Building a Hong Kong-Shenzhen Metropolis
Research Report

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CONTENTS

Introduction..............................................................................................................................6

I. The Current Relationship between Hong Kong and Shenzhen ....................6

II. Study Objective: Promote the relatively free flow of key resources as
the first step to building a Hong Kong-Shenzhen Metropolis.......................10

Chapter 1: Background and Evolution of the Hong Kong-Shenzhen Metropolis Concept.................................................................13

I. Various Proposals on the Relationship between Hong Kong and Shenzhen...................................................................................13

1. Various Descriptions of the Relationship between Hong Kong and Shenzhen:
   Cooperation, Interface and Integration ..................................................13

2. Further Study on the Relationship between Hong Kong and Shenzhen: “One Metropolis, Two Regions”, “Twin Cities”, “Economic Union” 16

3. Vision for the Hong Kong-Shenzhen Relationship: from “Shenzhen-Hong Kong Bay Area” to Hong Kong-Shenzhen Metropolis 18

II. Substance and Characteristics of the Hong Kong-Shenzhen Metropolis.........................................................................................21

1. Theories and Practices of Metropolises ..................................................21

2. Characteristics and Substance of the Hong Kong-Shenzhen Metropolis 23

III. The Necessity and Strategic Significance of the Building of a Hong Kong-Shenzhen Metropolis.................................................................26

1. A Hong Kong-Shenzhen Metropolis is a Matter of Fact 26

2. A Hong Kong-Shenzhen Metropolis is Mutually Necessary 28

3. A Hong Kong-Shenzhen Metropolis would be the Engine for Regional Development 30
Chapter 2: Evolution of “Building a Hong Kong-Shenzhen Metropolis” ................................................................. 35
  III. Phase Three (2003- ): Market and Government Driven Cooperation ... 45
  IV. Major Conclusions ........................................................................................................ 51

Chapter 3: The Effect and Influence of a Hong Kong-Shenzhen Metropolis on the Economic Development of China and the World ............................................................................. 54
  I. Comparison of Hong Kong-Shenzhen Metropolis with Guangzhou-Foshan, Shanghai and Beijing-Tianjin Metropolises .............. 55
     1. Hong Kong-Shenzhen Metropolis Versus China’s Three Major Metropolises 55
     2. Comparative Analysis of the Three Major Metropolitan Circles (Relied on By the Four Central Cities) 58
     3. Major Conclusions 61
  II. Comparison of Hong Kong-Shenzhen Metropolis with New York, London and Tokyo.................................................................................................................. 62
     1. Comparative Analysis of Fundamental Economic Strengths 62
     2. Comparative Analysis of Key Economic Functions 65
     3. Major Conclusions 69
  III. The Economic Power and Proper Role of a Hong Kong-Shenzhen Metropolis ........................................................................................................ 70

Chapter 4: Assessment of the Economic Impact of a Hong Kong-Shenzhen Metropolis .................................................................................................................. 77
Kong-Shenzhen Metropolis ................................................................. 73

I. Analysis Method and Econometric Model........................................... 73
   1. Methods and Models for the Analysis of the Economic Impact of a Hong Kong-Shenzhen Metropolis 73
   2. Selection of Variables for the Econometric Model 76

II. The Economic Impact of a Hong Kong-Shenzhen Metropolis on

Hong Kong and Shenzhen Individually and As a Whole......................... 78
   1. The Economic Impact of a Hong Kong-Shenzhen Metropolis on Hong Kong 78
   2. The Economic Impact of a Hong Kong-Shenzhen Metropolis on Shenzhen 81
   3. The Economic Impact of a Hong Kong-Shenzhen Metropolis on Hong Kong and Shenzhen As a Whole 84

III. GDP Comparison between a Hong Kong-Shenzhen Metropolis and

the Three Major World Cities ........................................................... 85

Chapter 5: Promoting the Relatively Free Flow of .............................. 88

Key Resources is Fundamental to Building a Hong Kong-Shenzhen Metropolis ................................................................. 88

I. Current Status of the Flow of Key Resources between Hong Kong and Shenzhen ................................................................. 89
   1. Current Status of the Flow of People ................................................. 90
   2. Current Status of the Flow of Capital .............................................. 97
   4. Current Status of the Flow of Information and Services ............ 105

II. Achieving Relatively Satisfactory State for the Flow of Key

Resources in a Hong Kong-Shenzhen Metropolis ................................. 117
   1. Overall Description of the Current Status of the Flow of Key Resources 117
   2. Gap in the Flow of Resources and the Reasons 119
Chapter 6: Policy Recommendations for Building a Hong Kong-Shenzhen Metropolis

1. Strengthen infrastructure links to create a “Hong Kong-Shenzhen One-hour Metropolitan Life Circle”

2. Study rail connection between airports to jointly establish a Hong Kong-Shenzhen super air hub

3. Conduct planning for Hong Kong’s frontier closed area with the Hong Kong-Shenzhen Metropolis concept

4. Establish a “Hetao Development Management Authority” to actively promote development of the Hetao area

5. Build China’s first top international metropolis through national level planning for Hong Kong and Shenzhen

6. Create a Hong Kong-Shenzhen Metropolis brand name to increase its attractiveness as a base for regional headquarters and branch companies of multinational and domestic enterprises

7. Deepen financial cooperation and strengthen Hong Kong’s role as an international financial centre

8. Promote effective cooperation on “Shenzhen/Hong Kong Innovation Circle” through implementation of concrete projects

9. Strengthen education and cultural cooperation by commencing with the “Hong Kong-Shenzhen talent nurturing programme”

10. Focus on sustainable development by jointly addressing environmental protection issues
Introduction

Hong Kong and Shenzhen are closely linked and dependent on each other. As the first special economic zone of the Mainland, Shenzhen started up with the support of Hong Kong and has now become the No. 4 Mainland city in terms of gross domestic product (“GDP”). With an effective population of over 12,000,000 and a GDP of over RMB560 billion in 2006, it is already a mega city with relatively developed manufacturing and service industries. Around the world, however it is rare to find two cities like Hong Kong and Shenzhen, which lie in such close proximity to each other but differ so much in terms of economic development and social systems. Hence, the relationship between Hong Kong and Shenzhen has been a topical issue of concern for all walks of life in the two societies. Indeed, cooperation between Hong Kong and Shenzhen has all along been more than an issue for the two cities themselves, it is also relevant to the Pearl River Delta, the Pan-Pearl River Delta, Guangdong Province and the central government. Under the “One Country, Two Systems” arrangement, further cooperation between Hong Kong and Shenzhen at the institutional level is the first step towards full speed acceleration of the cooperation between Hong Kong and Shenzhen, and a critical move to promote regional cooperation in the Pearl River Delta and the Pan-Pearl River Delta, which should be considered as part and parcel of the regional economic development strategy of the State.

I. The Current Relationship between Hong Kong and Shenzhen

After 2004, as economic cooperation deepened and governmental exchanges became more frequent between Hong Kong and Shenzhen, there was increasing concern about how the two cities could take their cooperation to the next level in an effective manner. At the Shenzhen government level, concepts such as the “Shenzhen-Hong Kong Cooperation Circle”, the “Shenzhen-Hong Kong Metropolitan Circle” and the “Shenzhen/Hong Kong Innovation Circle” started to emerge.

In January 2005, the Shenzhen municipal government issued the “Implementation Measures for the Integration of Shenzhen into the Pan-Pearl River Delta”, in which it was proposed that the “Shenzhen-Hong Kong Cooperation Circle” be established as the first tier, as well as a critical foundation, of Shenzhen’s integration into the Pan-Pearl River
Delta. The Shenzhen-Hong Kong Cooperation Circle, if established, can enable the two cities to complement each other in terms of city function and industry functions. The purpose is to maximise the benefit Shenzhen can receive from Hong Kong’s radiant driving force and to effectively leverage the service platforms of Hong Kong as an international financial, logistics, trading and information centre so as to create an international financial, trading and logistics centre in Shenzhen and Hong Kong as a metropolitan circle. Integration into the Pan-Pearl River Delta will allow Shenzhen to capitalise on its unique geographic advantage as a neighbour of Hong Kong, perform its function as a bridge to facilitate the flow of key materials and resources between Hong Kong and the Mainland, and play an active role in maintaining the prosperity of Hong Kong and Macau.

In January 2006, the Shenzhen municipal government issued the “Decisions Regarding the Implementation of the Home-grown Innovation Strategy to Build National Innovative Cities” to expressly lay out the proposals on accelerating the establishment of the “Shenzhen/Hong Kong Innovation Circle”, including: further improving the technology cooperation mechanism between Shenzhen and Hong Kong, promoting the reasonable flow of innovative resources between the two cities, studying the feasibility of creating a joint innovation information platform, a joint training base, joint laboratories and joint education system to realise the exchange of information and the sharing of laboratory support, as well as the sharing of research and development funding and results; supporting enterprises in Shenzhen to strengthen their cooperation, by way of project commissioning or joint development, with tertiary educational institutions and research institutes in Hong Kong and engage in major ground-breaking projects on key areas in Hong Kong and Guangdong Province; actively introducing Hong Kong intermediaries into Shenzhen to integrate Hong Kong’s well developed financial industry and modern service industry with Shenzhen’s high technology industry and innovation activities so as to develop the two cities into an innovative circle with the highest degree of centralization in innovative resources and the highest degree of innovation activity in China. On 21 May 2007, the Hong Kong and Shenzhen governments entered into the “Shenzhen/Hong Kong Innovation Circle Cooperation Agreement” in the presence of Mr. Cheng Jingpei, Vice Minister of the Ministry of Science and Technology and Mr. Song Hai, Vice Governor of Guangdong Province, marking the formal launching of the “Shenzhen/Hong Kong Innovation Circle”.

In the “Eleventh Five-year Plan for the Comprehensive Economic and Social
Development in Shenzhen” (the “Comprehensive Development Plan”) approved at the second meeting of the fourth National People’s Congress of Shenzhen in March 2006, a key section was dedicated to the subject of “Strengthening Cooperation between Shenzhen and Hong Kong”, in which the “Shenzhen-Hong Kong Metropolitan Circle” concept was proposed as follows: under the principle of “One Country, Two Systems”, and within the basic framework of CEPA, the Pan-Pearl River Delta Cooperation Mechanism and the Shenzhen-Hong Kong “1+8” Cooperation Agreement, the level of coordination and cooperative relationship between Shenzhen and Hong Kong should be raised to that of strategic alliance, in order to promote the synergy and mutual development of Hong Kong and Shenzhen. In accordance with the direction and areas of cooperation defined under the “Implementation Measures for the Integration of Shenzhen into the Pan-Pearl River Delta”, it is proposed that the projects for cooperation between Shenzhen and Hong Kong which have been approved under the Comprehensive Development Plan be implemented to actively promote and support the exchange and cooperation between the two cities in the development of infrastructure facilities, ports and airports, boundary points and the frontier area, environmental protection, and in respect of culture, education, technology and human resources, in order to jointly establish the “Shenzhen-Hong Kong Metropolitan Circle”.

The “Shenzhen 2030 City Development Strategy” published in July 2006 expressly states that Shenzhen shall position itself as part of an international metropolis with Hong Kong (assimilation of Shenzhen and Hong Kong).

This is also a very important topic for Hong Kong. In February 2007, the Hong Kong Special Administrative Region’s Chief Executive Mr. Donald Tsang proposed for the first time in his campaign platform that Hong Kong should develop a strategic cooperation partnership with Shenzhen to establish a world-class metropolis between them. In March 2007, Mr. Li Hongzhong, Secretary of Shenzhen Municipal Committee of the CPC, made a favourable comment on such proposal during the National People’s Congress and the Chinese People’s Political Consultative Conference. Mr. Xu Zongheng, Mayor of Shenzhen, also made some favourable remarks to the media after the conclusion of

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1 In his interview with Xinhua Net on 7 March 2007, Mr. Li Hungzhong said “I particularly noticed that Mr. Donald Tsang included a proposal in his campaign platform that Hong Kong should join hands with Shenzhen to establish a world-class metropolis. I find this a shrewd idea of the Hong Kong Special Administrative Region and the visionary minds in Hong Kong society. This is also an intrinsic trend that occurs and manifests itself objectively. If you follow this trend and get involved in driving the way forward, it will be beneficial for the development of both Hong Kong and Shenzhen. My view is that Shenzhen shall accept the radiance of Hong Kong, learn from Hong Kong and serve Hong Kong. Hong Kong’s position is irreplaceable. Yet, the two cities can complement each other to realize a “win-win” situation.”
the National People’s Congress and the Chinese People’s Political Consultative Conference in late March.\textsuperscript{2}

Indeed, as early as August 2006, in the first “Shenzhen-Hong Kong Cooperation Forum” held jointly by the China Development Institute (Shenzhen, China) \textit{(綜合開發研究院（中國·深圳）)}, the Shenzhen Special Economic Zone Research Association \textit{(深圳市經濟特區研究會)} and the Central Policy Unit of the Hong Kong Special Administrative Region, Mr. Lau Siu-kai, Head of the Central Policy Unit of the Hong Kong Special Administrative Region, proposed that Hong Kong and Shenzhen should join hands to build a “super city”, which inspired the concept of an “International Metropolis”.\textsuperscript{3} Hence, although the concept of the joint establishment of an international metropolis between Hong Kong and Shenzhen has not been mentioned in any official document of the Hong Kong government, there is increasing understanding among the governments and the people of the two cities.

