



Research Centre for Sustainable Hong Kong City University of Hong Kong¹

Policy Paper 2 (Revised) Thoughts on the national strategic role of Guangdong-Hong Kong-Macao Greater Bay Area: Leveraging on “One Country, Two Systems” in Hong Kong to develop the soft power capacity of the Bay Area

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1. Introduction

At the “two meetings” of NPC and CPPCC held in March 2017, Premier Li Keqiang of the State Council has incorporated the “Guangdong-Hong Kong-Macao Greater Bay Area (GBA)” into the annual government work report for the first time. Putting forward a closer cooperation between Guangdong, Hong Kong, and Macao, it would draw up a plan for the development of a city cluster in the GBA, give full play to the distinctive strengths of Hong Kong and Macao, and elevate their positions and roles in China’s economic development and opening up. Both Hong Kong and Guangdong have shared a form of optimistic expectation during the deliberation of the GBA. With a population over 60 million and an economic value worth of more than 1.4 trillion US dollars, Hong

¹ Established in June 2017 by a cross-disciplinary research team, the Research Centre for Sustainable Hong Kong (CSHK) is an Applied Strategic Development Centre of City University of Hong Kong (CityU). CSHK conducts impactful applied research with the mission to facilitate and enhance collaborations among the academia, industry, professional service sector, the community and the Government for sustainable development in Hong Kong and the Region. Professor Linda Chelan Li, Professor of Department of Public Policy at CityU, is appointed as Centre Director. In 2017, CSHK is granted by the Policy Innovation and Co-ordination Office of the Hong Kong Special Administrative Region Government to conduct a Strategic Public Policy Research (SPPR) project entitled “Hong Kong Professional Services in the Co-evolving Belt-Road Initiative: Innovative Agency for Sustainable Development” [S2016.A1.009.16S]. For more information about CSHK, please visit our website at www.cityu.edu.hk/cshk. Please send your comment to sushkhub@cityu.edu.hk.

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Kong, Macao and the nine mainland Chinese cities are comparable to world-class city clusters like New York Bay Area, San Francisco Bay Area, or Tokyo Bay Area. All parties should be able to take a share if they participate in making a larger “pie” here. Meanwhile, there is an alternative view that, with different systems and institutions being implemented at Hong Kong, Macao, and the nine mainland Chinese cities, there would be barriers for stream of people, logistics, and flow of capital. Also, with the homogenised development and intense competition of these places, it would be extremely difficult to realise an industrial division of labour and collaboration. Even if a collaboration plan may be pushed through, that may still bring forward a series of other problems, including a concern within the Hong Kong community about the possible impacts on the Hong Kong SAR government’s preexisting powers of independent planning.

We believe that a transcendence in mind beyond industrial layout and administrative divisions is necessary for a better understanding of Hong Kong’s role in the GBA as well as the outlining of GBA’s development path. From a strategic perspective, the GBA and Hong Kong should play a role towards the development of whole country. The “two systems” within the GBA, despite indicating the regional differences, should be taken as a unique niche rather than a shortcoming. The current crux is how the utilisation of these “two systems” can promote the development of different cities in the GBA, and how such an impact can extend further across the hinterland of mainland China. Under the recent “New Normal” situation, a process of structural changes including thorough economic transformation and improvement in social governance is imminent as China faces growing challenges and diplomatic pressures. What is becoming increasingly important is the development of “soft powers”, such as proper handling of international commercial disputes, compliance with international principles and the rule of law, promotion of business efficiency and corporate social responsibility, and amelioration of social conflicts. These are precisely the comparative advantage of Hong Kong. We thereby propose that China should expand the space for institutional reform in the GBA by leveraging on the “second system” of Hong Kong, so that the whole GBA, with Hong Kong and Macao in it, can again act as the pioneer in the national development strategy, this time through the enhancement of soft powers. The GBA will make its marks to the future development of China accordingly.

