-14) ²³	10.5% (2011-14) ¹⁴	9.8% (2013-14) ¹⁵	7.68% (2013-2014) ¹⁶	2.7% (2013-14) ²⁴
GDP per capita (Yuan)	46,629 (53,390 HKD) ²¹	63,469 (72,672 HKD) ²⁶	100,448 (115,013 HKD) ²⁷	128,478 (147,107 HKD) ¹⁴	149,495 (171,172 HKD) ¹⁵	604,812 (692,510HKD) ¹⁶	311,835 (HKD) ²⁴

Table 3: Comparison of Demographic and Economic Statistics of the Mainland, Guangdong Province, Pearl River Delta, Guangzhou, Shenzhen, Macao and Hong Kong in 2014²⁸

2.10 Notwithstanding the ever-evolving economic relationship, Hong Kong remains instrumental in linking up the PRD Region and the Mainland in general with the rest of the world. It is a conduit for the transfer of capital, technology, technical skills, professional services, management know-how between the PRD Region and the rest of the world. Hong Kong has brought about the modernisation of the PRD Region, and the PRD Region has facilitated the growth and maturation of Hong Kong's economy. Together, Hong Kong and the PRD Region are greater than the sum of their parts.

Increasing Cross-boundary Traffic with the PRD Region

2.11 Increasing interactions between Hong Kong and the PRD Region are also reflected in the cross-boundary traffic. Administrative data and findings from the Cross-Boundary Travel Surveys conducted over the years show an increase in cross-boundary traffic:

- Average daily number of cross-boundary passenger trips at land-based control points rose from 98,300 in 1991 to 610,000 in 2015.

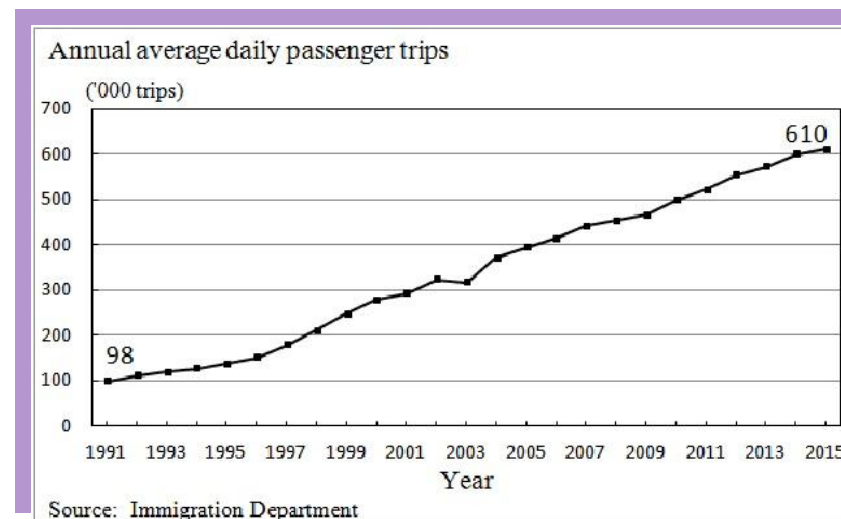


Figure 1: Annual Average Daily Cross-Boundary Passenger Trips at Land-based Control Points (1991-2015)

- Average daily cross-boundary vehicle trips rose from 15,900 in 1991 to 43,000 in 2010. Since 2010, the number of vehicle trips has remained relatively stable.
- For passenger trips, Lo Wu Control Point (37.4%) was the busiest control point in 2015, followed by Lok Ma Chau Spur Line Control Point (27.8%), Shenzhen Bay Control Point (16.9%) and Lok Ma Chau Control Point (12.8%).
- According to the results of the Cross-boundary Travel Survey 2013/14, Shenzhen (74.3%) and Dongguan (7.5%) were the most popular places of visit for people living in Hong Kong. The majority of passenger trips made by Hong Kong residents living in the Mainland started from Shenzhen (89.8%). The estimated number of “frequent trip makers” was 738,000 in 2014.²⁹
- The share of trips by Hong Kong residents living in the Mainland increased from 12.6% in 2011 to 13.6% in

2014, and in absolute terms they increased from an average daily of 70,800 in 2011 to 82,400 in 2014.

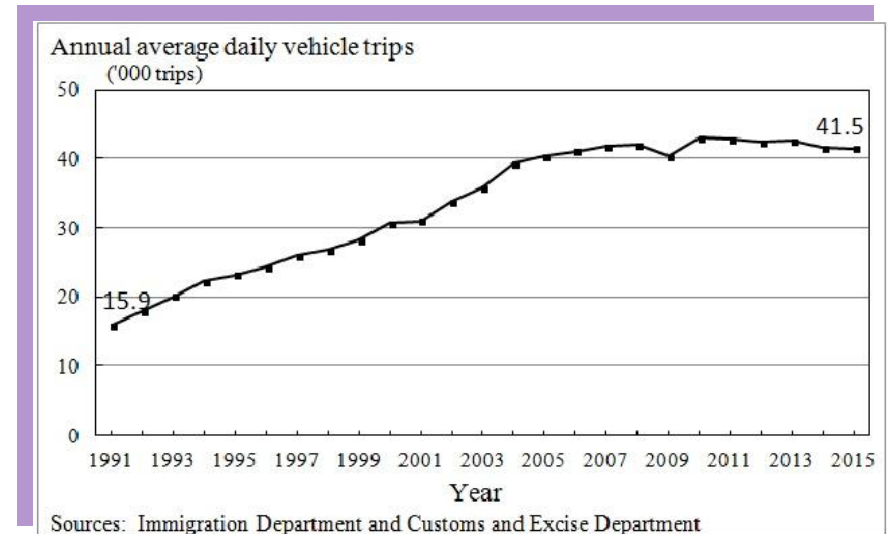


Figure 2: Annual Average Daily Cross-Boundary Vehicle Trips (1991-2015)

2.12 The close relationship between Hong Kong and the PRD Region can also be shown in the significant number of Hong Kong residents staying at the other side of the boundary. It was estimated that, at the end of 2015, about 514 800 Hong Kong residents were staying in Guangdong Province for a prolonged period of time.³⁰

2.13 The statistical data indicate that there are frequent interactions between the people of Hong Kong and the PRD Region. These interactions are not just economic and business in nature, but also involve social, cultural and leisure activities arising from cross-boundary marriages, home purchasing, workers and students commuting across the boundary, and holiday-makers visiting tourist destinations during the holidays. These social interactions are an important component of the special relationship between Hong Kong and the PRD Region.

Spatial Development Pattern of the PRD Region and Hong Kong

2.14 The spatial development pattern of the PRD Region may have been influenced by different levels of accessibility from Hong Kong. As travel to the western part of the PRD Region is comparatively inconvenient, the eastern PRD Region, especially Shenzhen, which abuts Hong Kong, is much more developed than the western PRD Region in terms of population and GDP.

2.15 Conversely, development in the PRD Region has also influenced the development in Hong Kong. The relocation of manufacturing industries from Hong Kong to the PRD Region has enabled rejuvenation of old industrial areas, some of which have been transformed into modern business areas.

2.16 New transport links and new boundary crossing facilities to connect with the major infrastructures in the Greater PRD

Region have been developed to cater for the increasing interactions between Hong Kong and the Mainland (Figure 1). Some of the new infrastructures that are under construction include the Hong Kong-Zhuhai-Macao Bridge (HZMB), the Guangzhou- Shenzhen-Hong Kong Express Rail Link (XRL) and the Liantang/Heung Yuen Wai Boundary Control Point. These transport infrastructures and boundary crossing facilities will further enhance connectivity with the Greater PRD Region and facilitate the development of the one-hour intercity traffic circle and three-hour living circle which link up major transport nodes in the Greater PRD Region. The HZMB, in particular, would significantly shorten the time required to travel between Hong Kong and western parts of the PRD Region.



