

Core contents of the Qianhai Plan and the opportunities for Hong Kong

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Recently, The CPC Central Committee and the State Council issued the Plan for Comprehensive Deepening Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (the Qianhai Plan hereafter). The Qianhai Plan not only announces to expand the land area of the Zone by more than seven times, but also puts forward many practical measures to deepen reform and innovation and to improve the level of opening-up. This will further enhance the high-quality development of the service industry in the Qianhai Cooperation Zone and promote complementary cooperation among Guangdong, Hong Kong and Macau in the Greater Bay Area. The enhanced connectivity in the region will also bring new development opportunities for Hong Kong.

I. Deepening the reforms in Qianhai Cooperation Zone is of great significance

First, the development of high-quality modern service industries is the key for China to cross the “middle-income trap”. China’s per capita GDP have exceeded US\$10,000 for two consecutive years in 2019 and 2020, which was still about US\$2,000 away from the World Bank’s standard for high-income countries. Therefore, currently China is standing at the critical stage of crossing the “middle-income trap”. At the same time, China’s economy is facing both external and internal challenges. Externally, the trend of de-globalization is intensifying and some international forces are trying to hinder China’s further peaceful rise, especially to curb China’s technological development. Internally, China is also facing multiple pressures such as population aging and industrial structure upgrading. Therefore, how to smoothly cross the “middle-income trap” and move into the ranks of high-income countries is an important topic for China now.

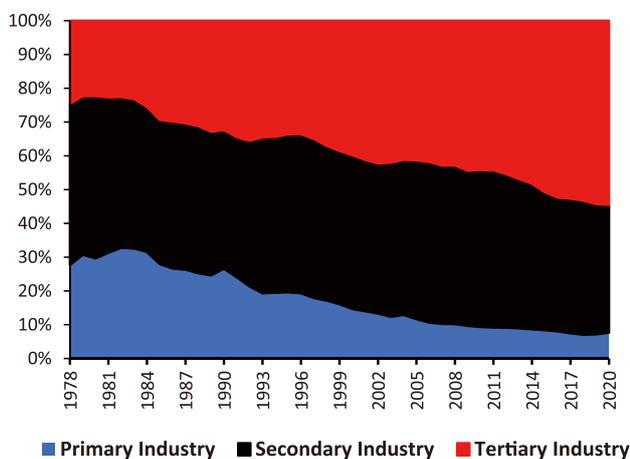
One of the main characteristics of high-income countries is that their advanced service industries - including technology, finance, law, trade and regulations - complement the upgrading of manufacturing industries. In addition, as residents’ income levels rise, the growing need for a better living standard pushes up the demand for lifestyle services. The advanced lifestyle services sector complements China’s strategy to expand domestic demand and helps accelerate the development of a sustainable domestic demand-led growth system. Therefore, the development of high-quality modern service industries is the key to China’s success in moving beyond the “middle-income trap” and into the ranks of high-income countries.

Second, the key to developing high-quality modern service industries is to improve the labor productivity of the service industries. In recent years, the share of the tertiary industry (service industry) in China’s GDP has been steadily increasing. Since 2012, the tertiary sector has overtaken the secondary sector to become the largest sector in the national economy. Take the year 2019, the year before the pandemic, for an example. The service sector accounted for more than 54.5% of China’s GDP (Figure 1). In addition, the contribution from the service sector to economic growth is gradually increasing, with the tertiary sector contributing 63% to GDP growth in 2019, far exceeding the 33% from the secondary sector and the 4% from the primary sector. It can be said that China’s economic growth will increasingly depend on the steady development of the service sector.