2. Understanding China’s needs under the new situation

The GBA refers to 11 cities, which include two special administrative regions of Hong Kong and Macao, and nine cities across the Pearl River Delta, Shenzhen, Dongguan,

Huizhou, Guangzhou, Foshan, Zhaoqing, Jiangmen, Zhongshan and Zhuhai. Scholars have often employed the economic perspective of comparative advantages to analyse the cooperation between Guangdong and Hong Kong. As long as both sides are able to find their respective niches from a joint project, both parties will benefit and a win-win situation ensues. The “front shop, back factory” pattern between the low-cost Guangdong and the internationalised Hong Kong has therefore been formed from 1978 onwards.⁴ However, such a framework and industrial division of labour have confronted with many challenges nowadays. In the past, Guangdong was committed to the development of secondary industry, which was in complement to Hong Kong’s transition towards the tertiary industry. With a lot of capital, technology, talents, and experience in international management introduced from Hong Kong, Guangdong grew into a leading manufacturing base, whilst Hong Kong became an international financial centre focusing on professional services. Subsequently, with the rise of other provinces and Guangdong enterprises accumulating abundant capital, Guangdong has proactively been transiting towards tertiary industry.⁵ From 2009 to 2015, the State Council has approved the establishment of three free trade areas and new development zones at Hengqin, Qianhai, and Nansha to develop high value-added projects such as financing, modern logistics or professional services. As Guangdong’s GDP surpasses that of Hong Kong, the dispute over which of them should be the leader has emerged.⁶ The cooperation between Guangdong and Hong Kong has somewhat left an impression of incoherence, whilst the “Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and the development plan of Lok Ma Chau Loop are making only slow progress. There are views in both Guangdong and Hong Kong that the other side has set up obstacles, so that the professional services and innovative technology between the two places cannot make a breakthrough in cooperation. Some comments have even blamed the principle of “one country, two systems”, as the disparate governing systems of both places are slowing down the flow of people, capital, and goods (with border control, financial restrictions, and independent customs territory). In addition, long-existing differences in life style and culture have stirred up frictions between residents of the two places.

We believe that the discussion on obstacles caused by industrial layout and institutional

⁴ Shen Jianfa (2008), “Inter-city relations between Hong Kong and Shenzhen: Implications for urban planning and governance,” *Planning and Development*, 23(1), 2-14 ; Victor Sit F. S. (1998), “Hong Kong’s ‘transferred’ industrialization and industrial geography,” *Asian Survey*, 38(9), 880-904.

⁵ According to the figures released by the Bureau of Statistics of Guangdong Province, the tertiary industry occupied 50.8% of Guangdong’s GDP, going over more than half for the first time. The figure in 2016 has even increased to 52.1%.

⁶ Bellwether candidate in most people’s views include Hong Kong (for its internationalisation), Guangzhou (for being a provincial capital as well as the economic and cultural centre of South China), and Shenzhen (for being a capital of innovation that has Huawei, DJI, and Tencent).

differences, whilst somewhat reasonable, is taking only a part for the whole. In the 1970s and 1980s, Hong Kong and Guangdong supplemented the weaknesses of each other with their respective strengths in factors of production, such as capital, technology, land, and labour. More importantly, both places worked hand-in-hand under the banner of the national strategy of “reform and opening up”. Together they had broken through many institutional blockades and made progress in explorations into valuable innovative pathways. The institutional differences between Hong Kong and Guangdong then were definitely bigger than it is now, yet Hong Kong had played an instrumental role in the foundation of Shenzhen Stock Exchange, the first public auction of land in the whole country, and even the introduction of shareholding system and dividends in state-owned enterprises. It can be said that the key to their synchronous leap in the former days is the collaboration of market economies under Hong Kong’s “capitalism” and Guangdong’s “socialism”. Guangdong hence had become the vanguard of China’s “reform and opening up”, as a multitude of policies were first experimented and secured success at Guangdong before execution nationwide.

Forty years after “reform and opening up”, China has impressed the world with its remarkable economic achievement, but its philosophy and practice of governance still lag behind comparatively. For instance, local governments are blindly pursuing economic growth in disregard of conserving resources, resulting in environmental degradation and pollution. The course of economic development is accompanied by rampant corruption of officials and businessmen, whilst swift urbanization comes with questionable invasion of private property rights. Heavy corporate burden and poor business environment also lead to a lack of confidence in investment by enterprises along with a descending real economy. In view of these, there is an urgent need for China to continue the reform process and reconstitute its institutions in order to raise its governance quality. Although China has surged to be the second largest economic entity globally, its diplomatic pressures are constantly intensifying. On one hand, the European and American countries expect China to abide by international rules of the game and shoulder more responsibility as a great power; on the other hand, they also worry that a stronger China would break the Western dominance of world order. It is against this backdrop of China’s internal economic transition along with increasing external international pressures that the GBA is raised of one of the national strategies in the work report by the Prime Minister.⁷