To a very large extent, to meet the challenges of economic globalisation and regional economic integration, as well as to further promote economic integration between Hong Kong and Shenzhen, the establishment of a Hong Kong-Shenzhen Metropolis with global competitiveness is both necessary and feasible, and is gradually becoming a consensus among the government, enterprises and society of the two cities.\textsuperscript{4}

\textsuperscript{2} In the press conference of the third meeting of the Fourth People’s Congress of Shenzhen held on 27 March 2007, Mr. Xu Zongheng said “I particularly notice that Mr. Donald Tsang earlier mentioned a proposal on the establishment of a strategic partnership between Hong Kong and Shenzhen and a strategic concept for the two places to build a world-class metropolis. This has indeed for a long time been a strong desire of Shenzhen. In some relevant studies, including some non-official documents of Shenzhen, we have already expressed such a wish. Therefore, I am most pleased that Mr. Donald Tsang is proposing the same idea. It is our strong and sincere wish that the two places can join hands to accomplish this objective!”

\textsuperscript{3} Mr. Lau Siukai said in his speech to the forum, “If Hong Kong and Shenzhen are combined, not only will they lead the nation in terms of economic scale, but they will also be equipped with all-round functions and comprehensive facilities that present unique advantages on both domestic and overseas fronts. Looking forward to 2020, if the two places are integrated as the leading Asian international metropolis closely linked to the hinterland of the Mainland and overseas markets, their GDP, per capita GDP, import and export trading, as well as export of services will join the league of the world’s major metropolises and will be comparable to Greater New York in North America and Greater London in Western Europe.”

\textsuperscript{4} Certainly, during our interviews, quite a number of interviewees in Hong Kong had reservations. For details, please see the 5th topical report, “Report on Interviews with Hong Kong Enterprises”.
II. Study Objective: Promote the relatively free flow of key resources as the first step to building a Hong Kong-Shenzhen Metropolis

To a very large extent, Hong Kong and Shenzhen have already or nearly attained the standard of an international metropolis in various aspects. In respect of economic size, the combined GDP of Hong Kong and Shenzhen was US$259 billion in 2006, ranking amongst the world’s top international metropolises, behind Tokyo, New York and London. With regard to the size of the city, the two cities occupy a combined area of over 3,000 square kilometres and have a combined population of over 20 million, surpassing both Tokyo and London. In terms of competitive edge, Hong Kong is a recognised regional and international financial centre and has a well-developed service sector, while Shenzhen is a world-class manufacturing centre for many products. Regarding transportation, the terminals in Hong Kong and the ports in Shenzhen rank among the top container ports in the world; Hong Kong has the busiest airport in the world in terms of cargo tonnage, while the number of passengers using the airports in Hong Kong and Shenzhen also rank among the top ten in the world. Based on the above, it is believed that Hong Kong and Shenzhen have all the right conditions to develop into a highly competitive international metropolis through further integration.

On the other hand, we must be well aware that the establishment of a Hong Kong-Shenzhen Metropolis is a very long and challenging process. For the Hong Kong-Shenzhen Metropolis, one of the basic pre-requisites is achieving the relatively free flow of key resources for production and daily life. Under market forces, the two cities have been going through further integration in respect of the flow of capital, people, goods and information. There have been increasingly frequent and in-depth exchanges and resources sharing in the areas of consumption, property investment, employment, education, medical services, communications and transportation. However, from the perspective of establishing a Hong Kong-Shenzhen Metropolis, there is a long way to go from the status quo and trends of integration to achieving the potential of the synergies between the two cities to realise the desired roadmap. The level of synergies and cooperation between Hong Kong and Shenzhen is far from satisfactory. There is a lack of

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5 For example, during our interviews, it was discovered that some Hong Kong enterprises were not that optimistic about the idea.

6 It must be pointed out that this refers to the relatively free flow, but not the absolutely free flow of resources, the detailed analysis of which will be set out in Section 5 of this report.
coordination in the institutional arrangements between the two cities in urban planning, infrastructure construction, frontier area development, two-way free flow of key production resources, and steering of industry competition and cooperation. As a result, the complementary functions of the two economies cannot be exploited to the fullest or reasonable extent and enterprises and residents of Hong Kong and Shenzhen are unable to take full advantage of the potential business, residential and livelihood benefits of the two cities, either severally or jointly, as they could if they were integrated.

The overall objective of this study is to explore how the Hong Kong and Shenzhen governments can, in response to market demand, minimise institutional obstacles in order to speed up the two-way flow of goods, people, capital and information between the two cities (particularly as to how residents and enterprises in Shenzhen can more easily access the services available in Hong Kong) under the framework of “One Country, Two Systems” and the World Trade Organisation (“WTO”). This study will seek to put forward recommendations for the two governments to reduce obstacles at the institutional and policy levels concerning the economic and livelihood aspects of the two cities without compromising the independence and uniqueness of either one; and to enhance, by way of integration, the strengths and competitive edge of the two cities, both severally and jointly, in the national and international economies. In particular, this study has three specific objectives: 1) from a win-win perspective, conduct joint planning and construction of boundary-crossing infrastructure hardware; 2) under the fundamental framework of “One Country, Two Systems”, reduce institutional obstacles to realise two-way relatively free flow of key economic and social resources, i.e. relatively satisfactory for the flow of key resources between the two cities; and 3) conduct an assessment of the economic forecast of a Hong Kong-Shenzhen Metropolis, and a concise comparative study on the strengths and weaknesses of a Hong Kong-Shenzhen Metropolis relative to Mainland metropolises, including Guangzhou (and Foshan), Shanghai, Beijing-Tianjin, and overseas metropolises, including New York, London and Tokyo, as well as an analysis of the economic impact and the prospective role of a Hong Kong-Shenzhen Metropolis in the Pan-Pearl River Delta, in China and in the world. At the same time, this study will also give due consideration to the independence and uniqueness of the various social and economic strata of Hong Kong and Shenzhen under the “One Country, Two Systems” arrangement, because the process of integration concerns the cooperation relationship between two adjoining cities where there are two social systems and two tariff zones in
one country, which means that such cooperation would need to take place subject to compliance with WTO rules.

This report will be presented in the following order: Background and Evolution of the Hong Kong-Shenzhen Metropolis Concept; Analysis of Past and Current Cooperation between Hong Kong and Shenzhen; the Effect and Influence of a Hong Kong-Shenzhen Metropolis on the Economic Development of China and the World (Comparisons Against Mainland and Overseas Metropolises); Assessment of the Economic Impact of a Hong Kong-Shenzhen Metropolis; Promoting the Relatively Free Flow of Key Resources between Hong Kong and Shenzhen (Status Quo and Differential Analysis of the Flow of Key Resources and Policy Design for Promoting the Relatively Free Flow of Key Resources); Breakthrough and Policy Recommendations for Building a Hong Kong-Shenzhen Metropolis.
Chapter 1: Background and Evolution of the Hong Kong-Shenzhen Metropolis Concept

I. Various Proposals on the Relationship between Hong Kong and Shenzhen

1. Various Descriptions of the Relationship between Hong Kong and Shenzhen: Cooperation, Interface and Integration

Prior to the handover in 1997, mainland studies on the relationship between Hong Kong and Shenzhen reached a climax. In the “Shenzhen-Hong Kong and Guangdong-Hong Kong Economic Interface Seminar” held in June 1994, experts and academics from Guangzhou, Shenzhen and Hong Kong discussed whether the economic relationship between Shenzhen and Hong Kong (Guangdong and Hong Kong) should be one of cooperation, interface or integration. There was a view that economic cooperation represents a low level relationship and reflects regional collaboration on the allocation of production resources; interface is a medium level relationship and refers to collaboration in respect of mechanisms of economic operations; while integration is the highest level relationship of being closely linked to and dependent on each other and refers to the achievement of economic union.

The three concepts of “cooperation”, “interface” and “integration” are the key words

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7 In 1994, the Shenzhen Social Science Research Centre (深圳市社科研究中心) (the predecessor of the Shenzhen Social Science Academy (深圳市社會科學院)) and other institutions jointly organised a year-long academic programme called “Writing Competition of 97 Shenzhen-Hong Kong Interface” and a seminar in Hong Kong called “97 Shenzhen-Hong Kong Interface” in order to celebrate the handover and to promote the development of a socialist market economy in Shenzhen and the further development of Shenzhen into an international city. In October 1995, Mr. Li Zibin, then the Mayor of Shenzhen, directed relevant departments under the Shenzhen government to join forces to complete a high-quality proposal on the Shenzhen-Hong Kong economic interface within a short period of time and instructed the Shenzhen Municipal Committee of CPC Research Unit (深圳市委研究室) and the Office of Staff, Shenzhen Government (深圳市政府辦公廳) to submit proposal A, and the China Development Institute (Shenzhen, China) (綜合開發研究院(中國深圳)) to submit proposal B. In 1996, proposal B was published in the book entitled “Shenzhen-Hong Kong Interface for Mutual Prosperity (深港銜接 共創繁榮)” edited by Mr. Ma Hong (馬洪). At the time, Hong Kong made no response to the various proposals from the Mainland on the mode of collaboration between Hong Kong and Shenzhen. After the handover in 1997, academics in Shenzhen still looked forward to the responses from Hong Kong. However, prior to 2003, the mindset of the Hong Kong government remained the same as before the handover and cooperation with the Mainland was still a very politically sensitive topic in Hong Kong.

8 Feng Xiaoyun and Qiu Bin, “Overview on the Shenzhen-Hong Kong and Guangdong-Hong Kong Economic Interface Seminar (深港、粵港經濟銜接研討會綜述)” in “97 Shenzhen-Hong Kong Interface Studies (九七深港銜接研究)”, edited by Shenzhen-Hong Kong Interface Studies Editorial (深港銜接研究編委會), Guangzhou Press (廣州出版社) (1994)
used to describe the relationship between Hong Kong and Shenzhen. To a certain extent, these three concepts appear to be in a progressive order. However, it is not a simple linear relationship, but a co-existing complex relationship. In other words, the three concepts co-exist in a particular period of time.

“Cooperation” is the most frequently used. It is a “politically correct” term free from any deviation or dispute in meaning. However, it is rather imprecise, and does not suffice to illustrate the special relationship between Hong Kong and Shenzhen. If the relationship between Hong Kong and Shenzhen is a cooperation relationship, so is that between Beijing and Hong Kong, and that between Shanghai and Hong Kong. In this case, the “cooperation” between Hong Kong and Shenzhen is merely the same as that between Hong Kong and elsewhere in the Mainland. Thus, the unique geographical relationship and special economic relationship between Shenzhen and Hong Kong are ignored.

As for the term “interface”, it has been subject to disputes. In the foreword to “Shenzhen-Hong Kong Interface for Mutual Prosperity (深港銜接 共創繁榮)”, even the book’s chief editor Ma Hong (馬洪) took a cautious stance on “interface”. He said this concept “can more accurately reflect the features of economic collaboration between Shenzhen and Hong Kong and their coordinated development under the premise of the “One Country, Two Systems” arrangement; can more accurately manifest the various aspects of the current and future economic collaboration between the Mainland and Hong Kong, between Guangdong and Hong Kong, and between Shenzhen and Hong Kong; and can manifest the geographic feature that Shenzhen and Hong Kong are adjacent to each other”. “At the same time”, he suggested that, “more discussions should be conducted and an improved subsequent concept, if any, should be adopted.” Mr. Song Ding, who was involved at that time in research studies on “Hong Kong-Shenzhen Interface”, still believes “interface” is “a popular term that can clearly describe the special relationship between Hong Kong and Shenzhen and the special status of this relationship”. In the following

9 Ma Hong (馬洪), “Shenzhen-Hong Kong Economic Interface for Mutual Prosperity (深港經濟銜接 共創兩地繁榮)” in “Shenzhen-Hong Kong Interface for Mutual Prosperity (深港銜接 共創繁榮)”, Nankai University Press (南開大學出版社) (1996)

10 Mr. Song Ding believes that “interface” is “determined by the special characteristic that Shenzhen is the only Mainland city adjacent to Hong Kong” and the substance of interface between Guangdong and Hong Kong remains to be the “interface between Shenzhen and Hong Kong”, since the actual work on interface between the Guangdong province and Hong Kong is carried out in Shenzhen, the city adjacent to Hong Kong. “Cooperation is not necessarily equal to interface, but interface is certainly a form of cooperation.” “Interface begins with geographical interface, and then the interface in respect of infrastructure facilities, crossing points, transportation, communications, industries and operating mechanisms of the cities.” (Song, Ding ”Studies on the Shenzhen-Hong Kong Union (深港共同體研究)”, Guangdong
years, the term “Hong Kong-Shenzhen Interface” was seldom mentioned or used, but the actual process of “interface” between Hong Kong and Shenzhen has not only never stopped, but was substantially strengthened, particularly in respect of hardware such as, among others, infrastructure facilities, crossing points and transportation. Just as Mr. Song Ding said, “the actual work on interface between Guangdong Province and Hong Kong is carried out in Shenzhen, the city adjacent to Hong Kong.” The cooperation on crossing points between Guangdong and Hong Kong under the framework of the Hong Kong/Guangdong Cooperation Joint Conference is to a large extent the cooperation on the crossing points between Hong Kong and Shenzhen.