However, the high share of the service sector in the overall economy is not matched by the fact that the labor productivity of the service sector is much lower than that of the secondary sector. According to our calculations, the nominal labor productivity of China’s service sector was RMB\$146,000 per person in 2019, which is 80% of the rate

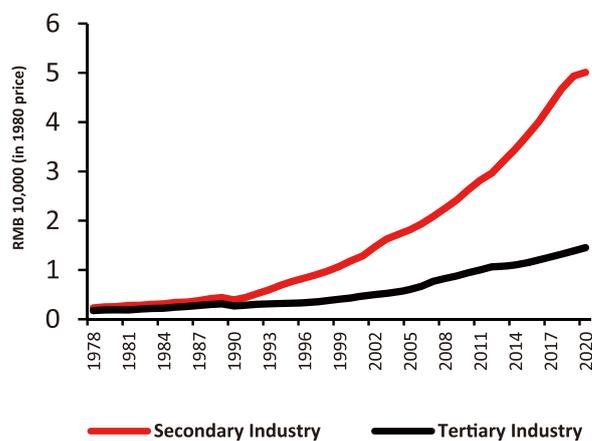
of the secondary sector. Since the inflation in the service sector has been higher than that of the secondary sector in recent years, we further calculated the real labor productivity rate, which was only 28% of the labor productivity rate of the secondary sector in 2019. Given that the growth rate of the service sector labor productivity is much lower than that of the secondary sector (Figure 2), raising the service sector productivity will be a top priority during this critical period of China’s development towards a high-income country.

Figure 1: Components of China’s GDP



Source: Wind, BOCHK Research

Figure 2: Real labour productivity in different sectors



To improve the labor productivity of the service industry, on one hand, we need to upgrade the service industry structure and gradually shift the focus from the traditional service industry to the modern service industry. It is difficult to significantly increase the productivity of traditional service industries, such as wholesale and retail, hotels and restaurants, which are mainly labor-intensive. Modern service industries, such as information technology services, financial services, and legal and regulatory services, can make use of technological advances and resource allocation to increase their labor productivity. On the other hand, there is a need to expand the opening-up of service industries. The dual-circulation strategy proposed by Chinese authority is not only to expand the liberalization of trade in goods, but also to expand the liberalization of services, so that the dual-circulation system can promote and even force the improvement of the production efficiency of domestic service industries.

Finally, the Qianhai Cooperation Zone is to play a pilot role in the process of service industry upgrading in China, by deepening the service industry reform and innovation as well as expanding the opening-up. On the one hand, the Qianhai Cooperation Zone is located in Shenzhen, having the “Shenzhen gene” of reform and innovation. Therefore, being launched from the national level, the Qianhai Plan is to further endorse Qianhai’s role as a platform for deepening reform and innovation, focusing on modern service industries, technological development, business environment, and governance model. On the other hand, the Qianhai Cooperation Zone is adjacent to Hong Kong, which makes it easy to interface with international rules and is an ideal hub and pilot zone for China to promote the opening-up of service industries.

In view of this, the Qianhai Plan sets a “two-step” development target for the Zone: by 2025, the Zone will have established a new system of higher-level open economy, and its role as an engine for the development of the Greater Bay Area will be increasingly evident; and by 2035, the Zone’s high-level opening-up system and mechanism will be more complete, and the experience of reform and innovation will be widely promoted in the whole country.

II. Core contents of the Qianhai Plan

The Qianhai Plan is rich in contents and proposes practical measures for further reform, innovation and opening-up of the modern service industry in the Zone. We interpret its core contents from three aspects: firstly, the expansion in land area, secondly, the deepening of reform, and finally, the expansion of openness. Specifically,

1. Land area of the Zone expands more than 7 times

The Qianhai Plan expands the total land area of the Qianhai Cooperation Zone by more than 7 times from 14.92 square kilometers to 120.56 square kilometers, accounting for nearly 6% of Shenzhen's total land area. The expanded Qianhai Cooperation Zone further includes the adjacent Shekou and Nanshan areas (22.89 square kilometers), Bao'an Central District and Dachan Bay area (23.32 square kilometers), the airport and surrounding areas (30.07 square kilometers), and the Convention and Exhibition New City and Ocean New City area (29.36 square kilometers).