Figure 3: Major infrastructures in the Greater PRD Region

Economic Relationship between Hong Kong and ASEAN

2.17 ASEAN is an economic force to be reckoned with. With a population of 622 million, it had a GDP of US\$2.6 trillion in 2014, which was the seventh largest in the world and the third largest in Asia. If the growth trend continues, ASEAN could become the fourth largest economy in the world by 2050.³¹

2.18 ASEAN and Hong Kong have developed a burgeoning economic partnership. Geographic proximity no doubt contributes to this strong relationship. Major cities in ASEAN, including Singapore, Kuala Lumpur and Manila are within the same time zone as Hong Kong, while other cities such as Bangkok, Jakarta and Hanoi are just one hour behind. Most of the major cities in ASEAN can be reached within a 4-hour flight from Hong Kong.



Figure 4: Flight time from Hong Kong to major Asian Cities³²

2.19 The close economic partnership between Hong Kong and ASEAN is clearly shown in trade statistics. Total merchandise trade between Hong Kong and ASEAN amounted to US\$105.5 billion in 2015 (Table 4), representing

10.8% of Hong Kong's global merchandise trade in that year. The average annual growth rate of Hong Kong's total merchandise trade with ASEAN in the five-year period between 2011 and 2015 was 3.2%.³³

2.20 Hong Kong is also an important entrepôt for trade between the Mainland and ASEAN. Since 2011, re-exports of goods of ASEAN origin through Hong Kong to the Mainland grew by an annual average rate of 5%, and re-exports of Mainland-origin goods to ASEAN through Hong Kong grew by an annual average rate of 4.5%.³³

2.21 A significant proportion of Hong Kong's port cargoes is related to the ASEAN countries. In 2015, around 19% of the port cargoes either loaded or discharged in Hong Kong went to or came from ASEAN member states (with the majority to/from Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam). In terms of total cargo volumes that Hong Kong handles, ASEAN was only second behind the Mainland.

2.22 A sizeable number of ASEAN companies have also set up bases in Hong Kong. As of June 2015, 518 ASEAN companies were represented in Hong Kong, including 57 regional headquarters and 126 regional offices. They accounted for about 6.6% of the total number of foreign companies in Hong Kong.²

Member States	Total Trade (in US\$ million)	Imports (in US\$ million)	Domestic Exports (in US\$ million)	Re-exports (in US\$ million)
Singapore	39,015	31,521	291	7,203
Thailand	17,180	10,886	163	6,131
Viet Nam	16,349	6,527	250	9,572
Malaysia	15,806	12,062	144	3,599
Philippines	10,541	7,241	84	3,216
ASEAN	105,545	70,781	1,018	33,746

Table 4: Hong Kong's Merchandise Trade with ASEAN and the Top Five Member States in 2015

2.23 The relationship between Hong Kong and ASEAN countries also extends beyond trade and business. In tourism, close to three million tourists from six ASEAN member states (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) visited Hong Kong in 2015. They as a whole represented about 35% of Hong Kong's short haul tourism markets (excluding the Mainland).³⁴

3.1 While the economic relationship between Hong Kong and the PRD Region is largely driven by market forces, Government policies have played an important role to facilitate economic and other interactions between the two sides.

Government Initiatives

3.2 In the past, three important initiatives have been promulgated to guide the development of the Greater PRD Region. These initiatives are:

- 2008: “The Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020)” (the PRD Outline) (《珠江三角洲地區改革發展規劃綱要(2008-2020年)》);
- 2010: “Framework Agreement on Hong Kong/Guangdong Cooperation” (Framework Agreement) (《粵港合作框架協議》); and

- The National Twelfth Five-year Plan (2011-2015) (the National 12-5 Plan) (國家第十二個五年規劃).

(More recent policies and initiatives are discussed in the next chapter.)

The PRD Outline

- 3.3 In 2008, the National Development and Reform Commission announced the PRD Outline which elevates the development of the PRD Region to the level of national strategy, specifying Hong Kong/Guangdong co-operation as a national policy.
- 3.4 Under the PRD Outline, the PRD Region is strategically positioned to become an experimental region for exploring the patterns of scientific development; a pilot region for further reforms; an important international gateway for furthering the opening-up programme; a world-class base for advanced manufacturing and

modern service industries; and an important national economic centre.

Framework Agreement

3.5 Hong Kong and the Guangdong Province signed the “Framework Agreement on Hong Kong/Guangdong Cooperation” in 2010 to translate the macro policies of “The PRD Outline” into concrete measures. The Hong Kong/Guangdong Cooperation was to become a base for further growth in advanced manufacturing industries and modern services, leveraging Hong Kong’s strengths in professional services and Guangdong’s capacities in manufacturing industries.



Figure 5: The Signing Ceremony of the Framework Agreement

The National 12-5 Plan

- 3.6 In 2011, the National People’s Congress approved the National Twelfth Five-year Plan, which for the first time has a chapter dedicated to Hong Kong and Macao.
- 3.7 The dedicated chapter outlines the areas where exchanges and cooperation between Hong Kong and the Mainland can be further strengthened during the period between 2011 and 2015. The support for Hong Kong is particularly highlighted in the growth of various pillar industries and emerging industries, as well as the strengthening of cooperation between Hong Kong and Guangdong in the development of a world-class metropolitan cluster, economic sphere and quality living area.
- 3.8 The National 12-5 Plan lists out seven major cooperation projects among Guangdong, Hong Kong and Macao: four of them are related to cross-boundary transport infrastructures including HZMB, XRL, and the study of

the possible Hong Kong-Shenzhen Western Express Line (WEL) and Liantang/Heung Yuen Wai Boundary Control Point. The remaining three projects concern the development of new districts including Qianhai, Nansha and Hengqin.

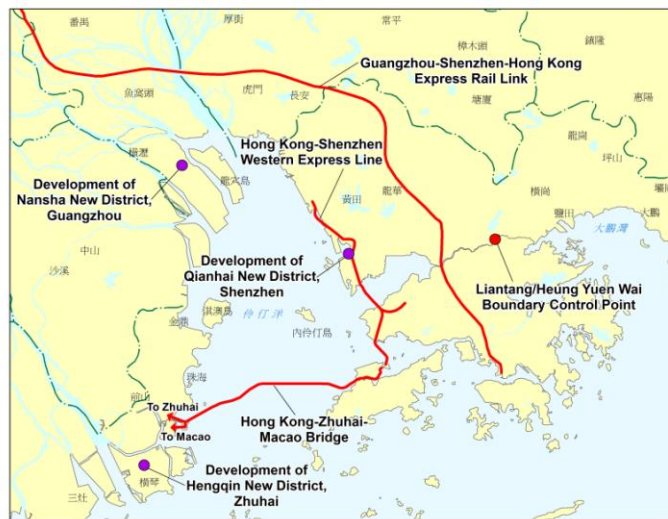


Figure 6: Major cooperation projects listed in the 12-5 Plan

3.9 With the exception of the WEL, all the cooperation projects listed in the National 12-5 Plan are in various stages of development. The WEL is a proposed railway connecting the Hong Kong International Airport and the Shenzhen Bao'an International Airport. It has not been included in the Railway Development Strategy 2014 (RDS-2014) for the reason that, having regard to the latest information available at the time of formulating the RDS-2014, the overall financial viability of the proposal is in doubt. This notwithstanding, if there are any significant increase in cross-boundary transport demand and changes in development parameters in future, the government will explore the feasibility as well as economic and social benefits of building a cross-boundary express rail link (or other transport infrastructure) connecting Hong Kong and Qianhai.³⁵

Planning Studies

3.10 Besides the above initiatives, a number of planning studies have also been jointly undertaken by the cities in the Greater PRD Region. They include “Building Coordinated and Sustainable World-class city-region: Planning Study on the Coordinated Development of the Greater Pearl River Delta Townships” (the GPRD Study) (《大珠江三角洲城鎮群協調發展規劃研究》) and the Study on the Action Plan for Livable Bay Area of the Pearl River Estuary (the Livable Bay Area Study) (《環珠江口宜居灣區建設重點行動計劃研究》).