Like “interface”, “integration” is also seldom mentioned or used, but for different reasons. As far as the history and current status of cooperation between Hong Kong and Shenzhen is concerned, it is too early to mention “integration”. Even at present, the GDP of Shenzhen is only one third that of Hong Kong. Yet, this is not the most critical issue. It is the different systems of the two cities that substantially constrict the process of integration. The issues that have to be addressed and resolved in the process of “integration” between Hong Kong and Shenzhen include: the political arrangement of “One Country, Two Systems”; the different legal systems, customs and existence of boundaries; Hong Kong’s relatively high degree of economic autonomy at the national and international levels as against Shenzhen’s autonomy as a city with independently planning power in Guangdong Province only. Some academics have proposed the establishment of a free trade zone or common market as the route for Hong Kong-Shenzhen integration. However, Hong Kong-Shenzhen “integration” should not only be concerned with the economic aspect, but also the social and political aspects. Politics is the most important economics. If issues relating to the political and social systems cannot be resolved, the impact of economic and market forces on Hong Kong-Shenzhen “integration” will be limited. As a vision, Hong Kong-Shenzhen “integration” is mutually necessary for the social and economic development of the two cities. In practice, “integration” is a long-term process that requires market, administrative and social forces to jointly move forward.

Nevertheless, from Hong Kong’s perspective, many people consider integration to be the same as assimilation and have considerable reservations about the “assimilation” of Hong Kong and Shenzhen. In this study, many interviewees in Hong Kong consider that it

People’s Press (广东人民出版社) (2000)
is impossible to integrate Hong Kong and Shenzhen into one city, either politically or administratively, since integration of the two cities in the real sense is not feasible under the “One Country, Two Systems” arrangement. Even after the “One Country, Two Systems” arrangement expires in 2047, Hong Kong will still not accept the administrative governance model of Mainland cities. Shenzhen is eager to become a provincial-level municipality directly under the central government, but so far has not been granted approval by the central government. As such, Shenzhen is unlikely to be willing to integrate with Hong Kong. If Shenzhen, currently a quasi-provincial city, becomes a provincial-level municipality, then it will be of the same ranking as Hong Kong, and it will see itself as a competitor, rather than a cooperation partner, of Hong Kong. There are many pairs of adjacent cities worldwide, of which some belong to the same country, while others belong to different countries. None of them can be directly compared to Hong Kong and Shenzhen. Some cases show that even if the two cities belong to the same country, it can be difficult for them to assimilate due to their differences in historical and cultural backgrounds. For example, Ottawa and Hull are both Canadian cities and are divided only by a river. However, given that the two cities each have their own separate administrations, history and culture, assimilation is out of the question. Each of them has its own agenda in development planning and is unwilling to give up its own autonomy and tradition. This is similar to the situation of Hong Kong and Shenzhen. In the current state, Hong Kong and Shenzhen can only seek to further improve the flow of key resources between them, and study how to enhance the current status for the flow of key resources between the two cities. They should not in any way aim at achieving “assimilation”. More importantly, no attempt should be made to undermine the “One Country, Two Systems” arrangement.

2. Further Study on the Relationship between Hong Kong and Shenzhen: “One Metropolis, Two Regions”, “Twin Cities”, “Economic Union”

In the late 1990s and into the 2000s, there was a lot of discussion on the relationship between Hong Kong and Shenzhen. Despite their different points of view, their underlying reasoning has remained within the boundaries of the three frameworks: cooperation, interface and integration.

Various proposals such as “One Metropolis, Two Regions”, “One Metropolis, Two Cities”, “One City, Two Towns” focus on the description of the Hong Kong-Shenzhen
cooperation. Mr. Le Zheng’s analysis on “One Metropolis, Two Cities” and “One Metropolis, Two Regions” is that: “Hong Kong and Shenzhen should adjust their economic relationship under three objectives, namely, for the benefit of mutual economic prosperity of the two cities, for the benefit of the overall economic development of China, and for the benefit of the stability of the livelihood of the two cities. Under the political framework of “One Country, Two Systems”, the two cities should establish “One Metropolis, Two Cities” as the economic nucleus to facilitate their closer and more extensive cooperation to realize bundled development.” The proposal on “One Metropolis, Two Regions” recognises that Hong Kong and Shenzhen have different attributes as two special administrative zones of China. By way of a Hong Kong-Shenzhen Metropolitan Economic Circle, the purpose is to strengthen the economic integration of the two cities to extend the reach of Hong Kong’s urban space to the Shenzhen Special Economic Zone, and to extend its industrial chain, market and living circle to Dongguan and Huizhou, so as to create a more international megalopolis that spans 16,000 square kilometres in the Eastern Pearl River Delta.

“Shenzhen-Hong Kong Twin Cities”, “North-South Cities” and “Sister Cities” focus on the description of the Hong Kong-Shenzhen interface. This interface concerns mainly economic and social life in the broad sense, and mainly hardware such as infrastructure facilities, crossing points and transportation in concrete substance. Interface in software systems, such as the economic operating mechanism, administrative system and legal framework, is not yet covered. American Chinese Mr. Huang Zhaoman (黃照滿), an advocate of “Twin Cities”, stresses the seamless time and space of the Hong Kong-Shenzhen Twin Cities, with the focus on “how to make use of laser-sensor inspections to enable boundary crossings within seconds and to make use of airbus-like helicopters or cable cars to shorten the travel time between the two cities to around ten minutes” in order to turn Shenzhen and Hong Kong into “twin cities with seamless time and space”. Certainly, descriptions like “twin cities” are not limited to the hardware

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13 Huang, Zhaoman (黃照滿), “Establishment of the Post-1997 Shenzhen-Hong Kong Twin Cities with Seamless Time and Space (建立“九七”後深港時空架構的雙子城)” in “Studies on the Interface of Shenzhen and Hong Kong after..."
interface between Hong Kong and Shenzhen.

“Shenzhen-Hong Kong (economic) union” and “Shenzhen-Hong Kong common market” focus more on the description of the Hong Kong-Shenzhen integration. According to Mr. Wei Dazhi (魏達志), there are a total of 6 types of regional economic integration that have ever existed or expected to exist in the international community: single product common market, free trade zone, trade union, common market, economic union, and full-scale economic union (such as the European Union). To further develop the collaboration relationship between Hong Kong and Shenzhen, a leap-frog approach can be adopted to start directly at the fourth type, that is a common market, to achieve the free flow of goods, capital, labour and services. This proposal is relatively controversial however. Mr. Zhong Jian considers that this “mode of integration” only focuses on the economic complementarity between Hong Kong and Shenzhen, and ignores the differences between their political, social and economic systems; and therefore it is neither viable nor appropriate.

3. Vision for the Hong Kong-Shenzhen Relationship: from “Shenzhen-Hong Kong Bay Area” to Hong Kong-Shenzhen Metropolis

In addition to the above, the proposal of a “Shenzhen-Hong Kong Bay Area” by Professor Woo Chia-wei is also worth attention. In March 1998, Mr. Woo Chia-wei, the President of the Hong Kong University of Science and Technology, raised the proposal of a “Shenzhen-Hong Kong Bay Area” during the National People’s Congress and the Chinese People’s Political Consultative Conference in Beijing. In June 1998, he mentioned this new concept again at the Fifth Senior Advisers’ Meeting of the Shenzhen municipal government. He said,

1997 (“九七”深港銜接研究”), edited by the editorial board, Guangzhou Press (廣州出版社) (1994)

More accurately, this should be “Shenzhen-Hong Kong economic union”, according to a special remark by Mr. Li Youwei, former secretary of the Shenzhen Municipal CPC Committee, in an internal meeting in January 2007. The reason is that under the state policy of “One Country, Two Systems” and the Hong Kong Basic Law, Hong Kong and Shenzhen may only pursue economic integration; and that it is inappropriate and improper to refer to “assimilation” in the broad sense, as it covers political and social integration as well. This remarks by Mr. Li Youwei should also be the main concern in Hong Kong.

2003, Issue 03)

Wei, Dazhi, “Shenzhen-Hong Kong Relationship under Integration – From 24-hour Boundary Crossings to Prospects for the Cooperation between Shenzhen and Hong Kong (一體化視野下的深港關係——由24小時通關對深港合作前景的展望)”, in “SEZ Economy” (2003, Issue 03)

“Setting off from the Hong Kong Special Administrative Region to go north to Shenzhen, crossing the checking point to visit the Baoan District, then passing by the Huangtian Airport to go into Dongguan; turning west to pass the Humen Bridge to set foot on Nansha, the southern tip of Panyu; heading south to go to Zhongshan and then to Zhuhai and Macau; and finally returning back to the Hong Kong Special Administrative Region in the East by ferry. This one-day trip revolves around the southern part of the Pearl River Delta, which I called the “Hong Kong Bay Area” in the past few years. Twenty years later, people would call this the “Shenzhen-Hong Kong Bay Area”. Just like many places in the world, the original separate cities slowly join together to become one and our metropolis here will be called “Shenzhen-Hong Kong”. Shenzhen’s current population has already reached 4,000,000. People in Hong Kong are surprised and delighted to see its speedy urban development and continued surging economic growth. The gap in living standards between Shenzhen and Hong Kong will for sure narrow down. Although the two cities have different political and administrative systems under the “One Country, Two Systems” arrangement, they will certainly integrate very quickly in other aspects. This is the law of nature. My description of the Hong Kong Bay Area as “a scenic cultural place with nice environment, an education centre, a pioneer of technology, a financial heartland, an operating hub, and an advanced services and manufacturing base” will also naturally become the positioning of the “Shenzhen-Hong Kong Bay Area”. By that time, Shenzhen-Hong Kong in South China, together with Beijing-Tianjin in North China and Shanghai in East China, will become China’s three major metropolises of the 21st century.\(^\text{17}\)

\begin{center}
\textbf{Blueprint for the Shenzhen-Hong Kong Bay Area}
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In September 2000, in a speech at the Shenzhen Wuzhou Guest House, Professor Woo Chia-wei predicted that the Pearl River Delta would become the second San Francisco Bay Area within 40 years. He pointed out that: compared with the San Francisco Bay Area, Hong Kong has a competitive edge in respect of culture, financial services and transportation, while Shenzhen has a competitive edge in high technology. The two cities both lie at the geographical periphery of the country. Worldwide, a large proportion of major cities are located in geographical peripheral areas. As a result, places located in peripheral areas very easily become economic centres, and we must get rid of the mindset that we are being put on the periphery. The “Shenzhen-Hong Kong Bay Area” must pursue comprehensive development in, among others, technology, culture, education, financial services, information and transportation sectors in order to create a high quality technology-based bay area with great living conditions and travel attractions in a superb natural setting.18

While Professor Woo Chia-wei’s concept of a “Shenzhen-Hong Kong Bay Area” is from the point of view of the technology cooperation between the two cities, his proposal actually is not just confined to technology, but is a prototype of the Hong Kong-Shenzhen Metropolis.

“Hong Kong-Shenzhen International Metropolis”, “Hong Kong-Shenzhen World-class Metropolis” and “Hong Kong-Shenzhen Metropolitan Circle”, as well as Hong Kong-Shenzhen Metropolis, which is the proposal of this study, are all further, as well as upgraded, versions of the above concept. The history of Hong Kong-Shenzhen relationship will not evolve along a linear scale from “cooperation” to “interface” and then “integration”. Hence, it is not meaningful to be bound by these definitions. On this basis, the “metropolis” proposal is an out-of-the-box idea. It not only concerns the status quo of the Hong Kong-Shenzhen relationship, but also the future of this relationship and the common goal of the two cities. It not only addresses the barriers and obstacles facing the Hong Kong-Shenzhen relationship, but also focuses on bringing out a powerful driving force from this special relationship for the sustainable economic and social development of the two cities.

18 “Hong Kong Commercial Daily”, 20060421
II. Substance and Characteristics of the Hong Kong-Shenzhen Metropolis

1. Theories and Practices of Metropolises

In the popular sense, a city or municipality is an administrative system between state (province) and county. There are different terms to describe cities which emphasize different aspects due to different points of view.

From the point of view of geography, some researchers have come up with the concepts of “conurbation”, “metropolitan area”, “metropolis/megalopolis”, “extended metropolitan area”, “urban region”, “city region” and “integrated mega-urban region”, etc. These terms have different definitions. Yet, one thing in common is that they all describe a mega city or metropolis formed through a process of organic growth that integrates in substance and at the operating level a number of small or big cities of the same country and the same system.

In particular, “metropolitan area” is also called metropolis and refers to a collection of cities that radiate from a bigger city as the nucleus. A metropolitan area is normally not an administrative system, but closely related to employment and commuting time. As such, some metropolitan areas are called “commuting metropolitan areas”. Yet, metropolitan areas can also become sub-administrative regions by way of legislation or covenant.