On one hand, ample land space is needed for modern service industries to support the upgrading of manufacturing industries, as to accommodate more high-end manufacturing enterprises and ports. On the other hand, the modern service industries also need land space to attract enterprises, hospitals, universities and talents to move in. The inclusion of Shekou, the Convention and Exhibition City, Bao'an Central District, Shenzhen Airport and Dachan Bay means that more high-end manufacturing corporations, airport and port areas will be incorporated into the Zone, making it more complete in terms of industrial support and synergy.

2. Create a pilot platform for deepening reform and innovation

To create a pilot platform for deepening reform and innovation, the focus is on "innovation" - daring to implement innovative policies in terms of mechanism and system, business environment, and governance model, making meaningful exploration and practice for the Greater Bay Area and the whole country.

First of all, the Qianhai Plan urges to promote the innovative development of modern service industries. The Qianhai Plan proposes that the mechanism and system of modern service industries in the Zone should converge with that of Hong Kong, Macao and the international community. First, in terms of merchandise trade, the Qianhai Plan proposes to jointly construct the international trade portfolio port, to build the land, sea and air multimodal transportation hub, and hub linkages, as well as to deepen the reform of market-oriented allocation of factors, to promote the independent and orderly flow of factors, and to regulate the development of offshore trade. Second, in terms of the financial ecology, Qianhai needs to promote the innovation of financial institutions, markets, products, and supervision actively and steadily, and provide comprehensive and multi-level financial services for consumption, investment, trade and technological innovation. Third, in terms of the supply chain, Qianhai should accelerate the development of green and smart supply chain, promote cross-border integration and innovation of supply chain, and establish supply chain standards that are in line with international standards. Fourth, in promoting the integration of modern service industries with manufacturing industries, Qianhai should promote the accelerated development of new technologies, new business forms and new modes of service industries such as "Internet+" and artificial intelligence.

Secondly, it's to accelerate the reform and innovation of the system and mechanism of the science and technology sector. The Qianhai Plan provides guidelines for the reform and innovation of science and technology research and development (Guangdong, Hong Kong and Macao cooperate in research and development), science and technology talents (building a high-end innovative talents base), capital support (introducing venture capitals and science and technology funds), regulation and supervision (exploring innovation in regulations and rules) and property rights protection (building a national base for the innovative development of property rights), which can be said to cover a complete science and technology ecological chain. For example, the Qianhai Plan points out that it will focus on artificial intelligence, healthcare, financial technology, smart city, Internet of Things, energy and new materials and other areas where Hong Kong and Macao have advantages, vigorously develop new research and development institutions in cooperation with Guangdong, Hong Kong and Macao, build a base for high-end innovative talents, and promote the transformation of basic research results to industrial innovation.

Thirdly, it's to create a world-class business environment. A good business environment is the soil for attracting high-quality industries and talents and nurturing high-quality modern service industries. The Qianhai Plan is designed to further contribute to the development of the business environment in the Qianhai Cooperation Zone in the following three areas. The first is to strengthen investor protection. The Plan points out that we should make good use of the legislative power of the Shenzhen Special Economic Zone, formulate investor protection regulations in the Qianhai Cooperation Zone, and improve the mechanism for protecting the rights and interests of

foreign capital and private enterprises. The second is to improve the market competition mechanism. This includes enhancing the market competitiveness of the state-owned economy in Qianhai Cooperation Zone, improving the fair competition examination and evaluation from third parties, and creating an innovative credit economy pilot zone, so as to build a market-oriented legal and internationalized business environment. The third is the provision of facilitated administrative services, providing a series of administrative convenience services for young people from Hong Kong, Macao as well as foreign talents in the Zone, such as visa, medical, business start-up and employment.

Lastly, it's the innovation in the governance mode of the Qianhai Cooperation Zone. For the innovation of the governance model of the Zone, the Qianhai Plan proposes three aspects, including promoting the innovation of the institutional mechanism to carry out some of the government's regional governance functions by statutory bodies, exploring the possibility of allowing qualified Hong Kong, Macao residents and foreigners to take up the duties of statutory bodies in the Zone, and exploring the possibility of qualified market entities to undertake public management and service functions.

