

# Opportunities And Challenges Brought by Institutional Differences under "One Country, Two Systems"

-- In the context of the development of the Greater Bay Area

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## Abstract

It has been almost 25 years since Hong Kong's return to China in 1997, which marked the implementation of "one country, two systems". The present stage is of monumental value, because we are halfway through the innovative policy of "one country, two systems" proposed by Deng Xiaoping, the inventor of the policy, "not to be shaken for at least 50 years". It is necessary to sort out the opportunities and challenges of "one country, two systems" at this stage. The proposal of the Greater Bay Area Strategy and the design and implementation of relevant policies undoubtedly provide a more intuitive "microscope" for us to observe and evaluate "one country, two systems". Discussing the opportunities and challenges of "one country, two systems" in the context of the Greater Bay Area will crystallize these concepts, and even non-scholars can understand them, which is the motivation of this paper. The framework for this article is very simple. First of all, I will make use of relevant literature to sort out the research status of "one country, two systems" under the Greater Bay Area. Then, on this basis, I'll discuss the unique advantages that the institutional differences under "one country, two systems" bring to the construction of the Greater Bay Area and the difficulties that need innovation to overcome. Based on these opportunities and challenges, this paper puts forward suggestions for the follow-up development of the Greater Bay Area, hoping to provide some inspiration for the advance assumptions of policy design.

## Key Words

GBA, One Country-Two Systems, Policy Design, Belt and Road, Socialist Capitalism, Free Market

# 1.Introduction

As one of the representatives of regional economic cooperation, GBA has its particularity compared with other regional economic collaborative development regions in China, such as Beijing-Tianjin-Hebei region and Yangtze River Delta. Since GBA includes two special administrative regions, Hong Kong and Macao, and implements different capitalist systems in the two SARs from mainland China, GBA has become a precedent for innovative and pioneering regional economic cooperation worldwide. Everything has two sides. The difference of systems under "one country, two systems" has brought unique advantages to the development of GBA that other urban agglomerations in the world do not have, enabling the Greater Bay Area to make use of the advantages of the two systems at the same time to complement each other and achieve the best integration. However, when policies are implemented, differences and even contradictions may occur between Guangdong Province and Hong Kong and Macao due to inappropriate connection between different systems and blank policy connection. If not properly handled, these contradictions may lead to deviation between the development of GBA and policy planning. This paper will analyze the unique advantages and differences caused by institutional differences under "one country, two systems", and try to put forward suggestions on how to skillfully use institutional differences to serve the construction of GBA, so as to make the two systems more smoothly connected.

## 2.Literature Review

Li et al.(2019) pointed out that as one of the regional cooperation in urban agglomeration, the GBA's inherent "one country, two systems" provided advantages for its development. They linked the significance of GBA to the Belt and Road Initiative led by China and pointed out that GBA plays an important role in China's integration into international trade cooperation and the establishment of international economic status, which is a key change from the previous positioning of the Pearl River Delta region.Li et al.(2020) took Shenzhen Qianhai Pilot Zone as an example to analyze the disconnection and disunity of standards caused by system differences in the practice of "one country, two systems" policy in GBA, and introduced the management adjustments made in response to these difficulties. In terms of law, finance and service, the experience of Qianhai Pilot Zone can provide inspiration and reference for suggestions on maximizing the advantages of institutional differences in this paper.Li et al.(2017) pointed out that Hong Kong, as the second system of "one country, two systems", provided institutional supplement and more diverse perspectives for the economic development of GBA and even the whole country. Of course, all this was on the premise of "one country". They believe that Hong Kong and Mainland China should agree to develop together as a whole while adopting a different system. This is especially true within GBA.Yu, Hong.(2021) analyzed that Guangdong, Hong Kong and Macao in GBA are in fact competing with each other