The GPRD Study

3.11 The GPRD Study was jointly undertaken by Guangdong Province and the Hong Kong and Macao governments. It commenced in 2006 with the main findings and recommendations promulgated in 2009.

3.12 The GPRD Study proposes different planning objectives for different places. It is envisaged that Hong Kong should continue to strengthen its position as an international metropolis and develop into a centre of service industries and a global city with a good living quality. The PRD Region should develop into a world-class base of manufacturing and service industries and China’s economic centre. Macao should be developed into an attractive tourism and recreational centre as well as a commercial and trading services platform. The study proposes strategies for spatial structure optimisation to include a focus on the Bay Area with three metropolitan regions (Hong Kong-Shenzhen, Guangzhou-Foshan and Macao-Zhuhai), greater accessibility to enable “seamless connections” of cross-boundary infrastructure between Hong Kong, Macao and the PRD, and quality environment including the protection of the ecology, atmospheric environment and aquatic environment. It also recommends a further

study to explore strategies for the future development of the Bay Area of the Pearl River Estuary.

The Livable Bay Area Study

- 3.13 The Livable Bay Area Study, jointly undertaken by Guangdong Province, Hong Kong and Macao governments, was commenced in April 2010 and was completed in 2014.
- 3.14 Having regard to regional cooperation and needs of three sides, ten recommendations have been put forward under the study, namely, “Green Network”, “Blue Network”, “Regional Public Transport Network”, “Cultural Precincts”, “Featured Public Spaces”, “Public Service Network”, “Livable Communities”, “Walkable Cities”, “Convenient and Efficient Boundary Crossing” and “Cross-Boundary Cooperation on Environmental Protection”.
- 3.15 The study also recommends developing Major Cross-boundary Cooperative Development Areas (including Nansha in Guangzhou, Qianhai in Shenzhen, Hengqin in Zhuhai, Shenzhen-Dongguan Harbour Bay New City, Zhuhai-Zhongshan Seafront New City, Lok Ma Chau Loop Area and Zhuhai-Macao Cross Boundary Cooperation Zone). Guangdong, Hong Kong and Macao should take into account their respective circumstances and established mechanisms to sort out the applicable recommendations.
- 3.16 These two planning studies, by emphasising optimal spatial structure, accessibility, environmental quality and living quality, make clear that the Greater PRD Region does not just focus on economic development, but also on the creation of a sustainable and livable region for its residents and the future generations.

4.1 There are a few major regional initiatives that may have implications on the future development trends of Hong Kong. They include the National Thirteenth Five-year Plan (2016-2020) (the National 13-5 Plan) (國家第十三個五年規劃), the National New-type Urbanization Plan (2014-2020) (the Urbanisation Plan) (國家新型城鎮化規劃), development of PRD West, the China (Guangdong) Pilot Free Trade Zone (中國(廣東)自由貿易試驗區), the “Belt and Road” (一帶一路) Initiative, and the future plans of ASEAN.

The National 13-5 Plan

4.2 The National 13-5 Plan was promulgated in March 2016 with a dedicated chapter on Hong Kong and Macao. The dedicated chapter expresses support for Hong Kong to strengthen economic competitiveness through enhancing our position as an international financial, transport and trading centre; strengthening our role as a global offshore Renminbi business hub and an international asset management centre;

and upgrading our financing services, business and commerce, logistics and professional services, etc. into higher-end and higher value-added economic sectors. It also supports Hong Kong in developing the innovation and technology industry, nurturing emerging industries as well as establishing itself as a centre for international legal and dispute resolution services in the Asia-Pacific region.

4.3 The chapter also emphasises the deepening of co-operation between the Mainland and Hong Kong, and the support for Hong Kong in participating in the country's two-way opening up and in the “Belt and Road” Initiative. It expresses support in expediting development of co-operation platforms among Guangdong-Hong Kong-Macao such as Qianhai, Nansha and Hengqin as well as support for Hong Kong to play an important role in the Pan-PRD regional co-operation and the development of Guangdong-Hong Kong-Macao Bay Area, with a view to opening up more opportunities for co-operation between Hong Kong and the Mainland.

Development of Pan-PRD region

- 4.4 To deepen cooperation within the Pan-PRD Region,³⁶ the State Council issued the “State Council’s Guiding Opinions on Deepening Pan-Pearl River Delta Regional Cooperation”³⁷ in March 2016. It points out that the overall development of the Pan-PRD Region should be directed towards the Pearl River – Xi River economic belt and cross-province cooperation; the promotion of the integration of the nine provinces; and the deepening of the cooperation with Hong Kong and Macao.
- 4.5 The “State Council’s Guiding Opinions on Deepening Pan-Pearl River Delta Regional Cooperation” also proposes cooperation with Hong Kong and Macao on the development of the Guangdong - Hong Kong - Macao Bay Area and the development of a world-class city-region. The Guangdong - Hong Kong - Macao Bay Area should serve as a leader, with Pearl River – Xi River economic belt serving as hinterlands. It will stimulate the development of the Mainland’s

central-south and south-western regions. Its influence will spread to the main economic areas of Southeast Asia and South Asia.

The Greater PRD Region as a City-Region

- 4.6 In China, city-regions are the main engine propelling development. Between 2000 and 2011, the economy of the ten largest city-regions in China quadrupled in size, with an average annual growth rate of about 15%. The three most important city-regions in China are Beijing-Tianjin-Hebei, the Yangtze Delta Region and the Greater PRD Region.³⁸
- 4.7 The State Council recognises the economic importance of city-regions. In March 2014, it released the Urbanisation Plan, which aims to increase the national urbanisation rate from 53.7% in 2013 to 60% by 2020. In view of their economic vitality and capability to innovate, the Urbanisation Plan recommends that the three most important city-regions

should be developed into world-class city-regions with continued progress in areas such as institutional innovation, technology advancement, business upgrading and green development.



Figure 7: Major cities in the PRD Region

4.8 The continued development of the Greater PRD Region has turned it into a city-region of global importance. It has

overtaken Tokyo to become the largest urban area in the world in terms of both size and population.³⁹ Furthermore, the Greater PRD Region is the most globally oriented among the three most important city-regions. As an integral part of the Greater PRD Region, Hong Kong will further solidify its role in linking up the region and the Mainland in general with the rest of the world.

PRD East and West

4.9 Since China's reforms and opening up, the PRD Region has become an important base for manufacturing industries, with much of the investments coming from Hong Kong. A majority of these investments focus on PRD East, rather than PRD West or the outer parts of Guangdong. The level of development across the province is not quite even.

4.10 In response, the Guangdong government has proposed the strategy of “double transfer” (雙轉移) to promote the

relocation of industries and labour within the province: Labour-intensive industries are encouraged to move to the outer parts of the province. While there is support for workers in the outer parts of the province to move on to secondary and tertiary industries from primary industries, skilled labour in those places will be encouraged to relocate to the PRD Region.