3. Build a high-level opening-up hub

The Qianhai Cooperation Zone is adjacent to Hong Kong, making it an ideal hub and testing ground for the country to expand the high-level opening-up. In view of this, the Qianhai Plan proposes a number of liberalization measures in the areas of services trade, finance, law, and participation in international cooperation.

First of all, it's to deepen the liberalization of trade in services with Hong Kong and Macao. The liberalization of trade in services is an important area for the expansion of high-level opening-up. First, the Qianhai Plan supports the expansion of service sector liberalization to Hong Kong and Macao, in the service industry professional qualifications, service standards, certification and accreditation, inspection and testing, industry management and other areas, to deepen the docking of rules with Hong Kong and Macao to promote trade exchanges. Second, the Qianhai Cooperation Zone will introduce internationally renowned universities from Hong Kong, Macao and the globe to carry out high-level cooperation in higher education. Third, the Qianhai Cooperation Zone supports the clustering development of medical institutions in Hong Kong and Macao, the establishment of open and convenient management system in line with Hong Kong and Macao.

Secondly, the Qianhai Cooperation Zone will expand the opening-up of the financial industry and enhance its role as a pilot demonstration window for the whole country and a pilot zone for cross-border RMB business innovation. First, the Qianhai Plan supports the implementation of the national policies to expand the opening-up of the financial industry in the Zone, including early and pilot implementation in the areas of interconnection with Hong Kong's financial markets, cross-border use of RMB, and facilitation of foreign exchange management. Second, the Plan proposes to deepen the cooperation of Guangdong, Hong Kong and Macao in green finance, to explore the establishment of a unified green finance standard, and to provide services for mainland enterprises to use the Hong Kong and Macao markets for green project financing. Third, the Plan supports the Qianhai Mercantile Exchange (QME) to carry out spot commodity trade in accordance with the law and regulations. The London Metal Exchange, a subsidiary of HKEx, having over 140 years of experience in commodities trading management, can bring synergy to the QME, helping strengthen China's pricing power in commodities.

Moreover, the Qianhai Plan proposes to enhance the level of opening-up in legal services. The Plan proposes to build an international legal service center and an international commercial dispute resolution center in the Qianhai Cooperation Zone, and to explore the convergence of different legal systems and cross-border legal rules. First, the Plan encourages foreign, Hong Kong and Macao law firms to set up representative offices in the Qianhai Cooperation Zone; second, the Plan supports the Qianhai courts to explore the expansion of the scope in foreign-related commercial cases, and supports Hong Kong legal experts to appear in the Qianhai courts to provide legal identification assistance. Thirdly, it allows renowned arbitration and dispute resolution institutions from abroad to set up business in the Zone after being registered by the judicial and administrative departments of the Guangdong Provincial Government and reported to the judicial and administrative departments of the State Council for record. The Qianhai Cooperation Zone will explore to develop its role in international investment arbitration and mediation, to gradually become an important international commercial dispute resolution center.

Last but not least, the Plan also proposes corresponding measures in terms of high-level participation in international cooperation, including the improvement of overseas investment protection mechanisms such as investment insurance and policy guarantees, the construction of a cross-border trade data platform, the development of bilateral and multilateral cooperation in investment and trade facilitation, the development of a new type of think tank with Chinese characteristics, the construction of research bases in Guangdong, Hong Kong and Macao, and the promotion of further international cooperation in the fields of culture, aviation and convention and exhibition.

III. Seizing Opportunities, Comprehensively Deepening Collaboration

The Qianhai Plan promotes the matching of systems with Hong Kong and Macao via a focus on system innovation. Leveraging advantages on high connectiveness with the international community, basic research and development capabilities, etc., Hong Kong could further strengthen collaboration with Shenzhen on financial services, innovation and technology, as well as professional services.

1. Cross-border financial services

In 2013, the first cross-border RMB loan policy in the nation has been launched in Qianhai. A number of pilot schemes, including cross-border liquidity pool business, asset transfer, debt issuance and direct investment business, have been successively introduced. The cross-border financial services between Guangdong and Hong Kong have been enriched.