because they belong to different customs districts and administrative regions, which makes it challenging for them to build common goals and highly cooperate. This is an obstacle to the economic integration and collaborative development of GBA caused by the division of systems and management modes. Peck, Jamie.(2021) regarded GBA as the best test ground for combining the "free market" represented by Hong Kong and Macao with the "state capitalism" of Mainland China, and believed that GBA needs to build a new political and economic scale to transcend the gap between the two systems. Chan, Fung.(2020) concluded that Hong Kong's integration into GBA is inevitable, because its positioning is to show the world the possibility and feasibility of economic cooperation between capitalist economy and Mainland China. In this process, measures such as information sharing and allowing stakeholders to carry out discussions can reduce the resistance to the integration of GBA and make the two systems more smoothly combine and integrate. Sun et al.(2020) takes GBA as the research area to analyze the starting point and growth rate of development of cities within GBA. This provides reference information for the discussion of the development gap between GBA cities under the difference of system and the function positioning of synergistic development. Hui et al.(2020) believes that solid infrastructure and strong transportation capacity promote the flow of elements within GBA and play an important role in promoting GBA's regional integration. In this context, it can be inferred that the construction and improvement of infrastructure will help cities within GBA transcend the gap of institutional differences. Overcome resistance to development caused by institutional differences. Weng et al.(2020) tries to provide suggestions for GBA's city positioning and policy improvement by calculating and studying the carrying capacity of cities within GBA. GBA is a representative urban agglomeration in China, and the carrying capacity of each city can provide reference for this paper to summarize the development suggestions under the institutional differences and overcome the related problems caused by the institutional differences.

## **3.Complementary Advantages under Institutional Differences**

### **3.1 The "Socialist Market Economy" in Mainland China --The Firm Backing of The Development of GBA**

Mainland China implements the socialist system, and its economic system is particularly different from that of Hong Kong and Macao. Although they all follow the law of market economy, the market economy in mainland China is more government-led. Economic development follows the law of market, but the government takes the leading advantage in the economy and has a strong initiative to

regulate the economy, which can ensure that the country's economic development is controlled within the normal track.

In the development of GBA, Guangdong province, as the representative of implementing the socialist market economic system, plays the role of strong reserve for the economic development of GBA. Due to the strong financial dominance of the state, GBA can have sufficient infrastructure investment and construction, such as the construction of cross-border railway and the planning of the Hong Kong-Zhuhai-Macao Bridge, which are all promoted under the state's leadership. The socialist economic system provides solid support and foundation for regional economic development. And when markets fail, as they usually do in emergencies, governments can take the first step to remedy them. For example, in the era of COVID-19, market failure and economic stagnation have often occurred. When the society is at a standstill due to emergencies, the government is responsible for the unified allocation of resources and the guarantee of minimum living expenses to keep the society running. The most direct manifestation of the advantages of a socialist market economy is that Shenzhen recently used a seven-day period to eliminate the risk of infection, all in a unified arrangement by the government. In the future, Shenzhen's experience can serve as an example for cities in GBA to deal with epidemic risks. This is the institutional advantage of the socialist system reflected in the development of GBA. At the same time, as a region implementing socialist market economy, Guangdong province can provide insurance for the development of "free market" dominated economic model for Hong Kong and Macao, so that the two places have enough reserves and capacity to cope with market failure.

### **3.2 The "Free Market" System of Capitalism in Hong Kong And Macao Provides Space for GBA to Connect China with The World**

Since Hong Kong and Macao still kept their local system and social life unchanged after their return to China, it means that they are still institutionally "Western". Compared with the "socialist" market economy model in Mainland China, which is not familiar to western countries, Hong Kong and Macao have become a window for foreign investment in China. As they both belong to the capitalist economic system, foreign investment will trust the economic model of Hong Kong and Macao more in the initial stage of investment. This makes these two SAR's play a special and irreplaceable key role in the development of GBA, connecting China and the world. Moreover, SAR's independent legal system is a big reason for attracting foreign investment. Independent judicial system can provide convenience and guarantee for foreign enterprises to pay taxes and accept management, so that they have greater profit space and development prospects. As an international financial centre, Hong Kong also plays an important role as a hub for financial markets and international trade cooperation in GBA.