4.11 According to the "Outline of the Thirteenth Five-Year Plan for the Economic and Social Development of Guangdong" (《廣東省國民經濟和社會發展第十三個五年規劃綱要》), the less developed regions of Guangdong, including the eastern, western and northern parts of the province, are to be groomed as new economic areas. The eastern part of the province is to cooperate with the cities in PRD East to become a city-region with coordinated development. There is a special focus in developing marine-related industries and waterfront industrial bases, and developing the area into the capital for people of Chaozhou heritage (世界潮人之都).

4.12 As regards the western part of Guangdong, there should be more cooperation with the PRD Region, especially the cities on the west coast of the Pearl River. There should be expansion of the hinterlands of the ports and an economic belt along the coastal areas should be developed. It should become a base for heavy industries and a growth pole for the marine economy.

4.13 The northern part of Guangdong is to focus on the sustainable development of a new economy based on environmental and specialty industries. It would be a low-carbon development zone and a tourist area.

4.14 According to a study conducted by the Federation of Hong Kong Industries in 2014, due to a host of issues including rising costs and labour shortage, manufacturers had relocated at least part of their businesses elsewhere.⁴⁰ In another study conducted by the Chinese Manufacturers' Association of Hong Kong in 2014, 32% of manufacturers had considered relocating their businesses to other areas.

About 14% of the manufacturers surveyed preferred to relocate to the remote parts of Guangdong.⁴¹ All these indicate that opportunities for further economic development are abound for the currently less developed parts of Guangdong.

The Strategic Planning of Shenzhen in Recent Years

4.15 Shenzhen has experienced substantial population growth and economic expansion in the last few decades, with the most rapid development taking place in the areas closest to Hong Kong, including Luohu, Shekou and Futian, and along the axis connecting Hong Kong to Guangzhou. Considering that there are increasing interactions between the two places, it is imperative for Hong Kong to know more about the planning strategy of its northern neighbour and appropriately respond to it.

4.16 In 2007, Shenzhen published a strategic planning document called “Shenzhen 2030: Toward a pioneer metropolis based

on sustainable development” (《建設可續發展的全球先鋒城市 — 深圳2030城市發展策略》). Its spatial strategy, at the regional level, is to connect the areas to its north, south, east and west through large-scale infrastructures. In a north-south direction, Shenzhen will strengthen its connection with its neighboring cities such as Guangzhou, Dongguan and Hong Kong so as to elevate the status of the city. In an east-west direction, it will enhance its links with Huizhou and eastern Guangdong, and through transport connections across the Pearl River, with the cities on the west coast of the Pearl River and provinces in the southwest part of the Mainland, so as to expand the economic hinterland of the city.

4.17 The "Outline of the Thirteenth Five-Year Plan for the Economic and Social Development of Shenzhen" (《深圳市國民經濟和社會發展第十三個五年規劃綱要》) aims at greater regional cooperation. There is a focus on the economic development of the Pearl River Bay Area. The Shenzhen-Zhongshan Link, which will accelerate the

integration of the Bay Area, is identified as one of the key infrastructure projects. Qianhai, Nanshan (南山) and Bao'an (寶安) are proposed to be developed into a new city centre along Shenzhen's western development axis, while the Shenzhen airport would be enhanced to take on a greater role as an international nexus.

4.18 There is also a special emphasis on the cooperation of development in the east coast of the Pearl River Delta. It proposes the expedition of the development of the "Shenzhen-Dongguan-Huizhou, Heyuan and Shanwei "3+2" Economic Circle" (深莞惠和河源、汕尾 "3+2" 經濟圈), strengthening regional cooperation in areas such as economy, social development, ecological and environmental protection. The development of Shenzhen-Shanwei Special Cooperation Zone (深汕特別合作區), as a new development area specializing in various areas including industries, transport infrastructures, tourism, education and research, is to be expedited. The cooperation with Hong Kong and Macao is also to be strengthened.

4.19 A strategy to focus on the development on the eastern part of Shenzhen, entitled "Eastward Shift Strategic Action Plan for 2016 to 2020" (《深圳市實施東進戰略行動方案(2016-2020年)》), was published in mid-2016. One of the main purposes of the strategy is to avoid concentrating the development of the city to its western and southern parts. A more developed eastern part would also serve as a base to spur the growth of the "Shenzhen-Dongguan-Huizhou, Heyuan and Shanwei "3+2" Economic Circle", as well as the eastern and northern parts of Guangdong. Among the strategy's various proposals, Longgang (龍崗) and Pingshan (坪山) are planned to be the central business district (CBD) of the eastern part of Shenzhen. The CBD would comprise university campuses and various districts for the development of businesses, technologies and industries.

4.20 Since economic activities often transcend political boundaries, the continued development of Shenzhen and its broad regional strategy will have implications on the land use and traffic patterns of Hong Kong, in particular the northern

New Territories. There is a need to consider the development of Shenzhen so that any changes in land use or traffic patterns, such as a drastic rise in traffic volumes on a particular highway or road network, can be readily dealt with in Hong Kong.

China (Guangdong) Pilot Free Trade Zone

4.21 According to the scheme announced by the State Council in April 2015, the China (Guangdong) Pilot Free Trade Zone (GDFTZ) consists of Guangzhou's Nansha (60km²), Shenzhen's Qianhai and Shekou (28.2km²) and Zhuhai's Hengqin (28km²).



Figure 8: Location of the three GDFTZ subzones

Nansha

4.22 Nansha New Area (803km²), which encompasses the FTZ subzone, was planned for a wide variety of industries even before it was designated as a subzone of the GDFTZ. In

line with the objectives of the National 12-5 Plan for Nansha, these industries include the development of a high technology and innovation centre, a business services centre (encompassing high-end businesses, conferences and exhibitions, specialised financial and professional services, outsourcing of services, and “headquarters economy”), an education and training centre, and an advanced manufacturing base (including automobile, shipping and marine engineering, high-end equipment and information technology industries).⁴²

4.23 Nansha also aims to strengthen its connections with other cities in the Greater PRD Region, including Hong Kong. It will give preferential treatment to investments from Hong Kong in accordance with Closer Economic Partnership Arrangement (CEPA) and will explore new modes of cooperation with Hong Kong businesses. It will also cooperate with Hong Kong to facilitate businesses in Nansha to “go global.”

4.24 The Nansha FTZ will include seven land parcels. It aims to become an advanced comprehensive service hub, and a base for high-end manufacturing-related services. It will focus on the development of shipping and logistics, international finance, international trade, technological innovation, marine economy, and high-end manufacturing.

4.25 The Guangdong Province intends to establish within the Nansha FTZ a “Guangdong-Hong Kong in-depth co-operation demonstration zone”, drawing on Hong Kong’s experience in economic development and social management services. Planning for this co-operation zone is underway.

Qianhai and Shekou

4.26 Under the National 12-5 Plan, Qianhai is to be developed into an important production service centre in the Asia Pacific region, and a Hong Kong/Guangdong modern service

industry innovation and co-operation exemplary zone by 2020. The State Council approved the Overall Development Plan for the Shenzhen-Hong Kong modern service industry cooperation zone in Qianhai in 2010. According to the Overall Development Plan, Qianhai is designated as an exemplary zone for promoting the innovation of and cooperation between Guangdong's and Hong Kong's modern service industries, with a focus on innovative financial services, modern logistics, information services, technology services and other professional services. The dedicated chapter on Hong Kong and Macao in the National 13-5 Plan also expresses support in expediting development of co-operation platforms among Guangdong-Hong Kong-Macao such as Qianhai, Nansha and Hengqin.

4.27 The Shenzhen Municipal Government takes a leading role and is responsible for the development and management of Qianhai, while the Hong Kong SAR Government plays an

advisory role by providing comments on relevant planning and policy matters.