“Megalopolis”, also called “urban belt”, “urban cluster” or “urban agglomeration”, refers to a collection of small and medium cities with one or more city as the nucleus that maintains close economic ties with other cites in the collection, and covers the sprawls among these cities, including villages. Like metropolitan areas, a megalopolis is not an administrative system. These two concepts have a lot of things in common with “metropolis”.

From the point of view of scale and influence of a city (municipality), there are “world cities”, “global cities”, “mega-cities”, “primate cities” “international cities”, “regional cities” and “central cities” etc. For example, Hong Kong’s positioning is Asia’s World City, while Guangdong Province is positioning Shenzhen as “an international city with Chinese characteristics, Chinese style and Chinese elegance”. 19 Although the

19 In his report to the 10th Communist Party Congress in Guangdong on 21 May 2007, Mr. Zhang Dejiang, the Guangdong Provincial Party Secretary, said that “Shenzhen has to develop itself into an international city with Chinese characteristics, Chinese style and Chinese elegance” with the objective to become, as part of Guangdong, “a modern
definitions of these concepts differ, they share a common feature in that they are more and more concerned about the functions, standing and influence of the “city (municipality)” in the worldwide economy.

From the point of view of distribution, most of the internationally renowned metropolitan areas and metropolitan circles are located in economically developed countries and regions, such as Japan, Europe and the United States. In the United States, the five boroughs of New York City and the 26 counties in New York, New Jersey and Connecticut are traditionally referred to as the New York Metropolitan Area. Covering an area of approximately 32,400 square kilometres and with a population of 18,000,000, it is one of the world’s largest metropolitan areas. In the United States, a metropolitan area is not an administrative system but instead more often regarded as a metropolitan statistical area.

Another famous metropolitan area in the United States is the San Francisco Bay Area, or the Bay Area for short. As a giant metropolitan area in northern California, it spans 19,166 square kilometres and has a population of around 7,000,000. The San Francisco Bay Area covers 9 counties and 101 cities, the biggest three of which are San Francisco, Oakland and San Jose, which have between them three international airports and two international ports. Unlike typical metropolitan areas in the United States, the San Francisco Bay Area has the Association of Bay Area Governments, which is a covenant organisation established in 1961 to operate as an official comprehensive regional planning agency with the mission to strengthen cooperation and coordination among local governments. The association is also engaged in the implementation of certain cross-district cooperation plans (such as road planning for the Bay Area). Hence, the San Francisco Bay Area has some attributes of an administrative region.

Greater London is the largest metropolitan area in the United Kingdom, and comprises the City of London and 32 boroughs, among which, the City of London enjoys a higher status with independent jurisdiction over its administrative and legislative affairs. Greater London is an administrative region established by the British government to consolidate residential and environmental planning, as well as transportation network

One should be aware that this is not a newly defined position for Shenzhen, but only a reiteration and emphasis of Shenzhen’s goal to develop itself into “an international city with Chinese characteristics, Chinese style and Chinese elegance”, which was mentioned as early as the 1990s.
development of the region. It has its own legislature, local councils and government departments. The Greater London Council, or GLC, created in 1965 was once the highest authority in the overall planning of London.\footnote{In 1985, the GLC was abolished by the Thatcher government to delegate more authority to the local development board. In late 1980s, the major political power in London rested with the development board and the national government.}

Japan’s Tokyo Metropolis consists of 23 Special Wards, the Tama Area and the islands, with a total area of around 2,162 square kilometers or 0.6% of the territory of Japan. Its population amounts to approximately 11,930,000 or 9.8% of Japan’s overall population. The Tokyo Metropolis occupies a predominant position in the political, economic and social life of Japan and exerts enormous influence on the development of the global economy.

2. Characteristics and Substance of the Hong Kong-Shenzhen Metropolis

Based on the above analysis of metropolitan areas and metropolitan circles, we find the following areas that are worthy of note:

Firstly, metropolitan areas and metropolitan circles as metropolitan statistical areas. Metropolitan areas are normally not a form of administrative entity, but more often regarded as a metropolitan statistical area, such as the New York Metropolitan Area.

Secondly, metropolitan areas and metropolitan circles as local associations of governments, such as the San Francisco Bay Area.

Thirdly, some metropolitan areas and metropolitan circles as administrative regions, such as Greater London prior to 1985.

Compared with the above metropolises, the Hong Kong-Shenzhen Metropolis would have some common characteristics and some special ones, and would have its own unique competitive advantages as well as some special obstacles that would have to be overcome. Specifically, the Hong Kong-Shenzhen Metropolis would have the following characteristics:

Firstly, the city characteristic of Hong Kong-Shenzhen Metropolis. The Hong Kong-Shenzhen Metropolis would comprise Hong Kong and Shenzhen, two cities adjacent to each other. It would not involve too many hinterland factors. On this count, it would be very similar to the San Francisco Bay Area as an association of local governments. The
Hong Kong-Shenzhen Metropolis would be neither an administrative entity, nor a metropolitan area in the administrative sense.

Secondly, the regional characteristic of the Hong Kong-Shenzhen Metropolis. Although the Hong Kong-Shenzhen Metropolis would not involve a lot of hinterland factors, it would feature regional cooperation and the openness of regional cooperation. No metropolis can exist separately or grow on its own. Every metropolis has its own metropolitan nucleus, metropolitan area, metropolitan belt and metropolitan circle. In the case of the Hong Kong-Shenzhen Metropolis, Hong Kong and Shenzhen would be the “double nuclei” of the metropolitan circle, with Hong Kong being the more major one. On a broader scale, the Hong Kong and Macau Special Administrative Regions and the Shenzhen and Zhuhai Special Economic Zones would constitute the metropolitan area at the estuary of the Pearl River, with Hong Kong and Shenzhen as its “double engines”. The Pearl River Delta and the Pan-Pearl River Delta would be the metropolitan belt and metropolitan circle of the Hong Kong-Shenzhen Metropolis. The openness of the Hong Kong-Shenzhen Metropolis would be manifested in its non-exclusion of the formation of a Hong Kong-Zhuhai, Hong Kong-Macau or even Hong Kong-Guangzhou metropolitan area. The Hong Kong-Shenzhen Metropolis is intended to be only the first step to the establishment of a larger scale metropolitan area. From the perspective of regional cooperation, the Hong Kong-Shenzhen Metropolis would have to a certain extent the attributes of a metropolitan statistical area.

Thirdly, the cross-boundary characteristic of the Hong Kong-Shenzhen Metropolis. The Hong Kong-Shenzhen Metropolis would not be merely an initiative of city-to-city cooperation in the ordinary sense. Hong Kong and Shenzhen are two different tariff zones, and Hong Kong is even a separate tariff zone at the international level. Each of them has its own boundary, crossing points and customs. Besides, there are differences in their political and legal systems and they need to abide by the “One Country, Two Systems” principle. Hence, the Hong Kong-Shenzhen Metropolis would be a kind of cross-boundary cooperation similar to that of the “European Union”, the city-to-city cooperation between Santiago and Tijuana on the US-Mexican boundary, and the SIJORI Growth Triangle (the cooperation among Singapore, Indonesia and Malaysia). As such, the Hong Kong-Shenzhen Metropolis is likely to face more complex challenges.

Fourthly, the institutional characteristic of the Hong Kong-Shenzhen Metropolis. This would also be one of the unique characteristics of the Hong Kong-Shenzhen Metropolis.
Hong Kong and Shenzhen have different social and legal systems as well as jurisdiction frameworks. Hence, the Hong Kong-Shenzhen Metropolis would have to deal with these institutional differences. Some researchers have pointed out that “There is little historical precedent for the amalgamation of an advanced economy with a developing economy, and what the arrangements would be.” An effective channel is needed to properly address this issue, which is exactly the focus and objective of this study.

Fifthly, the Hong Kong-Shenzhen Metropolis characteristic of “not being fully organic growth by nature”. While both cities are part of China, Hong Kong and Shenzhen have substantial differences in the history, current status and future prospects of their development, and in their legal and social systems, economic directions and decision-making models. Hong Kong-Shenzhen cooperation was initially mainly led by market forces, and was thus “organic” in this respect. However, Hong Kong-Shenzhen cooperation is different from the “organic formation” of other metropolises, in that there are many constraints on the flow of key resources. In the foreseeable future, Hong Kong and Shenzhen will be unlikely to integrate as one in substance through “organic formation” even if the two places can work seamlessly together; they will continue to be two separate entities, two growth poles, two different systems and two cities administered by independent governments. It is difficult for the two cities to integrate into a classic seamless metropolis. Their economic integration has never been and never will be fully “organic” in nature. Relaxation in government regulation in line with market demand is needed to facilitate the free flow of key resources between the two cities, and due recognition of this feature is necessary.

Combining the above features, the substance of a Hong Kong-Shenzhen Metropolis would be:

Premised on the “One Country, Two Systems” arrangements and based on

21 Enright, Michael J., Scott, Edith E. and Dodwell, David, “The Hong Kong Advantage”, Oxford University Press (Hong Kong, 1997)

22 For this reason, some enterprises interviewed by us expressed that they were not optimistic about the establishment of a Hong Kong-Shenzhen Metropolis. They considered that Hong Kong and Shenzhen each have their own characteristics that define their competitive advantages and conditions for development; and that both cities should maintain their own respective characteristics, competitive advantages and independence, particularly so for Hong Kong, whose uniqueness is in its being an international city and thus attractive to foreign investors. Their views were that if the two cities were to integrate together, many foreign investors might lose confidence in Hong Kong because of their negative feelings about the culture of Shenzhen. Hence, they considered that the advantages from excessive integration would be limited and they are concerned that Hong Kong would become an ordinary mainland city as a result. In their opinion, the Hong Kong and Shenzhen governments must strictly abide by the “One Country, Two Systems” in formulating the relevant policies to avoid the two cities losing their directions in future development.
cross-boundary cooperation, a Hong Kong-Shenzhen Metropolis would promote regional cooperation and development through realising relatively free flow of key resources between Hong Kong and Shenzhen, with the aim of becoming an international metropolitan area with the important function of being a leading Asian economic centre, and which enhances the important influential power of China’s economy over the world economy.  

III. The Necessity and Strategic Significance of the Building of a Hong Kong-Shenzhen Metropolis

From the above analysis and characteristics, it can be seen that the establishment of a Hong Kong-Shenzhen Metropolis will face a rather complex situation, rather immense obstacles and rather huge challenges. If this is so, what are the reasons for establishing a Hong Kong-Shenzhen Metropolis? This question clearly must be answered.

1. A Hong Kong-Shenzhen Metropolis is a Matter of Fact

A Hong Kong-Shenzhen Metropolis is not a concept that is being force-fed to Hong Kong and Shenzhen. It is an instinctive judgment of the current status of the Hong Kong-Shenzhen relationship and a generalisation of the pattern of changes in the history of cooperation between the two cities. Solid facts from practices are the basis of all concepts, as well as subsequent policy proposals derived therefrom.

Nearly three decades have passed, and the integration between Hong Kong and Shenzhen has been rapid and extensive on the economic, urban development and livelihood fronts. The gradual economic integration between Hong Kong and Shenzhen and the gradual emergence of a Hong Kong-Shenzhen Metropolis are an undisputable matter of fact. For example, the integration of the livelihood of the two cities has become a common phenomenon in recent years. Currently, as many as 400,000 travellers a day are

However, in an interview conducted in Beijing for the purpose of this study, an academic expressed his doubts about the proposal for a “Hong Kong-Shenzhen Metropolis” and considered that it would be impossible to turn the two cities into a Chinese international metropolis comparable to New York or London. He found the proposal too avant-garde and suggested that a more practical approach should be adopted to make as much progress as possible under the premise of “One Country, Two Systems”. Some people in Hong Kong also suggested that cooperation between Hong Kong and Shenzhen could be pursued on a trial basis project by project, and if any such project turns out to be successful in improving the flow of key resources between the two cities and generating economic benefits to both cities, then its scope of application should be extended to other cities in the Pearl River Delta in order to further promote the economic and social development of the Pearl River Delta.
cleared at the crossing points between Hong Kong and Shenzhen, with Lo Wu being the busiest road checkpoint in the world. Owing to increasingly frequent economic and trading activities between Hong Kong and Shenzhen, more and more people in Hong Kong choose to work or live in Shenzhen. Residents from Hong Kong have bought tens of thousands of houses in Shenzhen and they make up the majority of the population of more and more residential estates there. For Hong Kong people, Shenzhen is a place for holidays, entertainment and shopping. Indeed, some shopping streets and districts are often crowded with Hong Kong people. This shows that the consumer markets of Hong Kong and Shenzhen have already partly integrated. Under the CEPA, the Hong Kong service sector is accelerating the pace in extending its reach to Shenzhen. Currently, Shenzhen is the Mainland city with the largest presence of Hong Kong banks. Along with the increase in economic activities between the two cities, there has been remarkable acceleration in the progress of their cooperation in respect of the development of infrastructure facilities and cross-boundary transportation. This is a reality, as well as a development trend. The breadth and depth of the economic cooperation and livelihood integration between Hong Kong and Shenzhen is unprecedented and unlikely to occur elsewhere in China. Despite the different systems of these two adjacent cities, their economic integration is gradually taking place to pave the way for a common market, a very unique metropolis under the “One Country, Two Systems” arrangement.