The practice of GBA has forced Guangdong province and Hong Kong and Macao to carry out very close integration, which is a kind of innovative social experiment. The integration model of Guangdong Province and Hong Kong and Macao explored by GBA can provide examples and references for countries around the world to carry out close trade cooperation and financial circulation with Mainland China, and at the same time speed up China's integration into the world economy, so that China's socialist market economy is more and more recognized internationally. At the same time, due to its special geographical location and policy implications, GBA plays a leading and promoting role in the China-led Belt and Road Initiative, which complement each other and together become an important part of China's national development strategy.

## **4.Inconveniences And Differences Brought by Institutional Differences in " One Country, Two Systems" -- Challenges to The Development of GBA**

### **4.1 Tax And Legal Differences -- Arbitrage in Grey Areas**

Due to the differences between Hong Kong, Macao and the Mainland in taxation, legislation and justice, there are blank areas of supervision in related business management, trade supervision and other affairs. We can regard the areas where the legislation of the two systems is not properly connected as gray areas, which provide possibilities for speculation and arbitrage activities. For example, due to differences in tax systems, the prices of goods in Hong Kong and Macao are different from those in the Mainland. As a result, many people work in cross-border smuggling to earn the price difference, forming the phenomenon of "water passengers" in GBA, which disrupts the market order. Companies are also one of the subjects of speculation using laws and tax systems. Due to the differences in taxation policies between Hong Kong and Macao and the Mainland, some enterprises take advantage of the differences in the system to avoid tax arbitrage speculation.

### **4.2 Institutional Differences Have Led to Uneven Responses to COVID-19**

Free customs clearance between Hong Kong and the Mainland and Macao has been suspended for more than two years, which has made the actual development of GBA lag behind the strategic layout and policy intentions. The Chinese Mainland has adopted a "cask theory" to protect the weakest under the "socialist" system, which can be interpreted as a "dynamic zero clearance" with Chinese characteristics to protect the safety of its people at the expense of economic growth. So far, most countries in

the world have adopted a policy of opening their doors to the outside world and unrestricted daily activities, which is what Hong Kong is implementing. What we can tell is that Hong Kong, Mainland China and Macao have embarked on different anti-epidemic paths. Such differences will deepen divisions within GBA and cause inconvenience and obstacles to exchanges between Hong Kong and other cities in GBA. The choice of the road to fight the epidemic actually comes from the differences in economic systems. As Mainland China is a government-led economic model, the government has the authority and ability to allocate and supplement resources in the face of social emergencies, so that the society can maintain operation even when partial production stops. However, as a capitalist market economy, Hong Kong follows the principle of "free market". Under such a system, the losses caused by compulsory regulation of market activities are unbearable and may even cause collateral damage to the society and public opinion. Due to differences in core institutional concepts, it is difficult for Hong Kong and the Mainland to reach a consensus on anti-epidemic policies. The policy inconsistency will lead to a long period of free customs clearance, which will seriously consume the cost of the preliminary construction of the Greater Bay Area and make the implementation of GBA strategy difficult.

## **5.Possible Solutions&Conclusion**

In view of the inconveniences of policy implementation caused by institutional differences in GBA, the government has also paid attention to and taken corresponding policies and measures to solve the relevant problems. For example, in order to promote mutual legal exchange and mutual trust in law enforcement within GBA, lawyers from Guangdong, Hong Kong and Macao can obtain practicing qualifications in GBA by taking the practice examination. In order to reduce smuggling and arbitrage, Guangdong province has cooperated with the Exit and Entry Authorities in Hong Kong and Macao to control the frequency of entry and exit for ordinary visas, so as to control smuggling activities of speculation and arbitrage. In order to promote the flow of human resources in GBA and make the functional positioning of each city clearer, Guangdong Province has issued corresponding policies on taxation and social insurance for employees from Hong Kong and Macao to minimize the differences caused by institutional differences.

Although there are still management challenges and inconveniences caused by institutional differences in GBA, the corresponding adjustments made by the government are developing in a positive direction. In the past, most of the differences in management caused by institutional differences were targeted solutions after problems occurred. In order to minimize the obstacles in the development of GBA, the future policy adjustment can move the threshold forward, predict the possible problems and take possible solutions into account when designing policies, so as to change resolving differences into preventing problems, so as to gain initiative for the smooth development of GBA.

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