

Rebuilding Hong Kong's New Glory in the New National Journey —How Can Hong Kong Cooperate with the “14th Five-Year” Plan

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“The Proposals for Formulating the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035” (hereinafter referred to as the “Proposal”), which was adopted at the fifth plenum of the 19th Central Committee of Communist Party of China (CPC), takes “Taking high-quality development as the theme” and “Accelerating the construction of a new development pattern with domestic circulation as the main body, and let domestic and international circulations promote each other” as important guiding ideologies for economic and social development in the next five years. This is a fundamental change in the country's economic development model at the historical juncture. To integrate Hong Kong into the overall national development, we must first understand and embrace this change, fully cooperate with the “14th Five-Year” Plan, and thus win the advanced opportunities to strive for greater development space.

Innovation, domestic demand, openness, and green are the four core engines for achieving high-quality development and building “Dual Circulation”. To cooperate in depth with the national “14th Five-Year” Plan, Hong Kong must start with and plan on these key areas in its post-epidemic period, actively construct an international science and technology innovation center, a domestic demand promoter, an opening-up accelerator, and a green development role model. In this regard, we tend to analyze them item by item as below.

1. Make every effort to build an international science and technology innovation center and contribute to the national innovation-driven strategy

Innovation is the primary core engine for achieving high-quality development. Among the 12 key tasks that must be completed during the “14th Five-Year” period in the “Proposal”, innovation-driven development ranked first, indicating the great importance attached to innovation by the country. This, in turn, is closely related to the technological war against China by the United States. In recent years, some developed countries, represented by the United States, have restricted their science and technology exports to China and included hundreds of Chinese high-tech companies on the Entity List. Such restriction has brought great difficulties to these companies, reflecting that China's technology industry still suffers from many shortcomings and is severely limited by others. For example, China's integrated circuit imports in 2019 exceeded US\$ 300 billion, which is 27% more than the value of 500 million tons of crude oil imported. In the face of developed countries' de-globalization and protectionist policies trend, achieving technological independence and getting rid of technological dependence on developed countries has become a top priority.

A salient feature of the “Proposal” is to establish the core position of innovation in the country's modernization process, to take technological self-reliance and self-improvement as a strategic support for national development, and to emphasize that only by self-reliance and self-improvement, by owning the

capability of independent scientific and technological research and development, and by breaking through the key technologies as soon as possible, can we achieve the high-quality development. To achieve this, breakthroughs must be made in many innovative areas such as fundamental research, innovative finance, and intellectual property rights protection, which happen to be Hong Kong's strength. Specifically:

First, utilize Hong Kong's fundamental research capabilities to help build an independent innovation powerhouse. Hong Kong's fundamental research in the innovation and technology upstream industry is world-class, with advantages in technology transfer, professional services, talent support, legal taxation, etc. The original innovation ability in Hong Kong ranks among the top in the Asia-Pacific region, with four universities ranking within top 50 in the world, and with forefront positions in the fields of biomedicine, neuroscience, genomics, vaccine technology, stem cell technology, artificial intelligence, computing science and information technology, and smart cities. Hong Kong also has great advantages in the development of the Internet of Things, big data analysis, cloud computing, information and risk management, and network security. In the future, it should allocate resources better in order to build an international science and technology center, and cooperate with the country to seize the opportunities in the fourth industrial revolution, to achieve "technology self-reliance and self-improvement", to promote the development of the technology innovation industry in the Mainland, and to establish Hong Kong's role as an international innovation center on this basis.

Second, promote the deep integration of innovative finance and innovative technology. The so-called innovative finance refers to the financial form that provides financing for innovative activities, including venture capital, SME board, growth enterprise board and science and technology board, etc. It is similar to the technology sectors of the San Francisco financial market and two New York exchanges. From international experience, the development of innovative technology industries cannot be separated from the support of innovative finance, especially in the initial stage of high-tech enterprises. In recent years, Hong Kong has made a lot of explorations in this area. It not only uses Innovation and Technology Funds to support innovation and technology start-ups, encourages and guides market capital to invest in Hong Kong start-ups, but also amends its listing rules to welcome new economy companies with weighted voting rights. With innovative finance guiding the capital market now, Hong Kong can further strengthen its financial advantages, promote the deep integration of innovative finance and innovative technology, build a leading capital market in Asia, and provide more support for the development and growth of innovative technology companies in the Mainland during the "14th Five-Year" period.

