

# Cover story

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minutes is well under way. Still, when it comes to crossing Customs, queuing is a major concern."

Barriers to the efficient flow of goods between the two sides also remain, he says.

"Exported goods need to be 'recalled' back into the Chinese mainland for reworking, fixing, repairing and so on. So a streamlining of Customs procedures or the creation of a joint bonded zone is important to speed up the time-to-market and after sales services provided from the PRD/Hong Kong area. If both want to compete on increasingly sophisticated products and supply chain integration, then speed and easing of procedures are vital," he says.

"Infrastructure is also being built to support this and the flow of people as more than 70 percent of the flow of goods is done via trucks these days in the PRD, creating huge congestion on the road. There must be more integration with the rest of the PRD in this regard."

## Financial cooperation

Deepening financial cooperation and strengthening Hong Kong's position as an international financial center also factored high on the priorities marked out by the Bauhinia Foundation Research Centre.

The two cities can facilitate further cooperation and infiltration between their commercial banks, strive for the operation of an inter-bank borrowing market between them, facilitate Hong Kong banks to expand their presence in Shenzhen and promote cooperation between the stock exchanges of the two cities. The cross-boundary flow of yuan and Hong Kong dollars will also provide a monetary foundation to facilitate an interbank borrowing market between the two.

To that effect, encouraging Shenzhen commercial banks to launch Hong Kong dollar bill acceptance, expanding the scope of yuan convertibility in Hong Kong and gradually allowing Hong Kong lenders to operate offshore as well as establishing a Hong Kong-Shenzhen interbank foreign exchange borrowing market will help, the center reported.

Similarly, Shenzhen plans to have the added value of the financial industry to account for about 15 percent of its GDP in 2015 by focusing mainly on the capital market, business investment and wealth management. More foreign financial organizations are also being encouraged to set up offices in the city.

"Hong Kong is now already a renminbi trading center. But if we can work more closely together we can create the biggest offshore center and by doing that I'm certain you are going to attract more foreign investment and even major mainland companies," Anthony Wu says.

## Services industry

Chen Guanghan, professor of economics and director of the Center for Studies of Hong Kong, Macao and Pearl River Delta at the Guangzhou-based Sun Yat-sen University, says Hong Kong's services industry is also mature and can help Shenzhen, which boasts strengths in sectors such as high-tech manufacturing, IT and communications. But in terms of attracting top talent, research centers and educa-



Top: Chen Guanghan, professor of Sun Yat-sen University. Left: Zhang Yuge, director of the center for public policy under China Development Institute. Above: Alberto Vettoretti, managing partner of the China and Vietnam practice at Dezan Shira and Associates.

TOP AND LEFT PHOTOS BY ZOU ZHONGPIN / CHINA DAILY; ABOVE PROVIDED TO CHINA DAILY

tion, it still lags behind Hong Kong.

"Hong Kong is more international and Shenzhen still caters more to the domestic market. But both can complement each other very well in sectors such as services and Hong Kong businesses already have a significant number of offices in Shenzhen," Chen says.

Zhang from the China Development Institute says companies are increasingly tapping on the particular strengths of the two sides and can no longer be viewed as just centered in one spot.

"One company 'based' in Shenzhen can have multiple operations located throughout the region, increasingly making use of the various resources of each area," he says.

But Vettoretti in Shenzhen says the city must "open up" more of its service sectors to foreign-invested enterprises and Hong Kong companies as many sectors that are fully open in the special administrative region are still heavily restricted in Shenzhen.

"One of the goals of Shenzhen is to increase the percentage of GDP related to the tertiary industry or services, whereas in Hong Kong this is in

excess of 95 percent," he says.

"In Shenzhen, I believe that is still well under 50 percent. As Shenzhen is reinventing its role, once again, it will not be a bad idea if the term SEZ (special economic zone) which helped the city make its fortune is now re-invested and re-engineered to give it the leading edge in terms of becoming fully integrated with Hong Kong."