4.28 In 2012, the National Development and Reform Commission promulgated a series of policies as approved by the State Council for Qianhai on an early and pilot basis. The policy framework of these early and pilot policies covers six major areas, namely, financial services, taxation, legal services, human resources and professional services, medical services and education, and telecommunication services.

4.29 The Qianhai and Shekou FTZ aims to become a testing ground for the opening up of Mainland's financial sector, a base for international services and trade, and an international transport hub. Through the deepening of cooperation between Hong Kong and Shenzhen, this subzone will focus on the development of high-end service industries such as technology-related services, information services, financial services and modern logistics services.

Hengqin

4.30 Hengqin is located adjacent to Macao. In 2009, the State Council approved the Overall Development Plan of Hengqin, which incorporated Hengqin Island into Zhuhai Special Economic Zone. Hengqin will focus on several key industries, including business services, leisure and tourism, scientific research and development, and high technology. Under the National 12-5 Plan, Hengqin is to be progressively developed into an exemplary zone for pursuing a new mode of co-operation among Guangdong, Hong Kong and Macao, which will strengthen cooperation among the three places in areas including economic advancement, social development and environmental protection.

4.31 Strategically, Hengqin will serve as a growth pole for PRD West. It will complement Zhuhai and Macao in attracting investments from Hong Kong and foreign countries. Hengqin will be connected to Hong Kong via the Hong

Kong-Zhuhai-Macao Bridge, which will facilitate further cooperation with Hong Kong.

4.32 The Hengqin FTZ aims to be a leader in culture and education, and a base for international business services and leisure and tourism. It will focus on cooperation with Macao, and will help to facilitate the diversification of Macao's economy.

The Responses of the HKSAR Government

4.33 In his 2015 Policy Address, the Chief Executive announced that the HKSAR Government would maintain close collaboration with the Guangdong Provincial Government throughout the planning and development of the three new areas of the GDFTZ to actively pursue new modes of co-operation, the most favourable treatment and the biggest development opportunity for Hong Kong people and enterprises. The Chief Executive further states in the 2016 Policy Address that the three GDFTZ areas come under the

auspices of the Hong Kong-Shenzhen, Hong Kong-Guangzhou and Hong Kong-Zhuhai co-operation meetings, which work to deepen sustainable collaborated development to capture immense opportunities for Hong Kong people and enterprises.

4.34 The Chief Executive also said in the 2016 Policy Address that, on the principle of achieving mutual benefits through active participation and joint planning, the Guangdong Province intends to draw on Hong Kong's experience in economic development and social management services when establishing the Guangdong-Hong Kong in-depth co-operation zone in Nansha. The HKSAR Government will provide advice on planning concepts and other areas to Guangdong.

4.35 As one of the objectives of the establishment of GDFTZ is to facilitate greater collaborations between Hong Kong and the GDFTZ, Hong Kong will play an important role in the development of the GDFTZ, by both investing in the GDFTZ

and by sharing Hong Kong's experience as a free economy. Hong Kong's role in linking up the Mainland and the rest of the world would be further strengthened.

21st Century Maritime Silk Road

4.36 The "21st Century Maritime Silk Road", along with the "Silk Road Economic Belt", is part of the initiative called "Belt and Road" announced in 2013.

4.37 The Belt and Road Initiative will promote cooperation between countries along the route in improving connectivity between transport, energy and information infrastructures. It will facilitate trade, remove trade barriers, enhance customs cooperation, expand trade areas, explore new growth areas and promote trade balance. It will improve the division of labour and distribution of industrial chains, establish R&D, production and marketing systems, improve industrial supporting capacity and the overall

competitiveness of regional industries, and push forward the development of emerging industries.

4.38 China will contribute US\$40 billion to set up a Silk Road Fund for providing investment and financing support to carry out infrastructure, resources, industrial cooperation, financial cooperation and other projects related to connectivity for countries along the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road”.⁴³

4.39 Hong Kong is located along the “21st Century Maritime Silk Road”, which will have two branches: the first will go from China’s coast to Europe through the South China Sea and the Indian Ocean, while the other will go from China’s coast through the South China Sea to the South Pacific. It will focus on building smooth, secure and efficient transport routes connecting major sea ports along the transport route.

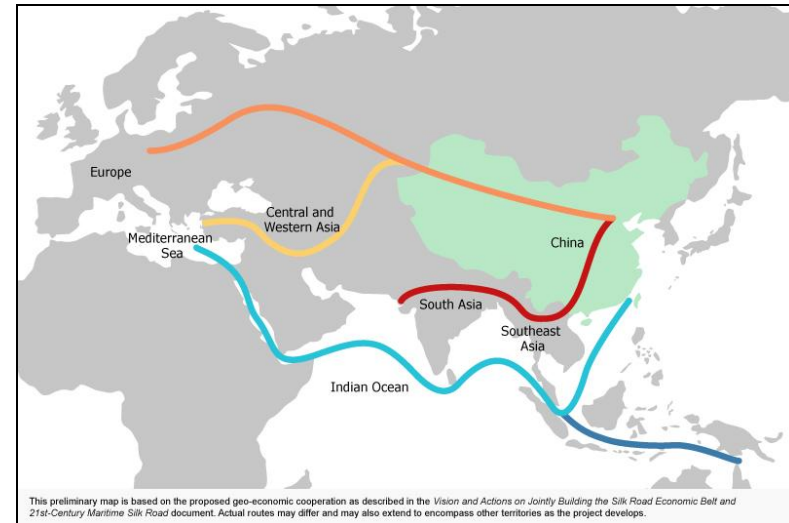


Figure 9: The routes of “Belt and Road”⁴⁴

4.40 The “21st Century Maritime Silk Road” will leverage the economic strengths of the PRD Region, among other areas. As part of the route, Qianhai, Nansha and Hengqin will continue to open up and cooperate with Hong Kong and Macao, and help build the Guangdong-Hong Kong-Macao Bay Area.⁴⁵

4.41 Hong Kong is poised to take an active role to facilitate the implementation of the Belt and Road Initiative. The Government will set up an inter-departmental steering committee which will be responsible for formulating strategies and policies for Hong Kong's participation in the Belt and Road Initiative. A Belt and Road Office has also been set up to initiate studies and and co-ordinate work among government departments and other organisations, such as the Hong Kong Trade Development Council and the Hong Kong Tourism Board.

4.42 A major area of the Belt and Road Initiative is to promote the development of infrastructure projects in the participating countries. Asian Development Bank estimates that Asia requires around US\$8 trillion investment in infrastructure between 2010 to 2020.⁴⁶ Given Hong Kong's strength in IPO (initial public offering) fund raising and asset management, the demand for financing arising from the Belt and Road Initiative will bring about enormous opportunities to the financial services sector in Hong Kong.

4.43 Besides the financial services sector, Hong Kong's experience and expertise in infrastructure development, provision of professional services such as legal and accounting services, transport services including maritime-related transport services, and development of telecommunications infrastructures, means that Hong Kong is well-placed to seize the new opportunities borne out of the Belt and Road Initiative.⁴⁷ Hong Kong has also applied to the Asian Infrastructure Investment Bank (AIIB), which supports the development of infrastructures in Asia, to become a non-sovereign member of the AIIB.

Development Trends of the ASEAN Region

4.44 Since its establishment in 1967, ASEAN has strived to work towards its main goal of accelerating economic growth, social progress and cultural development. Following the implementation of the ASEAN Free Trade Area launched in 1993, the ASEAN Economic Community (AEC) was

established on 31 December 2015. AEC was built on four characteristics: (a) a single market and production base; (b) a highly competitive economic region; (c) a region of equitable economic development; and (d) a region fully integrated into the global economy.⁴⁸

4.45 The AEC has issued “AEC Blueprint 2025” to guide its economic integration from 2016 to 2025. One of the visions is to develop AEC into “a global ASEAN”. Two of the main initiatives under this vision are the ASEAN-Hong Kong Free Trade Agreement (AHKFTA) and the Regional Comprehensive Economic Partnership (RCEP).