Third, assist in protecting intellectual property rights and guarantee healthy technological innovation. Intellectual property is an important field that deeply integrated with technological innovation, and it is also an indispensable key element for building China into an innovation and technology giant. The Mainland has good foundations and conditions for the development of the intellectual property industry, and owns prerequisites for an intellectual property industry ecosystem covering the entire chain of intellectual property creation, application, protection, management, services, and personnel training. In the future, Hong Kong can strengthen its cooperation with the Mainland, explore the connection of the intellectual property protection legal system and the coordination protection mechanism, assist the Mainland to gradually establish an intellectual property protection system in line with international standards. Hong Kong can also introduce intellectual property arbitration, mediation and other mechanisms to explore the establishment of diversified intellectual property rights dispute settlement mechanism, promote the settlement of intellectual property disputes through non-litigation dispute resolution, carry out intellectual property transactions, promote the rational and effective circulation of intellectual property, and the integrated development of advanced intellectual property services and regional industries.

2. Promote domestic demand and effectively cooperate with the “Domestic Circulation” strategy

Domestic demand is the most important engine for building the “Dual Circulation”. Under the new development pattern, the Mainland will first improve the domestic demand system and promote the “Domestic Circulation” leading by domestic demand. Under the guiding policy of “Domestic Circulation”, it is expected that China’s economic development momentum will further shift from external demand to domestic demand. Among them, consumption’s expansion will accelerate, with continuous improvement and upgrading, to become the biggest pillar of the “Domestic Circulation”. According to the National Bureau of Statistics, there are currently more than 400 million middle-income citizens in China, accounting for nearly 30% of the total population. The total retail sales of consumer goods in 2019 is about US\$ 6 trillion, which is close to the consumption scale in the United States. It is expected that the number of middle-income individuals will be doubled to 800 million by 2030 and become the majority of the society. Retail sales of consumer goods will increase to more than US\$ 12 trillion, which will be equivalent to the sum of consumption in the United States, Japan and Germany. In terms of investment, the “Proposal” suggests to optimize the investment structure, maintain a reasonable growth of investment, and develop the key role of investment in optimizing the supply structure, indicating that investment will become another major driving force of the “Domestic Circulation”. It is estimated that by 2030, the total investment will at least be doubled.

Hong Kong can act as a domestic demand promotor and play an active role in assisting the Mainland to expand domestic demand and support the “Domestic Circulation”. This will not only greatly expand Hong Kong’s development space, but also make Hong Kong invincible. To name a few:

First, promote Hong Kong’s enterprises to expand sales in the Mainland. Against the backdrop of an emerging trend of deglobalization, the mainland market has become a “safe island” for Hong Kong-funded enterprises. A consultancy report published earlier by the Chinese Manufacturers’ Association of Hong Kong showed that Hong Kong-owned manufacturing companies in the nine cities of the Greater Bay Area in Guangdong have an operating revenue of HK\$ 900 billion, paying HK\$ 28 billion taxes each year, and employing 2.7 million employees. These companies will be important driving force to help expand domestic demand. In the past, the main business of the tens of thousands of companies have been exporting. In recent years, they have set their sights on the Mainland, learning domestic sales strategies and establishing domestic sales channels, and some achievements have been made. In the future, Hong Kong can further promote the sales of Hong Kong enterprises’ superior products in the Mainland, expand import distribution business, establish effective domestic sales channels and networks, enhance the relevance and effectiveness of government special funds to support small and medium enterprises in expanding domestic sales, provide financial services for these enterprises (including cross-border loans, onshore guarantees for offshore loans, etc.), and assist the Mainland to improve consumer protections, promote further domestic demand expansion and seize the Mainland market with the highest potential.

Second, strengthen investment in the Mainland. As the premier investment management center in the Asia-Pacific region, Hong Kong has always been the largest source of foreign direct investment (FDI) in the Mainland. The total investment has exceeded US\$1.2 trillion in the past 40 years, accounting for about 55% of the country’s total foreign direct investment. In recent years, the proportion has reached more than two-thirds, showing a strong driving force for investment. During the “14th Five-Year” period, the Mainland will speed up to make up for shortcomings in municipal projects and people’s livelihood, expand investment in strategic emerging industries, and promote the construction of new infrastructure, new urbanization, transportation and water conservancy and other major projects, all of which could bring plenty of investment opportunities for Hong Kong. As the Mainland continues to improve the investment environment, it is expected that in the next five years, Hong Kong will have the opportunity to provide US\$ 500 billion in FDI

to the Mainland, becoming an important promoter for the investment-driven “Domestic Circulation”.