After publishing the development plan for the Guangdong-Hong Kong-Macro Greater Bay Area, some favorable policies, such as the 16 policy measures benefiting Hong Kong, “Opinion on Financial Support for the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area”, etc, have been successively rolled out, fostering the cross-border flow of people, goods and funds. Following the integration of the Greater Bay Area, demand for merchandise trade, investment and financing activities, as well as livelihood finance would increase further. Therefore, a wide range of cross-border financial service systems and infrastructures, such as the “Wealth Management Connect”, cross-border bank account functions, RMB payment and clearing systems, categories of RMB loan business, etc, have room for optimization to cope with development in the region. The Qianhai Plan proposes the function of testing for innovative cross-border RMB businesses. Financial institutions in Hong Kong could make use of this favorable condition to develop more innovative cross-border financial services, and better seize the market opportunities.

2. Unifying green finance standards

Given carbon neutrality has been increasingly considered in the Mainland, financial support has an important role in green development. Nevertheless, certain green finance definitions in the Mainland still diverge from the international standards. In the future, it is expected to explore the establishment of unifying green finance standards, so that to facilitate green finance development in the Greater Bay Area.

Green finance collaboration could be focused on the following areas. The first one is green finance certification. Hong Kong has started the progress earlier. The Hong Kong Quality Assurance Agency launched the green finance certification scheme with reference to international standard, providing third-party conformity service for green bond issuance. It has already built up good reputation. In the future, the green finance certification in Hong Kong could extend to the entire Greater Bay Area. The second one is promoting the disclosure of green finance information in the Greater Bay Area. Hong Kong has released three editions of the “Environment, Social and Governance reporting Guide” since 2012, gradually regulating ESG disclosure requirements of listed companies. In the future, Qianhai and the entire Greater Bay Area could introduce green finance information disclosure system and integrate market resources with Hong Kong, in order to develop a unified and open green finance information database. It could promote cross-border circulation of green finance information in the region.

By enhancing collaboration and establishing unified standards, these could increase the transparency of green finance information in Qianhai and the Greater Bay Area. Investors’ confidence could be strengthened accordingly, matching the demand and supply of green finance in a more effective way. This could remarkably facilitate green

finance development in the Greater Bay Area.

3. Jointly develop innovation and technology platform via matching upstream and downstream industries

Hong Kong has world-class universities, along with advantages on legal system, taxation, etc, accompanied with supporting measures from the government, attracting top scientific researchers and institutions from home and abroad. Therefore, Hong Kong has accumulated extensive experience in upstream and basic research and development over the years.

On the other hand, many cities in the Greater Bay Area have reached a sizeable scale and achievements in downstream product development. In Particular, innovation and technology industry in Shenzhen has developed rapidly, with remarkable achievement in its downstream industry. The Qianhai Plan proposes to facilitate the matching of innovation industry chain between Hong Kong, Macao and the Mainland. As an important part of the innovation industry chain, Hong Kong could connect its basic research and development capabilities with the manufacturing, sales and services industry chains in Qianhai and others cities in the Greater Bay Area, achieving the combination of research and production application. The Hong Kong-Shenzhen Innovation and Technology Park (“the Park”) in the Lok Ma Chau Loop, which is under construction, will become a new platform for innovation and technology exchange between the two places. The mutual connection of talents, technology and infrastructure will enhance further upon completion of the Park, facilitating the development of international innovation and technology hub in the Greater Bay Area.

4. Legal and arbitration services

The legal system of Hong Kong is based on the common law, which is different from the Mainland. Meanwhile, Hong Kong is the international arbitration center for Asia Pacific region. Many world-class arbitration institutions, such as Permanent Court of Arbitration, the International Court of Arbitration of the International Chamber of Commerce, etc., have set up offices in Hong Kong. Moreover, arbitral awards made in Hong Kong could be enforced in all State parties to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The Qianhai Plan proposes to explore the cross-border matching of different legal systems and rules, and the use of Hong Kong to make arbitrarily solving the civilian business case. These measures will further improve the development of dispute resolution mechanism in the cooperation zone, helping the corporates in the area to resolve disputes more efficiently with lower cost.