4.46 Hong Kong and ASEAN share common aspirations for a comprehensive FTA. In 2014, the first round of negotiations for HKAFTA was launched. It was agreed that HKAFTA would cover a wide scope of areas, namely: trade in goods and related issues; trade in services; investment; economic and technical co-operation; and dispute settlement.⁴⁹ While negotiations are still underway, it is

expected that the HKAFTA, when implemented, will give Hong Kong’s businessmen and investors greater market access into ASEAN countries through the reduction and/or elimination of tariffs and non-tariff barriers as well as investment promotion and protection, and facilitate trade and investment flows between Hong Kong and ASEAN.

4.47 In addition, ASEAN and its six FTA partners, including Australia, China, India, Japan, South Korea and New Zealand, are in the process of negotiating a new FTA negotiation called the “Regional Comprehensive Economic Partnership” (RCEP). Considering that the combined GDP of the 16 participating economies represents nearly one-third of the world's GDP, RCEP’s importance cannot be overstated. It is expected that RCEP will provide a basis for broader regional integration and help address concerns arising from the existing bilateral and regional agreements which are overlapping in coverage. Hong Kong will seek to join RCEP after the conclusion of the negotiations with ASEAN on HKAFTA.⁵⁰

4.48 Within ASEAN, there is a perceived “development divide” between the older and economically more advanced member states including Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand (known as ASEAN-6), and the four newer members – Cambodia, Laos, Myanmar and Vietnam (CLMV). One of the initiatives in “AEC Blueprint 2025” is to provide support to CLMV so as to narrow the development gap between the two groups of ASEAN member states. The continued improvement of CLMV in business environment, infrastructures and the capacity to implement trade agreements would provide more opportunities for investment for Hong Kong.

Hong Kong’s Role in Light of the Changing Regional Dynamics

4.49 As an externally oriented economy and a World City, Hong Kong needs to be on the lookout for opportunities and space

all over the world and in the neighboring region. The development of the PRD city-region, the economic growth of the less developed parts of the PRD Region, the commencement of GDFTZ, the development of the Guangdong – Hong Kong – Macao Bay Area, and the Belt and Road Initiative, along with the measures being implemented in ASEAN countries, will no doubt provide further impetus for the further development of Hong Kong. In addition to its traditional strengths in finance, logistics, professional services and tourism, Hong Kong can make use of the opportunities presented by the changing regional dynamics and take up a leadership role in the following areas:

- further consolidate its position as a global hub for offshore Renminbi business, which will assume an increasingly important role as Renminbi continues to internationalise. Guangdong – Hong Kong – Macao Bay Area and the Belt and Road Initiative will allow opportunities for greater cooperation and strengthen

Hong Kong's role as a platform for Mainland companies to "go global". The HKAFTA will also bolster Hong Kong's position as an international asset management and capital raising centre;

- GDFTZ, Guangdong – Hong Kong – Macao Bay Area, the Belt and Road Initiative and HKAFTA which will boost trade between Hong Kong and the Mainland, ASEAN member states and other different countries, will strengthen Hong Kong's role as a trading centre;
- in anticipation of more cases of legal disputes often associated with greater economic interactions between businesses in different countries, Hong Kong could enhance its status as an international legal and dispute resolution centre in the Asia-Pacific region to capture these opportunities;
- with greater interactions between people of different countries in the social and cultural arena, Hong Kong could further develop its creative and cultural industries,

position itself as an international cultural and arts exchange hub, and aspire to develop into a leading regional cruise hub; and

- the commissioning of HZMB and the further economic growth of PRD West would further generate opportunities for the expansion of the logistics business, which would strengthen Hong Kong's position as an international aviation centre, regional hub port and the preferred base in Asia for international maritime business.

5

Development Trends of Key Industries in Light of the Regional Dynamics

5.1 This section examines the development trends of a few key industries or economic sectors in relation to the regional dynamics.

Innovation and Technology Sector

5.2 Despite still being on the low side as compared to many other countries, Hong Kong's innovation and technology sector has grown significantly in recent years. As an indication, Hong Kong's gross domestic expenditure on R&D increased from \$7.1 billion in 2001 to \$16.7 billion in 2014, an average annual growth of about 7%.⁵¹ The number of R&D personnel has more than doubled during the same period.⁵² From a geographic point of view, there is an established knowledge and technology corridor stretching from Hong Kong Polytechnic University in Hung Hom, through the universities, research centres, Science Park and industrial estate in Kowloon and eastern New Territories, all the way to Kwu Tung North, Ping Che/Ta Kwu Ling, Lok Ma Chau Loop

and areas near Liantang/Heung Yuen Wai Boundary Control Point in the northern New Territories.



Figure 10: Hong Kong Science Park

5.3 Within the PRD Region, Hong Kong and Shenzhen have a close relationship in the development of the knowledge and technology sectors. The two places signed a co-operation

agreement in 2007 to establish the “Shenzhen/Hong Kong Innovation Circle”. The two sides have agreed to strengthen exchange and sharing of talents and resources, and encourage closer cooperation between the research institutions of both places. Various universities in Hong Kong have established research facilities in the High-Tech Zone of Nanshan District, Shenzhen.⁵³

5.4 Hong Kong has also formed the “Mainland-Hong Kong Science and Technology Cooperation Committee” with the Ministry of Science and Technology. The Committee meets once a year to discuss and formulate technological collaboration programmes between the Mainland and Hong Kong. Through the Committee, initiatives are formulated and implemented to dovetail with the National Five-Year Plan on Science and Technology Development to enhance Hong Kong’s participation in the national roadmap of technology development. International technology companies are also encouraged to gain access to the Mainland market and its R&D initiatives through Hong Kong.

5.5 The National 13-5 Plan advocates innovation as the new economic driver, encouraging the development of technological innovation, innovation in service industries, smart production, high-end industries and information technology, etc. It is expected that the strengthening of basic research and the capacity to innovate would fuel the long-term socio-economic development of the country. It also promotes "mass entrepreneurship and innovation" (大眾創業、萬眾創新) in consumption, manufacturing processes, industries, investment, funding and many other aspects to provide better support to small and medium enterprises. New platforms such as crowdfunding and crowdsourcing are to be encouraged.

5.6 The National 13-5 Plan also encourages the implementation of “Made in China 2025”, which sets out a blueprint for innovation-driven development and paves the way for China to become a world manufacturing power. “Made in China 2025” aims to enhance the foundation in high-tech industries and strengthen its high-end manufacturing through

innovation and technology and adoption of intelligent manufacturing technologies and processes. Its goal is to allow the nation to be one of the leading manufacturing powers in the world, with global leadership in innovation and significant comparative advantages in manufacturing by 2049, a hundred years after the founding of the republic.

5.7 Correspondingly, Guangdong, in its 13-5 Plan, also plans to expedite the development of innovative zones. The PRD is to be developed into one of the world's leading innovation centres. New innovation platforms are to be established through higher education institutions, science research facilities and leading enterprises. Similarly, Shenzhen's 13-5 Plan also aims to improve the city's capacity to cooperate and compete with the world's innovation leaders, develop world-class bases for innovation development in industries, attract talents from all over the world, and provide an environment to facilitate innovation by initiatives such as enhancing intellectual property protection and encouraging start-ups.