Third, promote the “Domestic Circulation” by jointly building a high-quality living area. One of the core contents of the Greater Bay Area plan is to jointly build a high-quality area for living, working and travelling. This is also an important starting point for promoting the “Domestic Circulation” at the regional level. There are surveys revealing that the population of Hong Kong and the Mainland cross-border marriages has exceeded 1 million in past 20 years since Hong Kong reunification. At present, there are about 300,000 Hong Kong people working or studying in the Mainland, and most of them are in Guangdong, especially the Pearl River Delta. With the implementation of the Greater Bay Area development plan, the increasing demand for various types of cross-border payments involved in investment and consumption by Hong Kong people and enterprises in the Greater Bay Area is a trend that can be well expected. In fact, financial cross-border payment activities in the Greater Bay Area have already being common, accounting for more than a half of the country’s cross-border accounts, and there is still a lot of room for future development. Due to capital control in the onshore market in the Bay Area, financial convenience involves the coordination of different financial supervisory policies and regulations in the two places. Although it is difficult to fully liberalize cross-border capital flows in the short term, measures such as “one-way first with overall volume controlled” can be adopted. To provide Hong Kong residents with financial conveniences in the Greater Bay Area as much as possible, measures such as account opening convenience, payment convenience, currency exchange convenience and financial management convenience can also be taken to drive the domestic demand in the Greater Bay Area to reach a new stage.

3. As an opening-up accelerator, promote the opening of the Mainland to a higher level

Opening-up is another big engine for building the “Dual Circulation”. Although the new development pattern is dominated by the “Domestic Circulation”, it does not exclude the general direction of opening-up. Compared with the “13th Five-Year” period, the biggest difference in the “14th Five-Year” period is that the world is undergoing major changes unseen in a century, and the external environment for China’s development is becoming increasingly complex. Despite the rise of protectionism and unilateralism internationally, China will continue to unswervingly implement wider, broader, and deeper opening-up in the future to achieve mutual benefit and win-win results. As the most free and open economy in the world, Hong Kong can serve as an opening-up accelerator and play a greater role in this process.

First, help the Mainland build a new economic system of higher level of opening-up. The “Proposal” suggests that the Mainland will promote trade and investment liberalization and facilitation in the next five years, improve the pre-access national treatment plus negative list administration system, expand the opening-up of the service industry, improve the layout of free trade pilot zones, and steadily promote the RMB internationalization. On the one hand, Hong Kong can provide the best example in establishing a new trade and investment system, assist the Mainland’s opening-up at a higher level, and create a world-class business environment. On the other hand, the opening-up process of the Mainland will also bring more business opportunities to Hong Kong. For example, the vast domestic demand market is a new advantage for the mainland to open up. It is estimated that the Mainland’s total import value will exceed US\$ 22 trillion in the next ten years, and Hong Kong is one of the main channels for Mainland’s imports. According to the statistics of the SAR government, imports to the Mainland through Hong Kong exceed US\$ 280 billion each year. The expansion of imports from the Mainland will further promote the development of Hong Kong’s trade and logistics industry.

Second, assist the high-quality development of the “Belt and Road” initiative. In the past seven years, gratifying achievements have been made in the construction of the “Belt and Road” initiative. According

to statistics from the Ministry of Commerce, from 2013 to 2019, China's trade in goods with the "Belt and Road" countries exceeded US\$ 7.8 trillion, direct investment in "Belt and Road" countries exceeded US\$ 110 billion, and the value of newly signed contracted projects was close to US\$ 800 billion. Projects and industrial parks have landed one after another. The "Proposal" puts forward to promote the high-quality development of the "Belt and Road" initiative and make it a fundamental requirement for the next stage of work. Hong Kong can take advantage of its comprehensive advantages in green development, a high degree of openness, and probity to assist the nation to reinforce cooperation in the concept of green, openness and probity, creating a favorable external environment for the high-quality co-construction of the "Belt and Road", reducing some of the foreigners' doubts about the transparency, funding sources, and investment returns of the "Belt and Road" projects, reducing the risk of Chinese investment in countries along the Silk Road. At the same time, taking the opportunity of RCEP, Hong Kong should focus on expanding economic and trade cooperation with ASEAN to accelerate the development of the "Belt and Road" initiative.