It cannot be denied that the economic achievement of a country does not represent a

⁷ Other strategies mentioned by the government work report include the Beijing-Tianjin-Hebei integration and the Belt and Road.

real increase of the country's soft power. The GBA is distinctive from other economic regions in China, not for its large economic scale,⁸ but for the “two systems” of Hong Kong and Macao in the area. Developing from a small fishing village into the Pearl of the Orient that is the envy of the world, Hong Kong relied on not only its unique historical conditions and geographic advantages, but also its core values and tradition, institutional culture (such as respect for human rights, tolerance of diversity, freedom and equality, the rule of law, etc.), and excellent business environment embedded around all echelons of society. Under the new situation, China would need to continually enhance its national “soft power” through institutional advancements. The Guangdong Province would need to do pioneer explorations and experiments in this regard, and Hong Kong could play a positive role in this process to make up for mainland China’s deficit in “soft power” such as system and culture. As long as Hong Kong and Guangdong put this national strategy of the GBA into full use, the traditional inter-regional cooperation could be raised to another level, and then they could again provide pioneer experience for the whole country in meeting the challenges of the time.

3. Serving the national strategy with the soft power of Hong Kong and the GBA

The following is some of our directional proposals on how Hong Kong can collaborate with Guangdong to promote the cultivation of soft power in the GBA. Hopefully they would be a sprat thrown to catch a mackerel that stimulates discussion of different parties.

3.1. Improving the judicial system of the GBA

Since China is actively promoting its national policy of Belt-and-Road Initiative, there would inevitably be more commercial legal disputes with foreign parties. The development of an effective mechanism for dispute resolution can brook no delay, because of the objective needs of project execution as well as the relevance to the country’s international image. With its pioneer attempt to introduce and improve new arbitral model one step ahead, the GBA would be able to provide reference and accumulate experience in handling cases with foreign parties for courts at other cities around the country. Hong Kong has an independent judicial system, whilst its impartial judges and legal professionals are laudable, not to mention that its mature legal education. Guangdong and Hong Kong can thereby explore to promote more

⁸ In 2014, the GDP in *renminbi* of Yangtze River delta urban agglomeration was 12.89 trillions, that of Beijing-Tianjin-Hebei 6.64 trillions, and that of Pearl River Delta 5.78 trillions (with much less volume than the Yangtze River delta despite its exclusion of Hong Kong and Macao).

cooperation in the planning of GBA:

- **Improving and promoting the Qianhai experience together:** In 2016, the Qianhai court appointed 13 Hong Kong citizens, including members of legal and other professional sectors, as jurors to assist the trial judge in handling commercial disputes with foreign parties. Moreover, with the consent of both parties to the litigation, a dispute could either be resolved with Hong Kong rules or be arbitrated. Both Guangdong and Hong Kong should create conditions for the Hong Kong legal profession to participate more in the Qianhai arrangements, and to gradually promote the new model in the GBA (such as Nansha and Hengqin).
- **Expanding the role of the Hong Kong International Arbitration Centre:** Hong Kong is the most popular arbitration centre among the international business community, and it is also ranked third globally after London and Paris. With Hong Kong proactively exploring to expand the scale of its current international arbitral institution, both Guangdong and Hong Kong should encourage more enterprises to use arbitration to resolve their disputes. They should improve mutual legal assistance and enforce each other's arbitral awards as well, thus enhancing the quality of arbitration at both Guangdong and Hong Kong.
- **Strengthening cooperation in judicial education:** City University of Hong Kong, for example, has been providing mainland Chinese judges with systematic professional training courses for more than a decade. On this basis there can be further exploration of how to appropriately expand and deepen the scope of cooperation.

3.2. Promoting deeper economic cooperation in the GBA

China's economic development is facing some long-standing structural and institutional tension and problems, which have resulted in phenomena such as declining economic growth, reducing corporate profits, and increasing economic risks. As a large economic province, Guangdong's solution of these difficulties would have an exemplary effect in the whole country. Also, the Guangdong government is proactively exploring the promotion of structural reform, to make the supply system more adaptive to the changing demand structure. We believe that Hong Kong can play important roles within this process:

- **Drawing on Hong Kong's experience to promote reform:** The Hong Kong

Government's management of the market are not direct control nor administrative intervention, but guiding corporates towards self-discipline through clearly laid out laws and regulations. To maintain a healthy market order, enterprises enjoy a high degree of security and autonomy under the principle of negative law which clearly delineates the boundary of illegality, so that enterprises are subject to clear punishments in accordance with laws if there is any unlawful conduct. Such institutional experience would be beneficial for Guangdong to promote supply-side reform, to deepen “delegation of power, streamlining of administration, and optimization of services”, and to fully enhance the ease of business startups.