In addition, the Qianhai Plan proposes to support foreign and Hong Kong and Macro law firms to set up representative agencies in the cooperation zone, and support Hong Kong legal experts to provide legal ascertainment assisted in the Qianhai court, enhancing the opening-up of legal affairs. Exchange of legal affairs between the Mainland and Hong Kong has been carrying out progressively. The implementation of the first Greater Bay Area Legal Professional Examination in July this year was a milestone achievement. Upon passing the examination and obtaining the practice certificate, Hong Kong legal professionals could provide legal services in Qianhai and other cities in the Greater Bay Area on specified civil and commercial matters, be employed by domestic or joint venture of Hong Kong, Macro and the Mainland law firms, and become the partner of law firm. In the future, the servicing market for Hong Kong lawyers could be largely expanded, creating a win-win situation through complementing with the Mainland lawyers.

Following the launch of policies in Qianhai Cooperation Zone, it is expected that system innovation and opening-up will enhance further. Hong Kong could capitalize on the opportunity of strengthening mutual connectiveness between the two places, progressively deepening collaboration with Qianhai and other cities in the Greater Bay Area, so that to inject new impetus for Hong Kong’s economy.

主要經濟指標 (Key Economic Indicators)

	2019	2020	2021/Q1	2021/Q2
一. 本地生產總值 GDP				
總量 (億元) GDP(\$100 Million)	27,997	26,277	6,980	6,752
升幅 (%) Change(%)	-1.2	-6.1	8.0	7.6
二. 對外貿易 External Trade			2021/7	2021/1-7
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	40,961	39,275	4,170	27,080
進口 Total imports	45,714	42,698	4,519	29,088
貿易差額 Trade balance	-4,753	-3,422	-350	-2,008
年增長率 (%) YOY Growth(%)				
總出口 Total exports	-5.6	-1.5	26.9	29.5
進口 Imports	-8.1	-3.3	26.1	26.7
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	2.9	0.3	3.7	1.4
四. 樓宇買賣 Sale & Purchase of Building Units			2021/8	2021/1-8
合約宗數 (宗) No. of agreements	74,804	73,322	7,875	68,168
年升幅 (%) Change(%)	-5.5	-2.0	46.1	49.1
五. 勞動就業 Employment			2021/5-2021/7	2021/6-2021/8
失業人數 (萬人) Unemployed(ten thousands)	139	259.1	19.9	18.8
失業率 (%) Unemployment rate(%)	2.9	5.5	5.0	4.7
就業不足率 (%) Underemployment rate(%)	1.1	3.1	2.4	2.2
六. 零售市場 Retail Market			2021/7	2021/1-7
零售額升幅 (%) Change in value of total sales(%)	-11.1	-24.3	2.9	7.6
零售量升幅 (%) Change in volume of total sales(%)	-12.3	-25.5	0.9	6.2
七. 訪港遊客 Visitors			2021/8	2021/1-8
總人數 (萬人次) arrivals (ten thousands)	5,590	356.9	1.1	5.3
年升幅 (%) Change(%)	-14.2	-93.6	143	-98.5
八. 金融市場 Financial Market			2021/6	2021/7
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	779.3	775.2	776.7	777.3
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	2.6	30.1	36.2	10.5
M2	2.8	5.8	7.5	3
M3	2.7	5.8	7.5	3
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	2.9	5.4	7.9	3.1
港元存款 In HK\$	2.5	6.2	11.5	1.7
外幣存款 In foreign currency	3.2	4.6	4.2	4.6
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	6.7	1.2	5.2	0.7
當地放款 use in HK	7.1	1.7	8.6	1.6
海外放款 use outside HK	5.8	0.1	-2.6	-1.4
貿易有關放款 Trade financing	-0.7	-6.2	14.5	17.7
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	28,189	27,231	28,828	25,961