Hence, a Hong Kong-Shenzhen Metropolis is, to a certain extent, recognition of the current status of the relationship between Hong Kong and Shenzhen, even though it is merely at a rudimentary stage or just a prototype. Recognition of the reality is an instinctive judgment, as well as the basic condition for the strategic significance of a Hong Kong-Shenzhen Metropolis.

24 Some interviewees in Hong Kong consider that the question is not whether or not Hong Kong and Shenzhen should cooperate, but how to integrate, how to speed up the pace of progress and how to direct the two cities to push ahead in the same direction, and that some minor issues should be ignored in order to achieve a win-win situation for Hong Kong and Shenzhen. In their opinion, Hong Kong should not be concerned only with its own intentions, but should also consider the point of view of Shenzhen to make sure the interests of both sides are catered for. Regarding the political and legal issues that may arise, some can be resolved very easily by the operation of market forces, but some may require arm’s length negotiations between the governments in order to find a middle ground. Some interviewees even suggested that the concept of a Hong Kong-Shenzhen Metropolis should be packaged as a plan for promoting the development of the northwestern New Territories of Hong Kong in line with the geographic features, approach and direction of urban development of Shenzhen in order to avoid the influence of political factors. Their opinion is that the emphasis should be placed on economic benefits and possibilities for job creation to avoid the negative effect of political factors.
2. A Hong Kong-Shenzhen Metropolis is Mutually Necessary

A Hong Kong-Shenzhen Metropolis is a “basic fact” for the further development and promotion of Hong Kong-Shenzhen cooperation, which is based on the mutual needs of the two cities. If a Hong Kong-Shenzhen Metropolis is not necessary for both or either of them, the strategic significance of a Hong Kong-Shenzhen Metropolis is nothing but hot air.

Hong Kong is positioning itself as the top city in Asia, and Shenzhen as an international city of China. Yet, Hong Kong is “not a national, but metropolitan economy”\(^{25}\), and, on its own, can hardly elevate itself to the status of an international metropolis; it needs the support of a hinterland, a cluster of cities, and particularly its neighbouring cities. On its own, Shenzhen will also find it difficult to develop itself into an international city. Lagging behind Hong Kong in its existing industries, economic system and mechanism, as well as social administration, Shenzhen needs various skill sets and experience from Hong Kong. This concerns cooperation not only in the industry chain, but also in respect of the operating mechanism and management standards. On this count, Hong Kong and Shenzhen have mutual needs.

Hong Kong is a tiny place with a high population density, and its space is limited, both for living or industrial development (probably with the exception of the financial industry). Shenzhen also faces bottlenecks in its land, resources and population development. However, if the two cities are to jointly establish a metropolis, it will substantially expand their space for survival and further development. In the case of Hong Kong, what matters is not simply the availability of more geographic space, but more importantly more space for industrial expansion and employment growth resulting from the integration of the resources of the two cities. In the case of Shenzhen, the city can rely on the strengths of Hong Kong to upgrade its industrial, economic and social development and urban administration, so as to leverage its status as a special economic zone to enjoy the first mover advantage in the Mainland for a second time. Besides, the additional space will also lead to more jobs to improve the employment situation in Hong Kong by addressing its problem of structural unemployment of low quality and low pay job seekers and high operating costs for businesses. An energetic city should be able to create more employment opportunities for the low income group, as “a city should need a high income,

\(^{25}\) Enright, Michael J., Scott, Edith E. and Dodwell, David, “*The Hong Kong Advantage*”, Oxford University Press (Hong Kong, 1997)
as well as a low income workforce”.

An improved employment situation and lower economic operating costs will result in stronger competitiveness for Hong Kong in the international market, while Shenzhen can also benefit from the process, realising a win-win situation.

Hong Kong’s existing industrial structure is highly concentrated, with the service sector accounting for the lion’s share and manufacturing only a tiny portion of the GDP. This economic structure is largely unfavourable for the economic development of Hong Kong, even though the city has a long list of competitive advantages. For Hong Kong, the key is how to play on its strengths and play down its weaknesses. Shenzhen’s industrial structure can highly complement that of Hong Kong. Apart from the cost advantage, Shenzhen also enjoys an edge in the research and development of new and advanced technologies, labour cost, and the traditional manufacturing industries, for which Hong Kong has a strong demand. Hong Kong has a rather strong external radiating power to the world market, while Shenzhen has a rather strong internal radiating power to China’s domestic market. As such, the industrial integration between Hong Kong and Shenzhen can help enhance their productivity and international competitiveness and generate more growth drivers to create new economic power for the two cities, which are also their mutual needs.

Compared with the Mainland, one of the most important competitive edges of Hong Kong is its institutional advantages. This is an essential national asset and should not only be preserved, but also further exploited. On this count, Shenzhen should continue to enjoy its first mover advantage to leverage on Hong Kong’s advanced service and trading sectors to improve its competitiveness; leverage on Hong Kong’s well-developed and mature body of internationally-compatible laws and regulations and market mechanism to bring its local practices in line with international standards; gain insights from Hong Kong’s strengths in public administration and experience in initiating behavioural adjustments and improving efficiency in public administration; and tap into Hong Kong’s marketing expertise and experience, as well as its global networks to help Shenzhen enterprises to enhance their marketing planning and extend their global reach. During this process, Hong Kong would also be able to reduce its economic and social costs and achieve sustainable growth.

Foreword to the Chinese translation edition of “The Global City” by Saskia Sassen, the Publishing Unit of Shanghai Academy of Social Sciences (上海社會科學院出版社) (2005)
Hong Kong and Shenzhen need the support of each other. Cooperation will lead to mutual advantages; while competition may lead to mutual disadvantages. Cooperation is the internal driving force for the Hong Kong-Shenzhen Metropolis and, more importantly, a solid base for its strategic significance.

3. A Hong Kong-Shenzhen Metropolis would be the Engine for Regional Development

Over the years, in the Greater Pearl River Delta, Hong Kong has played the role of the link to the global economy and Guangzhou as the economic heartland of South China, forming an economic structure with Hong Kong as the window to the world, and Guangzhou as the leader of the nexus. Shenzhen, as the location of one of the two leading Mainland stock exchanges, has emerged as a key financial centre in China. In contrast, in the past few years, Hong Kong’s role has remarkably diminished as a driving force for the regional economic development of the Greater Pearl River Delta and for the expansion of its hinterland. To a certain extent, Hong Kong’s economic structure is not compatible with the global economic growth model that “engages the manufacturing sector to stimulate technological advancement”. Along with the massive manufacturing relocation over the past two decades or so, technology innovation has basically come to a standstill in Hong Kong. It does not have any high technology sector, which has emerged as a prevalent factor around the world, nor are there any large-scale research and development activities and related investments. In certain sectors, Hong Kong has lost the ability to take the Pearl River Delta to the next level. Hong Kong’s weakness as an economic driving force has a direct impact on its capability in hinterland expansion. Meanwhile, the proposal on the “Pan-Pearl River Delta” (9+2) Cooperation Arrangement has signified the high priority the Pearl River Delta has placed on regional cooperation and hinterland expansion. Nevertheless, so far the Pan-Pearl River Delta continues to be “lacking in substance”.

Part of the strategic significance of a Hong Kong-Shenzhen Metropolis is to restore and enhance the ability of Hong Kong (and Shenzhen) to stimulate the economies of the Pearl River Delta and “Pan-Pearl River Delta” as the engine for regional development. “Hong Kong and Shenzhen should integrate as the “nucleus” of the Pan-Pearl River Delta in order to turn the region into a leading metropolitan area in East Asia and the world.”

From the point of view of economic geography, it is not pragmatic to further develop

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27 This view was expressed by a Beijing expert during an in-depth interview carried out for the purpose of this study.
Shenzhen without considering the Hong Kong factor. The rise of Shenzhen years ago was an extension of the economic power of Hong Kong. Shenzhen should promote but not withdraw from the Hong Kong-Shenzhen economy. Economic integration between the two cities is the only way to turn Hong Kong and Shenzhen into the economic leaders and engines for the Pearl River Delta. On the other hand, integration between Guangzhou and Hong Kong or an alliance between the Pearl River Delta and Hong Kong is mainly about the creation of a metropolitan circle, with Hong Kong and Shenzhen as the major driving forces and starting points. The two cities must find out the best mode of integration in order to achieve a win-win situation to fully exploit the Hong Kong advantage to lead the economic development of the Pearl River Delta and the Pan-Pearl River Delta.

Hence, the establishment of a Hong Kong-Shenzhen Metropolis is not only mutually necessary for the economic development of Hong Kong and Shenzhen, but it is also the cornerstone and an inevitable process for realising the economic integration of the Greater Pearl River Delta. The emergence of a Hong Kong-Shenzhen Metropolis is fundamental for promoting the economic integration of the Greater Pearl River Delta.

4. Building a Hong Kong-Shenzhen Metropolis as a National Strategy

Having established that a Hong Kong-Shenzhen Metropolis is “a matter of fact”, “mutually necessary” and can be “an engine for regional development”, we may move on to investigate its strategic significance for the national strategy in economic development. Indeed, national strategy and international strategy are two sides of the same coin.

Firstly, “charging” towards the goal of becoming a top cosmopolitan region. Since the 1980s, the leading role of cities in regional competition has become increasingly apparent around the world. Driven by the information technology revolution, the progress of economic globalisation and the dominance of multinational companies in the global economy, certain world cities have emerged with direct manipulative power on international affairs and global economic development. These cities have very strong international influence as the centre of gravity in the allocation and aggregation of various international resources and in innovation and value creation. Currently, the few top world cities include only New York, London, Paris and Tokyo. In 1999, the Globalization and World Cities Study Group and Network made an attempt to define and categorise world cities into three levels and 8 sub-ranks. Among the cities of China, Hong Kong has the
highest ranking, and is after Chicago and Frankfurt at the 2nd sub-rank of the first level. Beijing and Shanghai are ranked under the 2nd and 3rd sub-ranks of the third level respectively. From this, it can be seen that Hong Kong has the greatest potential to become a top world city. However, it is very difficult for Hong Kong to achieve this on its own. It must join hands with Shenzhen, as well as other southern cities in the Pearl River Delta, such as Dongguan, Zhuhai and Macau, to establish a city sprawl or a metropolitan circle in order to stand up against New York, London, Paris and Tokyo.

The significance of “charging” towards the goal of becoming a top cosmopolitan region depends on establishing a Hong Kong-Shenzhen Metropolis as an important platform for multinational headquarters of domestic and overseas enterprises. The 21st century is a century of city-driven economies, and cities and metropolitan circles are the bastions against regional competition around the world. The functions of resources consolidation and production management, which are mainly carried out by the service sector, are increasingly concentrated in a few international cities with the strongest integrated competitiveness. “The higher the degree of globalisation of the economy, the more a concentration of central functions in global cities takes place.”28 So, world cities are playing an increasingly unique and important role in the global economy. Concentration of central functions will take place elsewhere if it cannot take place here; and in that case, the opportunity to become the point of concentration will be lost. Establishing a Hong Kong-Shenzhen Metropolis to become the point of concentration of central functions can allow the maximum exploitation of Hong Kong’s function as the access and conduit to the world and Shenzhen’s function as access to the expansive hinterland of the Mainland, which is fundamental to further enhancing the position and influence of the national economy in the world.

Secondly, becoming a key nexus of the Asia-Pacific economy. The first thing to consider in the establishment of a Hong Kong-Shenzhen Metropolis is the positions of Hong Kong and Shenzhen in the overall national economic development strategy, particularly against the backdrop of economic globalisation. This is part of the foundation for establishing a Hong Kong-Shenzhen Metropolis and the first major step in the strategic setting. In respect of their regional strategic positions, Shenzhen and Hong Kong in effect function as the key nexus. In the Asia-Pacific economy, this nexus is a necessary passage.

28 Zhou, Zhenhua, the Translator’s Foreword to the Chinese translation edition of “The Global City”, the Publishing Unit of Shanghai Academy of Social Sciences (上海社會科學院出版社) (2005)
point lying in the middle of the routes to and from Northeast Asia and Southeast Asia. So, a Hong Kong-Shenzhen Metropolis would be the only region in the Mainland with the capability to make the first move in the Asia-Pacific regional economic cooperation. The China-ASEAN Free Trade Zone will come into being in 2010, signifying the birth of a free trade zone with the largest population in the world and a further step forward for China’s economic cooperation with Japan and Korea. So, which city is to the economic centre of Southeast and Northeast Asia? From the point of view of economic integration, Tianjin and Shanghai each have their competitive edge. Yet, Hong Kong and Shenzhen seem to be better placed for the role of key nexus for the economic integration between China and Northeast and Southeast Asia and are able to exercise critical influence, and radiating power in the Asia-Pacific economy.

From the perspective of national strategy, to further enhance its international influence, China’s economy must play an dominant role in its neighbourhood and a influential role in the Asia-Pacific economy. The establishment of a Hong Kong-Shenzhen Metropolis would facilitate China in gaining such impact.