Third, improve the "interconnection" mechanism and assist the country to prudently promote the RMB internationalization. The Greater Bay Area plan calls for the orderly promotion of financial market interconnection. One of the major measures is to gradually expand the scale and scope of cross-border usage of RMB in the Bay Area. The "Opinion on Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area" further points out to strengthen Hong Kong's role as a global offshore renminbi business hub and continue to support Hong Kong's development of offshore renminbi business. This is conducive for the Greater Bay Area to play the unique role in the process of RMB internationalization. In the future, it is possible to further consolidate the foundation of cross-border RMB business, improve capital flow channels, and provide useful experience for the country to prudently promote RMB internationalization by further dredging the cross-border RMB flow channels between Guangdong, Hong Kong and Macau, fostering the Guangdong-Hong Kong-Macao cross-border bank credit asset transfer market, taking the lead in piloting the Greater Bay Area Southbound Bond Connect, and further improving the Northbound Bond Connect mechanism, etc.

4. Jointly develop green finance and build a green and low-carbon Bay Area

Green development is another important pillar for achieving high-quality development. Pollution prevention and controlment is also one of the country's three tough battles. The "14th Five-Year" Plan regards the promotion of green development and the harmonious coexistence of man and nature as a major task. In the next five years, China will accelerate the promotion of green and low-carbon development, continue to improve environmental quality, improve the quality and stability of ecosystems, and comprehensively improve resource utilization efficiency. To develop the Guangdong-Hong Kong-Macao Greater Bay Area into a world-class bay area, it must not only have a good ecological environment, but also set an example for other regions in the Mainland in terms of environmental protection, low-carbon, green and sustainable development, and play a demonstrative and leading role.

It is estimated that during the "14th Five-Year" period, the Mainland will need to invest more than US\$ 2 trillion in green projects, but the government can only provide a small amount of funds. Therefore, to develop green finance is a top priority. In fact, green finance in the Mainland has been heating up in recent years. The seven ministries and commissions issued the "Guiding Opinions on Building a Green Financial System" and "Green Industry Guidance Catalog (2019 Edition)", ushering in a new era of China's green finance development.

Hong Kong attaches great importance to the development of financial bonds, and the Chief Executive has made the promotion of green bond development a priority in her administration. Hong Kong also has unique conditions to play an important role in the development of green bonds and green finance in the Mainland,

and to develop into a pioneer in green finance in the Greater Bay Area. In 2019, the total issuance of green bonds by Hong Kong issuers has reached US\$ 7.1 billion. Among them, low-carbon buildings are the largest investment direction of the raised funds, accounting for 61% of the annual issuance, hitting a record high. In May this year, the Hong Kong Monetary Authority and the Securities and Futures Commission jointly initiated the establishment of the Green and Sustainable Finance Cross-Agency Steering Group, focusing on regulatory policies and market development to consolidate Hong Kong's position as an Asian and global green finance center.

It must be noted that the "Opinion on Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area" proposes to promote green finance cooperation in the Greater Bay Area, supports Hong Kong in building a green finance center in the Greater Bay Area, builds an internationally recognized green bond certification body, encourages more Bay Area companies to use Hong Kong as a platform to finance and certify green projects, and supports Guangdong's local corporate financial institutions to issue green finance bonds and other green financial products in Hong Kong. In the future, Hong Kong can help build the Greater Bay Area into an important green finance center in Asia and provide financial support for the construction of a green and low-carbon Bay Area through the issuance of benchmark "green bonds", holding global conferences on green finance and investment, setting up "Green Finance Labeling Program" for green finance projects and securities, and vigorously cultivating green finance talents. With the support of the "Proposal" and relevant policies in Hong Kong, it is expected that more mainland institutions will issue green bonds and conduct assessment and certification in Hong Kong in the future, promoting Hong Kong to become a green finance center in the Greater Bay Area and an internationally recognized green bond certification platform.