5.8 Seizing the opportunities that are generated in the region and elsewhere in the world, Hong Kong is well-positioned to develop high value-added and high-tech innovation and technology industries and spearhead re-industrialisation as a new area of economic growth. Opportunities for Hong Kong especially lie in the Internet of Things, Cloud Computing and Big Data Analysis, which will likely spawn different new products and services. Rapid development of e-commerce in the retail sector, coupled with electronic logistics and 3D-printing technology, also create opportunities in development of personalised products.⁵⁴

Tourism

5.9 Hong Kong is one of the world's major tourist destinations. In 2015, the number of visitors from around the world received by Hong Kong was about 60 million. The Mainland continued to be our largest visitor source market with 46 million arrivals, accounting for 77.3% of our total arrivals. It

is also noted the visitors from South and South East Asia account for about 26% of the remaining arrivals.⁵⁵

5.10 A majority of Mainland visitors come to Hong Kong under the Individual Visit Scheme (IVS), which covers 49 cities in the Mainland, including all 21 cities in Guangdong. In 2009, the Central Government allowed eligible permanent Shenzhen residents to apply for one-year Multiple-entry Individual Visit Endorsements, to provide greater convenience for those who wish to visit Hong Kong. Appreciating that the continued growth of Mainland tourist arrivals has generated concerns about Hong Kong's receiving capacity as well as parallel trading activities, and in response to the HKSAR Government's request, the Central Government announced on 13 April 2015 that the Shenzhen authority would stop issuing the "multiple-entry" Individual Visit Endorsements, which would be superseded by the "one trip per week" Individual Visit Endorsements to allow the endorsement holders to visit Hong Kong only once a week from Monday to Sunday.

5.11 As regards Hong Kong's receiving capacity, the Assessment Report on Hong Kong's Capacity to Receive Tourists published in January 2014 by the Commerce and Economic Development Bureau considers that Hong Kong would generally be able to receive the visitor arrivals expected for 2017.⁵⁶ The Government is making great efforts to enhance Hong Kong's capacity to receive tourists along the recommendations in the Assessment Report, including the expansion of the two theme parks, the commissioning of the second berth of the Kai Tak Cruise Terminal, etc. The Government will also continue to adopt a multi-pronged approach to increase the supply of hotel rooms.

5.12 According to World Tourism Organisation, to guarantee the long-term sustainability of the tourism industry, a suitable balance must be established between the environmental, economic, and socio-cultural aspects of tourism development.⁵⁷ The Government will continue to monitor closely the impact of the tourism development on the community and the local economy with a view to ensuring

the healthy and sustainable development of the tourism industry in the long run. We also need to diversify our tourism offer and explore alternative niches such as ecotourism, cultural tourism, sports and event tourism, etc.

Logistics Industry, Port Development, and International Maritime Centre

5.13 The logistics industry, the port sector and the operation of an international maritime centre are interrelated and form an industrial chain. These three sectors, to varying extent, have been affected by the competition coming from neighboring regions, but growth is still expected in the coming years.

Logistics Sector

5.14 The logistics industry is a traditional pillar industry of Hong Kong. Under the National 13-5 Plan, the Central Government expresses support for Hong Kong in promoting logistics services. According to the Comprehensive Plan of Shenzhen (2010-2020), Shenzhen will continue to work with Hong Kong on the development of the logistics industry, with greater cooperation between the respective airports and ports in the two places.⁵⁸

5.15 Notwithstanding the efforts in further cooperation, there have also been competitions from the neighbouring regions. In response to the competition and the market trends, the logistics industry has gradually shifted towards the handling of high-value goods and provision of high value-added services such as inventory management, regional distribution and global supply chain management.

5.16 Hong Kong's mature logistics infrastructure and simple customs clearance procedures provide an efficient and responsive regional delivery and distribution service for the development of e-commerce. The presence of many third-party logistics service providers to carry out inventory management and other value-added services such as labelling and packaging also facilitates the growth of e-commerce. These service providers have professional knowledge and resources in supply chain management, and are geared to planning and managing the flow of goods along the supply chain to cater for the requests of individual consignors.⁵⁹



Figure 11: Hong Kong Port

5.17 As logistics services are getting more specialised, industry demand for modern logistics facilities has also increased. However, there have been concerns that there is not enough land to meet the demand of the logistics industries.⁶⁰

5.18 To address this issue, land has been set aside in Tuen Mun West for modern logistics development. The Government is also exploring other suitable land for logistics use in different parts of Hong Kong, including new/potential development areas in the New Territories such as Hung Shui Kiu and the Hong Kong Boundary Control Facilities Island of the HZMB through various on-going and committed planning and engineering feasibility studies.⁶¹

Port Development

5.19 Hong Kong Port (HKP) is among the world's busiest container ports. In 2015, it handled some 20.1 million TEUs (twenty-foot equivalent units). HKP operates about 340 weekly sailings to around 470 destinations worldwide.⁶² It serves mainly a gateway port for South China cargo and as a transshipment hub. HKP, however, faces intense competition from the ports in South China which include Shenzhen Port (comprising Chiwan, Shekou, Dachan Bay

and Yantian) and Guangzhou Port including the expansion at Nansha. These ports share overlapping hinterlands and compete for the same South China cargo. The Study on the Strategic Development Plan for Hong Kong Port 2030 (HKP2030) considers that HKP is competitive in international transshipment, though the share of South China cargo routed via HKP is diminishing.⁶³

5.20 HKP2030 predicts that the total container throughput of HKP would have an average annual growth of 1.5 per cent up to 2030, with total container throughput estimated to reach 31.5 million TEUs. The growth in international transshipment would be the main driver. The port transshipment cargo movements between Hong Kong and the Mainland continued to take up the largest share (39.8%) of Hong Kong's port transshipment cargo in 2015. Some of the transshipment cargo movements between Hong Kong and the Mainland (either originating from or destined for the Mainland) was related to ASEAN member states, including Malaysia (8.9%), Thailand (6.5%), Vietnam (5.4%) and Singapore (4.4%).

For transshipment cargo movements between Hong Kong and ASEAN member states, a significant share were either originating from or destined for the Mainland. The proportions were particularly high for Malaysia (75.9%), Thailand (70.9%) and Singapore (65.6%).⁶⁴ All these data indicate the important role Hong Kong plays as a transshipment centre between the Mainland and the ASEAN member states.

5.21 The HKP2030 study proposes a number of measures to enhance the handling capacity of the terminals, which include the upgrading of Stonecutters Island Public Cargo Working Area to a modern container handling facility for ocean-going or river trade vessels; the enabling of the River Trade Terminal to become a terminal for both ocean-going and river trade vessels; the provision of additional barge berths at the Kwai Tsing Container Terminals to handle the increased river cargo throughput; and more efficient use of land and other facilities around the terminals to enhance

operational efficiency and accommodate future growth in transshipment.

5.22 The HKP2030 anticipates that the above measures should be sufficient to enhance the handling capacity of existing container terminals to cope with future growth. Although the development of Container Terminal 10 at Southwest Tsing Yi is considered technically feasible according to the Preliminary Feasibility Study for Container Terminal 10 at Southwest Tsing Yi, it is not considered economically or financially viable. In this context, the planning and development of Container Terminal 10 before 2030 is not recommended.