Thirdly, performing the function of enhancing the national economy. China is the fourth largest economic body worldwide, with the fourth highest GDP and the second largest international trading volume in the world. On the other hand, despite its size, China’s economy is not that satisfactory in terms of power, structure and security. As a developing economy, China remains at the low to medium end of the international industrial chain. One of the major reasons for this situation is the low contribution to exports trading from innovative industries and the service sector, resulting in the low value creation of Chinese industries. China needs to quickly establish its own world city to make it the global resources allocation and operating hub and the base for innovation and service provision in the Asia-Pacific region, so as to gain a higher position in the international industrial chain. In this sense, it is a pressing agenda for China to foster and develop a world city to take up the role to push forward domestic economic growth and further deregulation of mainland industries; and to lead the charge in achieving the peaceful rise of China as a superpower by gaining a vantage point in the international market, mastering the allocation of global resources, participating in global competition for the benefit of the nation and promoting regional economic development, as well as economic globalisation. As such, “the establishment of a world city should be treated as a national strategy to
further China’s development in this new century.”

In respect of performing the above functions, a Hong Kong-Shenzhen Metropolis is without doubt one of the best choices and indeed the best location. Among all the cities of China, only Hong Kong has the conditions for the establishment of a world city at present, and it ranks among the top world metropolises in terms of GDP, import and export trading, finances, ports and logistics, aviation services and so on. More importantly, Hong Kong has a solid legal system and stringent requirements for intellectual property right protection. Hong Kong is a free entrepot with absolute freedom in foreign exchange and capital flows. It has low customs taxes and allows free mobility of individuals and free worldwide exchange of all sorts of information. Hong Kong, with its economic and institutional advantages, together with Shenzhen and its competitive edge in manufacturing, land resources and domestic networks, will certainly be capable of taking up the above functions for the nation.

All in all, the necessity and strategic significance of a Hong Kong-Shenzhen Metropolis are manifested at the level of national economic development strategy. A Hong Kong-Shenzhen Metropolis is not only concerned about the development strategy for Hong Kong or the development direction for Shenzhen. The establishment of a Hong Kong-Shenzhen Metropolis is not just concerned about the growth of Hong Kong and Shenzhen. It is a key component of the national development strategy to become a superpower through integrating neighbouring cites into a super team to compete with the world’s leading economies and stand up against the world cities. This can only become a reality with the support of the central government in coordinating and consolidating national resources. The achievement of a Hong Kong-Shenzhen Metropolis to become a successful world city will also be a key milestone for China in successfully implementing the “One Country, Two Systems” arrangement.

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29 Le, Zheng, “Upgrading the Establishment of a Shenzhen-Hong Kong Metropolis into a National Strategy (將深港共建世界级大都會上升為國家戰略), Shenzhen Special Zone Daily (20070604)
Chapter 2: Evolution of “Building a Hong Kong-Shenzhen Metropolis”

Hong Kong and Shenzhen should each take a pragmatic approach to work within their respective scope of authority to promote the establishment of a Hong Kong-Shenzhen Metropolis. In fact, over nearly three decades of cooperation, Hong Kong and Shenzhen have already achieved several key milestones which are indispensable for building a Hong Kong-Shenzhen Metropolis. While it was not until recently that a Hong Kong-Shenzhen Metropolis concept emerged, past cooperation between the two cities was actually a prelude to its evolution history.

Shenzhen’s development over the past 30 years can be divided into three phases, namely; the fast growth phase from 1980 to the mid 1990s, the adjustment phase from the late 1990s to the early 2000s, and the repositioning phase starting from 2003. By coincidence, these three phases largely correspond to the three development phases of Hong Kong after the opening up of China, namely, the pre-handover phase from 1980 to 1997, the post-handover phase after 1997 up to the signing of the CEPA (the Mainland and Hong Kong Closer Economic Partnership Arrangement) in 2003, and the CEPA phase which started from 2003.

On the above basis, this study will divide the history of Hong Kong-Shenzhen economic cooperation into the following three phases: the 1980-1997 market and social factors-driven cooperation; the 1997-2003 adjustment and cooperation; and the current cooperation since 2003 driven by market and government forces.

One point that has to be highlighted is that Hong Kong-Shenzhen cooperation began with economic cooperation mainly driven by market and social factors. On the other hand, such economic cooperation was not purely the result of market operations, but also made possible by political and policy arrangements. One researcher pointed out that “the Shenzhen-Hong Kong economic cooperation under the “One Country, Two Systems” arrangement is an achievement of institutional innovation. If China had not introduced the opening-up policy, it would have been difficult in practice for the Shenzhen-Hong Kong economic cooperation to make any progress. In the early days, preferential treatment for enterprises operating in the special economic zone of Shenzhen was a key component of
the institutional innovation initiated by the central government. It also laid the pre-requisite foundations for cooperation between Shenzhen and Hong Kong.”\textsuperscript{30} Besides, another researcher also pointed out that the Shenzhen Special Economic Zone “was a policy drive initiated by the central government to attract a large amount of domestic resources to flow into the zone in a short period of time which created a foundation to jump start the economy, before allowing the orderly inflow of international resources to upgrade the degree of openness of the economy.”\textsuperscript{31}

Hence, political and policy factors are an important aspect for the study and for understanding Hong Kong-Shenzhen cooperation. Indeed, political and policy factors were given due consideration during the above-mentioned three phases of Hong Kong-Shenzhen cooperation.


The “Hong Kong factor” was the key to the establishment and development of Shenzhen Special Economic Zone. In this phase, Shenzhen’s urban planning and development reflected the focus on the “Shenzhen-Hong Kong” relationship. On the Shenzhen frontier, there was no “closed area” like the large vacant area on the Hong Kong side. Rather, since the early days, its frontier area was used for the development of its industrial and commercial zones, as its primary objective was to attract investments at home and abroad, particularly from Hong Kong. One researcher pointed out that “in the early days of cooperation, there was a huge gap in the level of economic development between Hong Kong and Shenzhen. The two cities could only cooperate with one as the “shop front” and the other as the “factory”. Being the processing base, Shenzhen’s economic activities could only revolve around the economy of Hong Kong.”\textsuperscript{32}

Concerning the cooperation between the two places at this stage, Shenzhen made active efforts to open itself up to Hong Kong and did not impose many restrictive conditions on the manufacturing operations relocated from Hong Kong.

\textsuperscript{30} Tan, Gang, “Mutual Prosperity – Comments on Shenzhen-Hong Kong Economic Cooperation” (共創繁榮— —深港經濟合作述評) in “Practice and Theory of SEZs” (2006, First Issue)

\textsuperscript{31} Zhu, Wenhui, “Regional Competitive Advantages and Functions of the Government” (地區競爭優勢與政府的作用) in “China Opening Herald” (2003, Ninth Issue)

\textsuperscript{32} Sun, Shiqi “Inter-governments Competition and Cooperation, and Political Economy Analysis – the Example of Shenzhen-Hong Kong Cooperation” (政府間競合和政治經濟學分析— —以深港合作為例) in “Journal of the Henan University of Science and Technology (Social Science Section)” (河南科技大學學報 (社會科學版)) (2005, First Issue)
The above describes the actual situation at the time. Foreign investments in Shenzhen mainly came from Hong Kong. From 1979 to 1993, Hong Kong’s actual investments in Shenzhen amounted to US$3.8 billion, accounting for more than 60% of the total foreign investments in Shenzhen. Hong Kong businesses found Shenzhen attractive because of its lower land prices, labour costs and other costs, and they could enjoy preferential treatment there. They took advantage of the economic gap between the two cities to relocate their production processes to Shenzhen and its neighbouring area and left behind the design, management, marketing and other service functions in Hong Kong, in a model with Hong Kong as the “shop front” and Shenzhen as the “factory”. Such Hong Kong-Shenzhen economic cooperation focused on industry transfer from Hong Kong and manifested the basic characteristics of East Asian industrial flying geese model, which was based on the regional division of labour and industry order transfer to low-cost areas.

For Shenzhen, such a massive industry transfer from Hong Kong helped speed up its industrialisation process and allowed it to make substantial achievements in a very short period of time. For Hong Kong, this meant the completion of another round of economic restructuring, the transformation from a manufacturing-based economy to a service and financial industries-based economy. According to the Hong Kong Census and Statistics Department, the total production value of Hong Kong’s manufacturing industry in 1980 was HK$31 billion (at current prices), representing 22.8% of its GDP. By 1997, the total production value of Hong Kong’s manufacturing industry was HK$77.8 billion (at current prices), representing merely 6% of its GDP. The trend of manufacturing hollowing out triggered the third economic restructuring in Hong Kong from a manufacturing-based economy to one based on the service and financial sectors. In 1997, the service sector contributed as much as 86% of the total production value of Hong Kong. This phase of cooperation between Hong Kong and Shenzhen, which focused on manufacturing transfer, brought about a material impact on both cities. One researcher said, “If we say that the Hong Kong factor was an important condition for the takeoff of the Shenzhen economy, then we can also say that the Shenzhen factor was also a necessary guarantee for the continued prosperity of Hong Kong.”

The major driving force for the opening up of China, or rather, the cooperation

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33 Hong Kong Census and Statistics Department
34 Tan, Gang, internal research information of the China Development Institute (Shenzhen, China) (綜合開發研究院（中國·深圳）) (2006)
between Hong Kong and Shenzhen, was the market and the business sector. During this phase, there was no close contact between the Hong Kong British government and the Mainland government, and there was no active institutional interaction between the two. The Hong Kong British government never saw the interests of Hong Kong and the Pearl River Delta as pieces of the same pie. Before the handover, owing to its special political background and position, the Hong Kong British government seldom had any communication or cooperation with the Mainland on economic development, not even with Shenzhen, Hong Kong’s neighbour across a river. The Hong Kong government’s first official cooperation with the Mainland after the opening up policy was in 1990, when the first bilateral meeting with the Guangdong provincial government was held to focus on environmental issues between the two places. Naturally, closer economic ties and the increasing flow of people across the border led to more contact and cooperation between the Hong Kong and Shenzhen governments on certain necessary bilateral issues and functions, including cross-boundary infrastructure development, crossing points operations, environmental issues, the clean-up work for the Shenzhen River, and the development of Chung Ying Street in Hong Kong. Such cooperation initiatives basically revolved around the frontier area, and the two governments only engaged to resolve problems that had arisen; no active effort was made to consider cooperation on wider issues.35

In this phase, Hong Kong-Shenzhen cooperation took place as a result of the operation of the market economy, as the blood-related Chinese in the two cities took advantage of the geographic proximity of the two cities to capitalise on the opening up of China. More precisely, such cooperation was mainly driven by the Hong Kong business sector. The scope of cooperation was mainly within the manufacturing industry and consisted of a simple cooperation between a “shop front” and a “factory”. Some analysis pointed to the fact that “the transfer of the Hong Kong manufacturing industry to the

35 The Mainland’s information transparency was very low at the time. Even when officially requested by the Hong Kong government, the Shenzhen government would only say that under the “One County, Two Systems” arrangement, they could not or would not provide the accurate and relevant data and information required. This situation constrained the ability of the Hong Kong government to formulate comprehensive development plans. In the early 1990s, the Hong Kong Planning Department attempted to conduct a feasibility study on the construction of Container Terminal No. 10. At the time, the Shenzhen government declined to provide information about their plans for port development. As a result, Hong Kong had to finish the feasibility study under the assumption that there would not be any large-scale port development carried out in Shenzhen. Later, construction of the Yantian Port commenced in Shenzhen, and Hong Kong had to abort its construction plan for Container Terminal No. 10. As mentioned above, frontier infrastructure development was the area of intensive cooperation between Hong Kong and Shenzhen during this phase. For example, three new crossing points were opened, including Man Kam To, Sha Tau Kok and Lok Ma Chau. The Man Kam To crossing point is located in the middle of the frontier and mainly handles cargo; the Sha Tau Kok crossing point is linked to eastern Shenzhen and also mainly handles cargo; the Lok Ma Chau crossing point is the linked to western Shenzhen and mainly handles cargo and a considerable flow of passengers. Besides, in the early 1990s, Shenzhen already proposed the construction of the Western Corridor, which finally commenced years after the handover after rounds of discussions between the two governments.
Mainland was basically a traditional strategy to reduce operating costs by the relocation of labour-intensive production processes. It did not involve the active pursuit of technological progress and industrial advancement, thus delaying the industrial restructuring that should have taken place as part of industrial advancement and leaving behind the hidden threat of an economic bubble. This threat became more obvious in the second phase of Hong Kong-Shenzhen cooperation.

Despite the above, this phase of Hong Kong-Shenzhen cooperation did satisfy the basic objectives and interests of both sides, laying a solid foundation for future development. This was of greater significance for Shenzhen. During its industrialisation process driven by industry transfer, Shenzhen saw the formation and development of its logistics, financial and other related industries, while such industrialisation also promoted the progress and development of its urbanisation, infrastructure development and related service sectors. More importantly, Hong Kong and Shenzhen’s economic development and regional cooperation, which had a strong impact and influence on regional economic cooperation, was made a reference case for the entire Mainland and became a showcase of the achievements of the opening-up policy in China.