## Environmental challenges

The Bauhinia Foundation Research Centre also mentioned jointly tackling environmental challenges as well as strengthening educational and cultural cooperation as important areas to develop a Hong Kong-Shenzhen metropolis — itself a first step to building a metropolitan region encompassing the Pearl River Delta area.

But the political will is paramount for all these to work, Wu says.

"You have to get the support not only from the Shenzhen, Hong Kong and Guangdong authorities, but from Beijing as well because it affects the whole country's policies. The implications have to be carefully studied," he says.

"The administrative procedures for businesses on the two sides, for example, are not seamless and identical. And you cannot expect them to be, based on the current situation," he says.

"Then of course you have the legal issues and differences as well. How do you resolve these in the short run? But the outlook is optimistic and my feeling is that Shenzhen might still have to try to get up to speed with Hong Kong in many aspects."

## Integrated plan

Chen from Sun Yat-sen University agrees both Hong Kong and Shenzhen need an integrated plan to develop together effectively.

"Hong Kong's governance is still very different from that of Shenzhen. Hong Kong's economy is also traditionally more laissez-faire and it might take longer for plans and ideas to get implemented," Chen says.

"But it's obvious that cooperation is the best way forward. With the renminbi strengthening, many Shenzhen people are buying up property and investing in Hong Kong. The border areas, especially on the Hong Kong side, are also developing fast, unlike the past when the British seemed to want to minimize contact between the two sides. Border areas are potential growth spots as integration progresses. That can only get better and better, much as how Zhuhai and Macao are developing in tandem."

Anthony Wu also cites the development of the Qianhai area as another example of how innovative thinking can carry the Hong Kong-Shenzhen link further. Qianhai is a proposed 2.18 square kilometer cooperation zone located in the Shekou peninsula in western Shenzhen and east of the Pearl River estuary. The area is being planned as a modern services zone developed by Hong Kong and Guangdong with four pillar industries — modern logistics, information services, and science and technology services. Shenzhen plans to pour at least \$5.9 billion (4.105 billion euros) into Qianhai to build the area's infrastructure, establish a legal framework and woo services firms in Hong Kong, especially in the financial sector.

"We need to think out of the box and take all of this forward. If nothing is done, then Qianhai is just another town between Hong Kong and Shenzhen. Can we be more innovative, maybe have a set of new rules, a set of special taxes? In Qianhai, can we adopt all the laws and regulations of Hong Kong, including taxation laws, and meanwhile the criminal law and so on remain as mainland ones? Can we allow the free flow of residents into this area to work?" Wu says.

"Or even, if there is a hospital in the area and a mother from the mainland is giving birth there, can these people get a Hong Kong ID card? We have to be innovative," he says.

"If you look at the bigger context of the whole of Guangdong as well, you have Hong Kong and Shenzhen, you have Guangzhou, as well as Zhuhai and Macao ... you can have these centers within the PRD," Wu says.

"When the bridges are built and the high-speed rail network is complete, the growth potential will be unlimited. And look at what the PRD has done for China in the last 30 years. It is still going to be the engine of growth in the next 30 years."

"It's really optimizing what we can do under the 'one country, two systems' policy, under 'one metropolis and two currencies', under 'one metropolis and two sets of laws'."

"If you have the will, you can certainly do it. For example, if you want to merge the Hong Kong and Shenzhen stock exchanges, it can be done. If you look at a report we had in 2006 that talked about Shenzhen people coming to Hong Kong with fewer and fewer restrictions, that is happening now. If you look at integrating the usage of the Hong Kong 'Octopus' payment card on the two sides, that is also happening now," Wu says.

"Authorities on both sides should really continue finding ways to improve that integration. It shouldn't be just talking, it should be putting things into action. The problem is, in Hong Kong it's election year and politically, sometimes, you need to go through too many legislative hurdles and that may sort of delay a lot of the initiatives."

Zhang from the China Development Institute says the political and administrative differences between Shenzhen and Hong Kong cannot be addressed in the short term.