International Maritime Centre

5.23 Hong Kong is an international maritime centre. Hong Kong's ship owners own or manage about 9 per cent (in terms of deadweight tonnage) of the world's merchant fleet. The Hong Kong Shipping Register is the fourth largest in the

world.⁶⁵ In terms of the provision of professional and high value-added maritime services, Hong Kong has a strong cluster with more than 800 companies providing a full range of maritime services. Our institutional strengths, including an established maritime heritage, rule of law, free economy, robust financial system and low taxation, etc. have provided a solid base for Hong Kong to further develop as an international maritime centre. The “Consultancy Study on Enhancing Hong Kong’s Position as an International Maritime Centre” (the IMC Study), completed in 2014 for the Government, points out that Hong Kong is facing competition from other places in the region in attracting maritime companies. The study, however, recognises that Hong Kong has the potential to further develop high value-added maritime services including ship finance, marine insurance, law and maritime arbitration. By bringing together a diversity of maritime companies and maritime services providers, Hong Kong may further become the preferred base in Asia for international maritime business.⁶⁶

5.24 The IMC Study recommends that Hong Kong should position itself, at the regional/national level, as the preferred location of global (and in particular Mainland China) commercial principals sourcing professional maritime services; and, at the global level, as a maritime service hub and springboard that facilitates Mainland shipping companies to operate internationally, and for foreign shipping companies to expand into the Mainland market. Various initiatives covering government support, manpower development, promotion and external relations, research and development on infrastructure, innovation and technology are suggested to further enhance Hong Kong’s status as an international maritime centre.

Financial and Professional Services

5.25 Hong Kong is a well-recognised international financial centre. It is also Mainland’s international equity funding centre. Largely thanks to the listing of Mainland enterprises,

Hong Kong has been one of the top global Initial Public Offering markets over the past decade. Hong Kong is also the world's largest offshore Renminbi business centre. Through CEPA, financial institutions incorporated in Hong Kong have been able to enter the Mainland market under preferential terms. Since 2014, the stock markets of Hong Kong and Shanghai have been linked through the Shanghai-Hong Kong Stock Connect (滬港通). The Shenzhen-Hong Kong Stock Connect (深港通) also connects the stock markets of Hong Kong and Shenzhen.



Figure 12: The Hong Kong Stock Exchange

5.26 As for business and professional services, which comprise a wide range of professional and business-supporting services such as legal, accounting, construction and engineering, the rapid growth of the Mainland economy has led to a growing demand for professional services in terms of both quality and quantity. Hong Kong's service industry has been offering valuable international business experiences to support the operation and development of Mainland enterprises. Overseas companies wishing to tap the Mainland market have also been making use of the business and professional services that Hong Kong provides.

5.27 Under the National 12-5 Plan, there are seven major cooperation projects among Guangdong, Hong Kong and Macao, three of which concern the development of cooperation zones, i.e. Qianhai in Shenzhen, Nansha in Guangzhou and Hengqin in Zhuhai. These three zones are given further impetus for development after they have been included in the GDFTZ as Qianhai/Shekou District, Nansha District and Hengqin District. While each of these three

districts has its own development plan with unique development positioning, their common development strategy is to leverage the deepening of co-operation between Guangdong, Hong Kong and Macao.⁶⁷ The “Overall Development Plan for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Area” (《前海深港現代服務業合作區總體發展規劃》) focuses on the development of finance, modern logistics, information and technology services, and other professional services. It includes a development target called “Ten Thousand, Thousand, Hundred and Ten” (「萬千百十」), which calls for, by 2020, a total floor area of 9 million m² to be developed by Hong Kong enterprises; a total investment of over one hundred billion dollars in service industries by the Hong Kong firms; more than 100 Hong Kong firms engaged in innovative industries to be incubated in Qianhai; and the establishment of Qianhai as a base for the 10 industries which enjoy competitive advantages in Hong Kong.⁶⁸

5.28 In this regard, the Government considers that the development of Nansha, Hengqin and Qianhai will in general facilitate Hong Kong people and enterprises to expand their business in the Mainland. Qianhai, in particular, will present new opportunities for Hong Kong’s financial services industry. Qianhai’s liberalisation measures on financial services not only enhance the cross-boundary use and circulation of Renminbi funds between the Mainland and Hong Kong, thereby strengthening the development of offshore RMB business in Hong Kong, but also promote the growth of Hong Kong’s financial services industry.

6.1 Hong Kong's positioning outlined in the National 13-5 Plan, the Pan-PRD regional cooperation, the development of the Guangdong – Hong Kong – Macao Bay Area, the “Belt and Road” initiative and the HKAFTA will promote development and cooperation within the region. The development of the PRD Region and the further strengthening of Hong Kong's economic ties with the Mainland as well as ASEAN and other countries will offer us plenty of opportunities. Hong Kong will serve as the base and platform of the economic development of the region. Economic hinterlands and development spaces beyond our city boundary can also be increased. To these ends, there is a need to prepare in advance planning responses that could correspond and adapt to the changing economic, social and environmental environments. A summary of key issues and observations that could be further studied is as follows:

(i) There are both competition and cooperation between Hong Kong and the PRD Region. As the PRD Region continues to grow economically, there will be

increasingly intense competition between Hong Kong and the PRD Region. On the one hand, it has to keep up to date with the policies of the PRD Region so as to understand and anticipate its development trends and create opportunities for Hong Kong. On the other hand, it has to shore up its own competitive advantages and develop new ones so that it could stay ahead of the game.

(ii) Besides competition, there are also plenty of opportunities for cooperation and complementary development between Hong Kong and the PRD Region. New opportunities continue to present themselves to Hong Kong as the economic environment of the PRD Region grows in myriad ways. They include the increasing maturity of the PRD economy and consumer market; the formation of the PRD city-region, which improves the economy of scale and enlarges the market; the development of new infrastructures which connect Hong Kong to the less developed parts of the

Guangdong Province; and the development of the GDFTZ and Guangdong – Hong Kong – Macao Bay Area which are the new growth poles of Guangdong.

- (iii) In addition to the PRD Region, Hong Kong can also strengthen its economic relationship with the ten member states of ASEAN. With rising urban population and household incomes, ASEAN has become one of the most important emerging markets in the world. Opportunities for Hong Kong will become even more abundant after HKAFTA is implemented and when Hong Kong joins the RCEP.
- (iv) In terms of economic sectors, Hong Kong should continue to position itself, at the global and regional levels, as an international business and financial hub and a premium gateway linking up the Mainland with the rest of the world. Hong Kong should strive to maintain its leadership position in financial and professional services, maritime services, tourism, and many other

economic sectors or industries where Hong Kong has an edge or the potential for further development. This would require continued innovation and adaptation, as business leaders and governments from different countries continue to invest in research and development which has led to leapfrogging improvements in the quality and sophistication of their products and services.

- (v) Improvements in supporting infrastructures are required to meet the demand of population and economic growth, as well as to satisfy the need for greater connectivity between Hong Kong, the PRD Region and the world. The new cross-boundary infrastructures, such as the HZMB, XRL, and the Liantang/Heung Yuen Wai Boundary Control Point, will serve as “connective tissues” between Hong Kong and the surrounding cities. The expansion of the Hong Kong International Airport into a Three-runway System and the cruise terminal will

also strengthen connections with other countries, including the ASEAN member states.

- (vi) Hong Kong can expand its economic hinterlands and development space within the region, and create new platforms for economic growth and business opportunities. For example, lower value-added economic functions, such as back offices, can be decanted to lower-cost locations in the region so that more land and space can be released in Hong Kong for higher value-added industries.

- (vii) Besides economic development, there is also a need to ensure that the Greater PRD Region will remain sustainable and livable for its residents and the future generations. To this end, regional cooperation between cities in the Greater PRD Region is essential. Besides strong environmental protection measures, good landscape and people-oriented living environment, the establishment of more leisure, entertainment and

cultural facilities with strong local characters are also helpful to the development of a liveable region. There is also a need to keep tabs on the social impacts including public sentiments arising from closer connections between Hong Kong and the PRD Region.

Endnotes:

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