II. Phase Two (1997 – 2003): Adjustment and Cooperation

Objectively speaking, the golden age for the development of Shenzhen was from the 1980s to the early 1990s. A critical factor was the full support Shenzhen received from the central government. Subsequently China began to adjust its preferential treatment policy in favour of Shanghai and the Yangtze River Delta after 1993, when discussions began among academics in Beijing as to whether the special economic zone should continue to enjoy its special status and serious doubts were raised about the current and future position of Shenzhen; in response the central government made it clear that “the special economic zone should continue to enjoy its special status”, but the special policies granted to Shenzhen were far fewer than in the 1980s and some previous policies were cancelled and shifted to Shanghai instead. In 1998, the Special Economic Zone Office under the State Council was abolished. Then in 1999, China sped up its pace of reform in order to gain accession to the WTO, and the special economic zone also found its role starting to

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36 Mo, Shi Xiang, “Review and Outlook of the Shenzhen-Hong Kong Cooperation (深港合作的回顧與前瞻)” in “Journal of Shenzhen University (Humanities & Social Sciences) (深圳大學學報（人文社會科學版）)” (1999, Third Issue)
diminish in the opening up of the whole of China. Shenzhen had to stand on its own two feet in order to redefine its role and formulate a new plan for its future. This was the beginning of the painful adjustment phase.

Meanwhile in Hong Kong, shortly after the 1997 handover came the Asian financial crisis, the biggest turmoil ever experienced in East Asia, and the local economy slumped, as its manufacturing industry continued to move out and hollow out, adding further setbacks to the then economic fragility in Hong Kong. At the same time, Hong Kong was also affected by the policy adjustments of the central government. As pointed out in one analysis, to preserve the economic prosperity in Hong Kong, the central government engineered a massive capital inflow from the Mainland around 1997. After the handover, the political situation changed and the central government did not see it as necessary to keep on pouring funds into Hong Kong to bolster its prosperous economy. Hong Kong’s role as the middleman also diminished as the Mainland continued to open up. Hence, there was a decline in the flow of Mainland funds into Hong Kong as the investment destination.³⁷ At the administrative level, following the handover, the government of the Hong Kong Special Administrative Region (the HKSAR government) continued to abide by the practices of the Hong Kong British government, and adhere to the “positive non-intervention” policy and the “small government, big market” principle. The result was a government that was strong in execution but weak in policy making. In particular, due to a number of factors at the time, the HKSAR government was unable to push forward its economic ties with the Mainland. In respect of communication with the Mainland, closer engagement between the Hong Kong and Shenzhen governments did not happen as expected. Rather, the two governments focused on resolving local issues and challenges they encountered respectively.

As far as the Hong Kong-Shenzhen economic cooperation was concerned, this phase of cooperation remained mainly driven by market and social factors, with the Hong Kong business sector as the key player. In respect of the driving force and scope of participation: cooperation was mainly limited to engagement at the social and business levels, and official initiatives were few and far between; in respect of the area of cooperation: firstly, it was limited to the industrial sector, led by the manufacturing industry, and there was not much cooperation on the operating and institutional mechanism; and secondly, it was

limited to the hardware of urban infrastructure development, such as transportation facilities, crossing points, and utilities supply, and there was little cooperation regarding urban planning and city functions. Moreover, capacity limitations of crossing-border systems also constrained further progress in Hong Kong-Shenzhen cooperation. The cities also lacked the consensus to take their cooperation from the ground level to a higher level. The above affected the progress of deepening and expanding the scope of cooperation between Hong Kong and Shenzhen.

As far as the trend of industry transfer was concerned, the basis of economic cooperation between Hong Kong and Shenzhen started to change in the 1990s. Given the new paradigm of China’s opening-up policy, Shenzhen lost its former comparative cost advantage in labour, land and other resources as a special economic zone under the auspices of the former preferential treatment policy. In light of this, investments from Hong Kong shifted northwards from Shenzhen to the Pearl River Delta and elsewhere in the Mainland. As a result, Hong Kong-Shenzhen cooperation, which remained focused on the labour-intensive manufacturing industry, more or less came to a standstill. A new mode of cooperation was urgently needed to fill the gap opened by the northward shift of the labour-intensive manufacturing industry. Yet, without the engagement of the two governments, the trend that emerged in the early 1990s for the relocation of certain service functions from Hong Kong to Shenzhen failed to be sustained and turned into an economic driver like the manufacturing relocation. There was a pressing need to take the vertically-integrated mode of economic cooperation, with Hong Kong as the “shop front” and Shenzhen as the “factory”, to the next level. Despite the call from local intellectuals for active pursuit of industrial development based on new and advanced technology by mastering the comparative advantages of the two cities, Hong Kong-Shenzhen cooperation failed to move ahead due to the lack of government engagement and social consensus. There was basically no obvious breakthrough in the scope or level of economic cooperation.

Of course, the above does not mean that there was no progress in the respective economic development of the two cities and other aspects of Hong Kong-Shenzhen cooperation. Market forces between the cities continued their “organic” integration. During the 1997-1999 period, Hong Kong’s actual investments in Shenzhen were only 60% of those made during the 1979-1996 period, which was 18 years beforehand. Meanwhile, during the 1999-2003 period, Hong Kong investments accounted for over 80% of the total
foreign direct investments in Shenzhen.\(^{38}\) According to a survey by the Federation of Hong Kong Industries, Hong Kong companies employed 2,580,000 people in Shenzhen, second only to Dongguan, where they employed 4,030,000 in 2002.\(^{39}\) In Shenzhen, Hong Kong exports and imports amounted to US$26.4 billion and US$20.4 billion respectively in 2003, representing 41.9% and 3.7% of its total exports and imports for the year.\(^{40}\) The economic relationship between Hong Kong and Shenzhen changed from one way to two ways. Over years of rapid development, Shenzhen’s domestic enterprises grew up as well. Many of them turned to invest in Hong Kong and set up their trading, property, service and other industry-related arms there to expand their overseas operations. At one time, nearly half of the overseas arms of Shenzhen enterprises were located in Hong Kong.\(^{41}\) From 1996 to 2004, a total of 10 Shenzhen state-owned and private enterprises became listed in Hong Kong, and their combined market capitalisation was HK$18.7 billion in March 2007. A number of red-chip enterprises from Shenzhen also listed in Hong Kong.\(^{42}\)

After the handover, the flow of people between the cities increased further in number and frequency. According to the cross-boundary travel statistics of the Hong Kong Planning Department in 1999, 2001 and 2003, there was a constant increase in the number of cross-boundary travellers. The number of cross-boundary travellers over the survey period of two weeks increased from less than 3,500,000 in 1999 to 4,700,000 in 2001 and 5,400,000 in 2003. Meanwhile, the percentage of total cross-boundary travellers from Shenzhen also increased from 59% in 1999 to 61% in 2001 and 67% in 2003,\(^{43}\) as more travellers headed for the Lok Ma Chau crossing point with the addition of a bus service from there to Huanggang that started in 2001 and its introduction of a 24-hour passenger clearance service in 2003.\(^{44}\) Shenzhen has become a frequent hangout for Hong Kong residents, particularly those living in the New Territories, who go to Shenzhen in hordes to shop for groceries, food, clothing and other daily goods. In particular, Lo Wu Commercial

\(^{38}\) Source: Statistics Yearbook of Shenzhen.

\(^{39}\) The Federation of Hong Kong Industries (2003), “Made in PRD – The Changing Face of HK Manufacturers” (Part II and survey report), the Federation of Hong Kong Industries.


\(^{42}\) The above information has been compiled from the data of The Stock Exchange of Hong Kong Limited.

\(^{43}\) 2003 data may lack statistical continuity due to the disruptions brought by the impact of SARS.

\(^{44}\) Hong Kong Planning Department (2003), “Cross-boundary Travel Survey 2003” (abridged version)
City and the Dongmen shopping street have become spending hot spots for Hong Kong residents. The estimated spending of Hong Kong residents in Shenzhen reached HK$29.4 billion in 2001 and HK$35 billion in 2002. Back then, some people in Hong Kong were worried that this situation would deal a blow to the retail market in the northern part of the New Territories in Hong Kong. Then in the face of the economic slump after the Asian Financial Crisis in 1997 and the SARS outbreak in 2003, a large number of unemployed Hong Kong residents turned to the job market on the Mainland in view of the ongoing boom of its economy. In the period from 2001 to 2003, the number of Hong Kong residents working in the Mainland rose by 1.5 times from 171,000 to 421,000. From January to March 2003, the number of Hong Kong residents who had worked in Shenzhen in the preceding twelve months was 90,000, representing 37.8% of the total number of Hong Kong residents working outside of Hong Kong. Shenzhen was the Mainland city with the largest number of Hong Kong workers. Many Hong Kong people also moved to live in Shenzhen. According to estimates by the Hong Kong Planning Department, in 2003 the number of Hong Kong people living in Shenzhen was 16,000 (25.6% of the total number of Hong Kong people living in the Mainland), an increase of 94% over 8,000 in 2001. In the same year, among the 215,000 self-owned residential properties purchased by Hong Kong people in the Mainland, 44,000 were located in Shenzhen, while among the 36,000 residential properties leased by Hong Kong people in the Mainland, 15,000 were in Shenzhen.

During this phase, the Shenzhen economy continued to grow at a relatively fast pace. In 1980, the ratio of Shenzhen’s GDP to that of Hong Kong was about 1:540; in 2003, the ratio shrank sharply to around 1:4. During this phase, Shenzhen’s port logistics industry grew substantially, and its high technology industry also started to take shape as its financial sector made further progress to gain an increasing weight in the GDP. Meanwhile, Hong Kong relied on its own competitive edge and its open market to maintain its key position in the national and international economies. One point that should be highlighted is that there was a change in Shenzhen’s position and role in the Hong Kong-Shenzhen cooperation due to its enhanced competitive edge relative to Hong Kong. In other words,


Source: Hong Kong Planning Department

Source: Hong Kong Census and Statistics Department
during this phase, Shenzhen took on a course of economic development that was to a
certain extent “independent” from that of Hong Kong as it moved on to develop certain
industries on its own feet, such as the high technology industry, and some other industries,
such as the port logistics industry, constituting, to a certain extent, competition to Hong
Kong. As a result, Shenzhen gained more bargaining power in its cooperation with Hong
Kong. The two cities were no longer working in a vertical chain of division of labour, but
increasingly as equal partners. This has laid the foundation for the third phase of Hong
Kong-Shenzhen cooperation.

After the handover, key officials of the HKSAR government wanted to actively seek
room for cooperation with the Mainland. In its policy addresses from 1997 to 2001, it was
stated that Hong Kong should actively develop its relationship with the Mainland. In
March 1998, the first Hong Kong/Guangdong Cooperation Joint Conference was held
and communications and activities also increased between the Hong Kong and Shenzhen
governments. There were also more official exchanges in respect of security, water supply,
infrastructure development, environmental protection, public health, urban planning etc.
For example, by way of official exchanges, the Hong Kong Police and the Shenzhen Public
Security Bureau joined forces to formulate certain plans to fight cross-boundary criminal
activities. The Hong Kong-Shenzhen cooperation was no longer confined to the area of
frontier affairs. Still, the result was not totally satisfactory. One academic considered that
although it was important to build the relationship between Hong Kong and the Pearl River,
the Mainland local governments remained half-hearted and self-centred. For example, in
the Pearl River Delta Cities and Towns Coordinated Development Plan (珠江三角洲城鎮
群協調發展規劃) formulated in 1996 and 2004, Guangzhou was identified as the centre of
the Pearl River Delta and the 1996 plan did not give due consideration to the role and
influence of Hong Kong. Besides, the roadmap was simply set to radiate in different
directions from Guangzhou. On the other hand, Hong Kong has a different set of
legislative and executive systems from the Mainland; and the Hong Kong and Shenzhen
governments each have their own sets of priorities. For example, the Shenzhen Planning
Bureau once expressed that they would like to see the convention and exhibition,
transportation and infrastructure, financial, tourism and information industries become the
major focuses of the Hong Kong-Shenzhen cooperation. However, Hong Kong might not

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City-Region” in “The Professional Geographer”, 56(4), page 530-543.
share the same thoughts. The Shenzhen government tends to take a more aggressive role in economic development and business activities; but the Hong Kong government tends to take a back seat and avoid direct participation in business activities. These obstacles have resulted in unsatisfactory conditions for the flow of people, capital, information and goods between the two cities.

In the early days after the handover, some Hong Kong government officials continued to adhere to the mindset of the Hong Kong British government and did not wish to work too closely with the Mainland. Even though the then Chief Executive wanted to have closer cooperation with the Mainland, some officials remained suspicious of the intentions of Shenzhen behind the relevant proposals. Such officials did not wish to promote cross-boundary integration for fear that if the ties to the Mainland became too close at some stage, Hong Kong might lose its unique political and social characteristics and might turn into an ordinary Chinese city. In 2001, however there was a fundamental change in the attitude of the Hong Kong government on this issue. After the Asian economic crisis and the SARS outbreak, Hong Kong people began to let go of their “Big Hong Kong” mentality as they started to realise that Hong Kong must integrate with the Mainland in order to push forward its economic development.


In 2003, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), and the “1+8” Agreement (“the Memorandum on Closer Co-operation between Hong Kong and Shenzhen” and the relevant agreement) were signed between Hong Kong and the central and Shenzhen governments respectively, marking a new phase in Hong Kong-Shenzhen cooperation. The key feature of this phase is that on top of social and market factors, the two governments are also engaged in driving forward cooperation between Hong Kong and Shenzhen. In other words, the very missing link is finally in place.