- **Strengthening financial cooperation:** Reliance on Hong Kong's fundraising capability would help Guangdong enterprises to grow stronger. In the recent review of its listing regime, HKEX is planning to put forward a new board to allow more flexibility for enterprises to raise development capital on different boards. Since Shenzhen is one of the regions with most startup companies in the country, it should strengthen integration with Hong Kong to expand choice for companies to be listed at either Shenzhen or Hong Kong, creating more financing channels for enterprises and also making the listed companies in Hong Kong more diversified. Meanwhile, the strengthening of cooperation would stimulate a healthy development of the internationalisation of *renminbi*.
- **Expanding overseas markets:** Hong Kong enjoys a high degree of internationalisation under “one country, two systems”. Its various institution are in conformity with international standards, whilst its citizens enjoy visa exemption to many countries and many are literate in both English and Chinese languages. Both Guangdong and Hong Kong should iron out any remaining hurdles for various Hong Kong professional services to provide service in Guangdong, assisting Guangdong enterprises to expand into international markets and extending business opportunities for Hong Kong at the same time.

3.3. Promoting social collaborative governance at the GBA

In recent years, Guangdong Province has been actively promoting governmental transformation and exploring ways to provide better public services. Hong Kong's experience in managing a diverse society would be of important reference to Guangdong in this regard.

- **Strengthen exchanges of social management experience:** Having maintained a

more liberal social formation, Hong Kong possesses abundant experience in social collaborative governance. Social organisations and trade associations with high degree of autonomy have become essential components of its social governance by regulating the conduct of their own industries and providing the community with some public services. Hong Kong is also one of the cities with most non-governmental organisations in the world. The development of non-governmental and social organisations can relieve the government of its resource limits, whilst sustainably addressing the complex demands of social governance.

- **Promoting social intermediary services:** Hong Kong's social worker registration system is at an advanced level internationally. Since 2007, Hong Kong has been sending experienced social worker as supervisors to assist the establishment of Shenzhen's social worker registration system. Over the decade, the number of social workers in Shenzhen has increased by more than a hundred times, jumping from thirty to several thousands. Helping more GBA cities to train professional social workers in a more effective way would also open up more services areas for social welfare organisations in Hong Kong, so it may be a noteworthy direction for the governments and social welfare organisations of both Guangdong and Hong Kong.
- **Strengthening exchanges between academic institutions:** The achievement of Hong Kong's tertiary education is broadly recognised. In the Asia University Ranking 2017 announced by the *Times Higher Education* of UK, placed at the top 50 are six Hong Kong universities from this city with only more than seven million population. The universities at Hong Kong and GBA should strengthen their cooperation, to allow more mutual exchange between teachers and students, so that they can train more talents and increase understanding of each other.

4. Conclusion

The current discussion on the GBA is still mostly concentrated in the topics about its industrial layout or the ways to break institutional barriers for the free flow of labours, goods, and capital. In such ambience, the atmosphere of discussion would often fall on competition, instead of a joint progress, between two or more cities with identical direction of industrial development. We thereby seek to offer an alternative perspective to explore the GBA as a whole, so that it can better meet the country's strategic demands by helping it to manage the socio-economic transformation as well as to adapt to the requirements by international regulations. By taking this perspective, we would neither

be over-focusing on the industrial division of labour nor neglecting the deeper meaning of the development of the GBA.

As recently reiterated by President Xi Jinping, there is an immense vitality within Hong Kong's "one country, two systems" principle. Hong Kong belongs to the same "one country" with mainland China, but meanwhile it implements another set of "system" that is different from mainland China. Serving as the "second system" of the "one country, two systems" constitutional model, Hong Kong can provide diverse perspectives for mainland China to examine the country's governance and development. Over the past both of them have been playing to their respective strengths to achieve a win-win collaboration, but with the latest change in the situation they would need to uphold a mutual attitude, to find points of cooperation, and to promote common development.