It is worth mentioning that the Guangdong-Hong Kong-Macau Greater Bay Area Green Finance Alliance ("GBA-GFA"), which aims to promote sustainable development in the region, was established on September 4. The alliance is already supporting five green finance-related projects initiated by different regions, of which three projects - "green building", "blockchain Solar" and "carbon Connect" will be led by Hong Kong, providing an important platform for green finance cooperation in Greater Bay Area. In the future, Guangdong, Hong Kong and Macau should further join hands and work together through the Green Finance Alliance to promote green investment in the Greater Bay Area, increase the synergy among the "9+2" cities, and jointly promote the green development of the Greater Bay Area and the whole country.

In addition to the four main points above, Hong Kong can further cooperate with the "14th Five-Year" Plan in areas such as building a high-standard market system, promoting coordinated regional development, promoting new urbanization, building a high-quality education system, improving cultural soft power, and innovating social governance. Hong Kong can provide funds, technology, talents, ideas and experience to help the country make a good start in its new journey of building a great modern socialist country in every dimension, and strive for more tangible development benefits for itself.

But at the same time, we must also note that whether Hong Kong can seize the opportunity during the "14th Five-Year" period will depend eventually on its own efforts. In view of this, Hong Kong must set its course forward, accelerate its integration into the overall development pattern of the country, take proactive actions, and take the responsibility of supporting and cooperating. All sectors of the Hong Kong society should unite and work hard to establish the new ideas of taking development as priority, people's livelihood as a basis, the ideas of effective market and enabling government, while abandoning outdated concepts and rigid policy practices, and adopting forward-looking thinking, overall planning, strategic layout, and systematic advancement to transform Hong Kong into an innovative economy, facilitating the new Home Ownership Scheme (HOS) to solve housing difficulties, getting Hong Kong out of the current predicament as soon as possible, and rebuilding Hong Kong's new glory in the new national journey.

主要經濟指標 (Key Economic Indicators)

一. 本地生產總值 GDP	2018	2019	2020/Q2	2020/Q3
總量 (億元) GDP(\$100 Million)	27,355	27,030	6,176	6,736
升幅 (%) Change(%)	2.9	-1.2	-9.0	-3.5
二. 對外貿易 External Trade			2020/10	2020/1-10
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	41,581	40,961	3,447	31,567
進口 Total imports	47,214	45,714	3,814	34,274
貿易差額 Trade balance	-5,633	-4,753	-368	-2,708
年增長率 (%) YOY Growth(%)				
總出口 Total exports	7.3	-5.6	-1.1	-3.7
進口 Imports	8.4	-8.1	0.6	-6.0
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	2.4	2.9	-0.2	0.5
四. 樓宇買賣 Sale & Purchase of Building Units				
合約宗數 (宗) No. of agreements	79,193	74,804	6,189	58,485
年升幅 (%) Change(%)	-5.5	-5.5	22.0	-8.9
五. 勞動就業 Employment			2020/7-2020/9	2020/8-2020/10
失業人數 (萬人) Unemployed(ten thousands)	10.5	12.4	26.0	25.8
失業率 (%) Unemployment rate(%)	2.8	3.3	6.4	6.4
就業不足率 (%) Underemployment rate(%)	1.1	1.2	3.8	3.8
六. 零售市場 Retail Market			2020/9	2020/1-9
零售額升幅 (%) Change in value of total sales(%)	8.8	-11.1	-12.9	-28.7
零售量升幅 (%) Change in volume of total sales(%)	7.6	-12.3	-13.4	-30.0
七. 訪港遊客 Visitors			2020/10	2020/1-10
總人數 (萬人次) arrivals (ten thousands)	6,515	5,590	0.8	355.8
年升幅 (%) Change(%)	11.4	-14.2	-99.8	-92.9
八. 金融市場 Financial Market			2020/8	2020/9
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	783.6	779.3	775.2	775.2
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	-0.4	2.6	49.8	44.9
M2	4.3	2.8	9.2	9.2
M3	4.3	2.7	9.1	9.2
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	5.0	2.9	8.9	8.7
港元存款 In HK\$	3.6	2.5	12.7	11.1
外幣存款 In foreign currency	6.4	3.2	5.1	6.2
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	4.4	6.7	9.1	7.0
當地放款 use in HK	4.0	7.1	10.4	8.0
海外放款 use outside HK	5.3	5.8	6.1	4.7
貿易有關放款 Trade financing	-7.7	-0.7	-5.0	-7.4
最優惠貸款利率 (%) Best lending rate (%)	5.1250	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	25,846	28,189	25,177	23,459