



Overview

Since China opened its doors in 1978, it has become the world's second largest trading economy. During this time, Hong Kong has served as and continues to be its premier gateway. Hong Kong's position – both geographical and geopolitical – makes it the logical first stop for overseas enterprises keen to access Mainland China, and for Mainland businesses looking beyond national borders.

Hong Kong is leveraging its existing contacts and strengths in financial services, trade, logistics and tourism to capitalise on the enormous opportunities that are emerging – and is well-placed to help others access these opportunities.

Strong Business Links with China

Hong Kong is China's most important entrepot, handling about 18 per cent of the Mainland's foreign trade. It is also the Mainland's largest external investor, accounting for US\$456 billion – or 42 per cent – of total inward direct investment in China as at end-2010.

Hong Kong is the single largest source of capital for Mainland enterprises. As of end-March 2011, about 600 Mainland enterprises were listed on the stock exchange, with a combined market capitalisation of about US\$1.6 trillion, about 57 per cent of the market total. Mainland companies listing in Hong Kong are subject to rigorous international standards of accounting and transparency.

During 2009, about 196 500 Hong Kong residents had worked in the Mainland, 88 per cent as managers, professionals or administrators.

Hong Kong-Guangdong Co-operation

Hong Kong and Guangdong signed a Framework Agreement on Hong Kong/ Guangdong Co-operation in April 2010. It sets out six long-term development positions for the two places, including a world-class new economic region, a financial co-operation region, a manufacturing and modern services base, a modern economic circulation sphere, a quality living area and a world-class metropolitan cluster. These positions provide clear directions for future collaboration.

Since the signing of the Framework Agreement, Hong Kong has been working actively with Guangdong on its implementation and good progress has been made. The 2011 Work Plan, setting out the initiatives to be pursued in the year, was signed in February 2011.

Separately, the HK and the Shenzhen authorities are working closely to implement the Overall Development Plan on Hong Kong/ Shenzhen Co-operation on Modern Service Industries in Qianhai Area (Qianhai Development Plan). The plan, approved by the State Council in August 2010, designates Qianhai as a Hong Kong/Guangdong modern service industry innovation and cooperation exemplary zone to play a pilot role in promoting cooperation in service industries,

including financial service industries and professional service industries, between Hong Kong and the Mainland.

Offshore Renminbi Business Centre

Hong Kong continues to serve as a key platform and catalyst in the greater use of Renminbi (RMB) regionally and internationally.

Hong Kong is the first place outside the Mainland to develop a RMB-denominated bond market. RMB-denominated bonds in Hong Kong took off in 2010 with a significant increase in the number and size of issues, and expansion in the range of issuers. Up to the end of the first quarter of 2011, 40 RMB bonds had been issued, with a total issue size of RMB82.78 billion. Issuers include financial institutions, local and multinational companies, in addition to the Central Government.

RMB trade settlement service was another major step towards promoting the RMB as an international currency. The RMB trade settlement pilot scheme was launched in July 2009, and was further expanded to cover 20 provinces and cities in the Mainland in June 2010. RMB trade settlement conducted through Hong Kong amounted to a monthly average of RMB103.6 billion in the first quarter of 2011 – more than triple the monthly average of RMB30.8 billion in 2010.

Now subsidiaries of Mainland banks and other banks in Hong Kong are offering a range of RMB services to personal and

corporate customers. As of end of the first quarter of 2011, total RMB deposits in Hong Kong climbed to RMB451.5 billion.

RMB financial products also expanded to include structured deposits, certificates of deposit, insurance products and investment funds. In late March 2011, an RMB-denominated securities issue was listed on the Stock Exchange of Hong Kong, the first of its kind outside Mainland China.

The Pearl River Delta

Described as 'the fastest growing portion of the fastest growing province in the fastest growing large economy in the world' by a leading analyst, the Pearl River Delta (PRD) region is right on Hong Kong's doorstep. Home to thousands of large multinational manufacturing enterprises and tens of thousands of smaller operations, it is a prime manufacturing and sourcing base, boasting a combined GDP of around US\$471 billion, placing it among the world's top 25 economies.

The PRD's industrial sector is being rapidly upgraded and certain industries restructured and relocated – a strategy that encourages enterprises to progress up the high technology and high-value chain, while also relocating labour-intensive industries to less-developed regions in the north, east and west of the province, or to the central and western regions of the Mainland.

Pan-PRD

The '9+2' Pan-PRD regional co-operation initiative has created a huge, integrated economic cooperation zone covering the Mainland's nine southern provinces plus the Special Administrative Regions of Hong Kong and Macao. With new highways and railways extending the national transport grid, the Pan-PRD economic mega-group is expanding Hong Kong's economic catchment area

into the Mainland's heartland, and opening vast new manufacturing bases and consumer markets to the world.

Greater PRD Region (PRD plus Hong Kong and Macao) at a glance:

- Population: 55.4 million
- Area: 42 832 sq km
- GDP: US\$700.6 billion (2009)
- Per capita GDP: US\$12,638 (2009)
- Annual real GDP growth (2000-09): 14.5% [for PRD only]
- Exports of goods: US\$823 billion (2010)
- Inward foreign direct investment: US\$72.7 billion (2009)

CEPA - The Free Trade Pact

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) is a free-trade pact that provides a platform for businesses based in Hong Kong – local and foreign-owned – to tap the vast opportunities in the Mainland.

Operational since 2004, CEPA offers tariff-free privileges for all products of Hong Kong origin going into the Mainland. Hong Kong-based service suppliers (local and foreign) also enjoy preferential treatment in a number of service sectors in the Mainland.

The latest round of enhancements, taking effect from 2011, covers 44 sectors, including banking, logistics, legal, audio-visual and transport. Investors can set up a service company in Hong Kong, partner with, invest in or even acquire service suppliers in Hong Kong to make full use of CEPA opportunities.

Cross-boundary Connections

Boundary crossings connecting Guangdong and Hong Kong are among the busiest in the world — the Lo Wu

checkpoint alone handles 250 000 travellers per day.

Major projects or initiatives to improve links, either recently completed or under planning, include:

- The Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL), scheduled for completion in 2015
- The Hong Kong-Zhuhai-Macao Bridge is a mega-size sea crossing at Lingdingyang of the Pearl River Estuary linking the HKSAR with Zhuhai and the Macao SAR
- The Tuen Mun-Chek Lap Kok Link and Tuen Mun Western Bypass
- The Hong Kong-Shenzhen Western Express Line
- Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop
- Cross-boundary passenger ferry services
- Cross-boundary coach services linking the airport to 115 PRD destinations
- In the near future, improved rail and road links will bring Hong Kong, Shenzhen, Zhuhai, Macao and other regional population centres within a 'one-hour living circle'.

For more information, please visit www.tid.gov.hk/english/cepa