The biggest value of the CEPA is that it was established in accordance with international practices within the framework of the WTO to realise closer economic cooperation between Hong Kong and the Mainland. Not only does it guarantee that Hong Kong businesses which carry out economic activities in the Mainland can enjoy special favourable treatment granted by the central government, but it is also in compliance with
the rules of the WTO. Compared with past practices, this is an institutional improvement in substance. The implementation of the CEPA has substantially extended the scope of cooperation between Hong Kong and Shenzhen. Moreover, it has also resulted in significant progress in deepening the level of cooperation between the two cities. As a product of international rules and practices, the CEPA has paved the way forward for Hong Kong-Shenzhen cooperation at the institutional level.\(^{49}\)

The CEPA and the Hong Kong-Shenzhen “1+8” Agreement are concerned with various areas of cooperation and can be supplemented based on actual needs, thereby providing an open platform for cooperation between Hong Kong and Shenzhen and substantially enlarging the scope of such cooperation. In respect of the mechanism for cooperation on innovation, the “1+8” Agreement has specifically laid out the cooperation mechanism between Hong Kong and Shenzhen by stressing that within the Guangdong-Hong Kong cooperation framework, Hong Kong and Shenzhen may engage in in-depth discussions on cooperation initiatives between the two cities. This has effectively made a breakthrough in cooperation between the two cities, particularly the institution of end-to-end communications to replace the previous indirect dialogues between Hong Kong and Shenzhen via the Guangdong Government, thus opening up new channels for direct exchanges and cooperation between the two governments, which is beneficial for the operation of the mechanism for Hong-Kong Shenzhen cooperation on innovation.\(^{50}\)

\(^{49}\) On the other hand, a lot of specific issues have been encountered during the implementation of the CEPA: in the service sector, various issues, including the complicated approval process, high taxes and levies, deposit requirement and constrictions on Hong Kong businesses to participate in only certain categories (e.g. foreign urban planning architects are not allowed to participate in the master plans for urban planning) have deterred the service sector in Hong Kong from exploring business opportunities in the Mainland; the market barriers for certain industries remain too high and for some, the concrete operation procedures have not been announced; the capital requirement for entering the Mainland market is too high for some industries - for example, the entry requirement for the securities and funds businesses from Hong Kong is not less than US$10 billion of assets under management for the most recent accounting year, which renders all the small to medium-sized financial and securities entities in Hong Kong unqualified; the complicated Mainland business environment, difficulties in funds allocation, and a high degree of native protectionism all affect the investment sentiment of the Hong Kong service sector to the Mainland; there are huge differences between the legal systems, accounting systems and professional environments in the two cities, and Hong Kong people encounter great difficulties in obtaining professional qualifications on the Mainland; the performance of “CEPA Hong Kong City” (CEPA 香港城) is not satisfactory. Some academics consider that the CEPA does not have the comprehensive policy support to relax the regulations for the Hong Kong service sector to enter the Mainland; that it might only lead to hollowing out of the service sector in Hong Kong, just as is the case for its manufacturing industry; and as such, Hong Kong must formulate some specific initiatives to reinforce its service sector.

\(^{50}\) However, during the interviews conducted in Hong Kong for the purpose of this study, most interviewees believed that the “1+8” Agreement has not achieved anything so far (some interviewees were not even aware that Hong Kong and Shenzhen have signed this cooperation agreement). The signing of the “1+8” Agreement has not had much effect on Hong Kong-Shenzhen cooperation, since the two cities do not have regular meetings, and the “1+8” Agreement is only a framework agreement, which means that the two governments are not bound by it and will only be bound by it when the two sides decide to finalise the details. Nevertheless, those HKSAR government officials who are familiar with the “1+8” Agreement indicate that so far some agreements have been brought on line and some are being negotiated. In particular, technology development is a future development trend for Hong Kong and Shenzhen, and in the “Eleventh Five-Year
A study finds that the “1+8” Agreement has made a crucial step forward for Hong Kong-Shenzhen cooperation under the CEPA and the Guangdong-Hong Kong cooperation framework, marking a new phase for their cooperation at a higher level, on a wider scope and broader horizon. The “1+8” Agreement has expressly set out that the prerequisites and basis for the Hong Kong-Shenzhen cooperation are to preserve and leverage Hong Kong’s leading role in the Greater Pearl River Delta and Pan-Pearl River Delta. In substance, the intention is to lobby for the inclusion of maintaining the stability and prosperity in Hong Kong as part of the national strategy and by doing so to upgrade Hong Kong-Shenzhen cooperation to become part of the national strategy as well.\textsuperscript{51} This will certainly require the approval of the central government.

The biggest advantage for including the two governments in the Hong Kong-Shenzhen cooperation is to facilitate the comprehensive consolidation of various resources and inputs from society, enterprise and research institutes to push forward cooperation between the two cities on a more solid development track. Upon the signing of the “1+8” Agreement, the Hong Kong and Shenzhen governments have established a mechanism for regular official visits to enhance their communications and discussions on urban planning and industrial development, as well many major issues between Hong Kong and Shenzhen, such as the coordination of the Western Corridor, feasibility studies on the Eastern Corridor, development of the Hetao area (river loop), coordinated port development and joint establishment of the “Shenzhen/Hong Kong Innovation Circle”. Hong Kong and Shenzhen can also move on to discuss how to realise their economic and social integration under the framework of “One Country, Two Systems”. In this respect, the introduction of a 24-hour passenger clearance service at the Huanggang crossing point in 2003 is regarded as a “new milestone in Shenzhen-Hong Kong cooperation”.

One point also worth mentioning is that the Hong Kong and Shenzhen governments also signed the “Shenzhen/Hong Kong Innovation Circle Cooperation Agreement” during the current phase. In July 2005, the Shenzhen government first proposed the concept of a “Shenzhen/Hong Kong Innovation Circle”. In 2006, the proposal for accelerating the

\textsuperscript{51} Tan, Gang, “New Horizon, New Objective: “9+2” and “1+8” Agreements and the Future Development Directions of Shenzhen (新空間，新目標"9+2"及“1+8”協議與深圳未來發展路向)” in “Shenzhen Science and Technology”(2004, Seventh Issue)
establishment of the “Shenzhen/Hong Kong Innovation Circle” was made in the Shenzhen municipal committee and Shenzhen municipal government report No. 1 and finally on 21 May 2007, the “Shenzhen/Hong Kong Innovation Circle Cooperation Agreement” was signed by the two governments. Compared with frontier issues, such as the development of the Hetao area, the progress is impressive for the “Shenzhen/Hong Kong Innovation Circle”.

The “Shenzhen/Hong Kong Innovation Circle Cooperation Agreement” has been included under the cooperation framework of the “Mainland/Hong Kong Science and Technology Cooperation Committee”. The primary objective of the “Shenzhen/Hong Kong Innovation Circle” is to focus on the pursuit of science and technology cooperation in line with market demand under the leadership of the two governments with the support of the larger society. In particular, the education and research institutes in the northern part of Hong Kong and the industry clusters in Shenzhen are intended to be the major participants. With the frontier area as the base and the Pearl River Delta as the overall roadmap, extensive cooperation between Hong Kong and Shenzhen will be sought in respect of science and technology, economic development, education and trading activities, in order to quickly establish a “30-minute Shenzhen/Hong Kong Innovation Circle” as the most active innovative zone with the highest concentration of resources and as a key player in national strategy with substantial influence in the international community. Ultimately, this innovative circle aims to become a “new landmark” in China to facilitate the development of a Pan-Pearl River Delta economic union in order to achieve significant contribution towards the growth of the region. As part of the “Shenzhen/Hong Kong Innovation Circle Cooperation Agreement”, 17 consensuses have been reached between Hong Kong and Shenzhen.52 which are largely concerned with the ways to promote cooperation between

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52 These 17 consensuses are: 1. The two governments shall set up a Steering Group on Shenzhen-Hong Kong Cooperation in Innovation and Technology, to be co-chaired by the Secretary of the Commerce, Industry and Technology Bureau (now Commerce and Economic Development Bureau) of Hong Kong and the Deputy Mayor of the Shenzhen municipal government and to meet twice per year on a regular basis for the purpose of senior-level official negotiations and communications on the organisation and supervision of the arrangements for cooperation between the relevant bodies from Shenzhen and Hong Kong. 2. The two governments shall strengthen their cooperation on research on the “Shenzhen-Hong Kong Innovative Circle” strategy to formulate the strategy and details of implementation. 3. To enhance the exchange and sharing of innovative resources, including professionals, equipment and project information, the two governments shall establish a unified Shenzhen-Hong Kong information resources database. 4. Encouraging the relevant research institutes to actively engage in exchange programmes for their technology management and research professionals. 5. Strengthening cooperation between the research institutes and tertiary education institutions from the two cities. 6. The Shenzhen municipal government shall encourage and support the participation of, among others, the Hong Kong tertiary education institutions and the Hong Kong Vocational Training Council in vocational training, degree and professional certificate training and professional competence training. 7. The two governments shall jointly organise general science education activities for the public and innovative activities for youngsters to cultivate a culture of innovation and technology. 8. To consolidate innovative resources and encourage innovative cooperation, the two governments shall within the framework of the Guangdong-Hong Kong technology cooperation, jointly provide funding
Hong Kong and Shenzhen on science and technology innovation. Such cooperation initiatives, other than their individual specific requirements on the science and technology front, also share the common features of all modes of cooperation. The lessons learnt from solving problems in such cooperation will also be relevant for deepening the cooperation between the two cities in other areas. The side effects and sharing of experience from such cooperation are expected to be of great value.

Cooperation between the two governments has also made a substantial breakthrough at the institutional level. However data show that the significance of Hong Kong’s role in the economic development of Shenzhen has been declining; while Hong Kong’s absolute investments in Shenzhen remain on an upward track, Hong Kong’s weighting in the total foreign investments in Shenzhen has been declining, compared with the increasing contributions from Singapore, Taiwan and Japan. In 2006, Singapore’s actual investments in Shenzhen even rose by more than 100%. In 2004, the number of newly registered Shenzhen enterprises established by Hong Kong investors and their investment amounts were 431 and US$472 million, representing a decrease of 62% and 71% respectively from

53. Mr. Xu Zhongheng, Mayor of Shenzhen, said in his speech at the signing ceremony of the “Shenzhen-Hong Kong Innovative Circle Cooperation Agreement” that the signing of the agreement “signifies a new phase in the history of cooperation between Shenzhen and Hong Kong”. In a reporter article carried by the “Shenzhen Special Zone Daily” on 22 May 2007, it was stated that the signing of the “Shenzhen-Hong Kong Innovative Circle Cooperation Agreement” “is a gesture of great significance”. An academic in Shenzhen even considered that, in one sense, the value of the “Shenzhen-Hong Kong Innovative Circle Cooperation Agreement” is as significant as the role of the “European Coal and Steel Union” in facilitating the integration of Europe and is going to lead to the establishment of the “Hong Kong-Shenzhen Metropolis”.

54. Source: Statistics Yearbook of Shenzhen.
Up to 2004, the accumulated number of Shenzhen enterprises established by Hong Kong investors was over 10,000, representing approximately 75% of the total number of foreign-invested enterprises in Shenzhen, with their total investment amount exceeding US$35 billion, representing approximately 68% of the total foreign investment in Shenzhen. An analyst believes that this situation is due to the saturation of Hong Kong investments in Shenzhen, as less foreign investments enter the Mainland by way of Hong Kong and Shenzhen has been aggressively attracting investors from elsewhere in order to diversify its investor base. Besides, owing to the tight supply of land and labour resources, Shenzhen has been encouraging the relocation of low technology, low value-added and heavy pollution industries to other regions by imposing a high environmental protection levy on such industry operators in Shenzhen. As a result, Hong Kong investors, many of whom are engaged in low value-added and heavy pollution industries, have to move their factories from Shenzhen to elsewhere in Guangdong province or even to other provinces.

On the whole, although the current situation is still far from satisfactory, this new phase of Hong Kong-Shenzhen cooperation is a comprehensive and multi-level one that constantly expands the scope and depth of cooperation between the two cities in respect of industrial development, city functions and institutional engagement. It is a mode of cooperation that pushes ahead towards the establishment of a Hong Kong-Shenzhen Metropolis under the framework of “One Country, Two Systems”. Furthermore, it is beneficial for promoting the economic development of the two cities, their status in the national and international economies, as well as their influence and radiating power in regional economic development. As a case in point, in 2006, the Hong Kong Planning Department and the Shenzhen Planning Bureau jointly commissioned a consultancy firm to conduct a feasibility study on developing a crossing point at Liantang/Heung Yuen Wai as a cross-boundary infrastructure development plan. Also, Invest Hong Kong and the Shenzhen municipal government worked together to organise an investment forum in Tokyo in June 2006. Then earlier in 2007, 14 years after it was first proposed, the Western Corridor was opened to kick start the “co-location” arrangements for customs inspection and immigration clearance, which are expected to improve the convenience of access between Hong Kong and Shenzhen and reduce the number of container trucks passing

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through the Man Kam To or Lok Ma Chau crossing points and their stress on the transportation system in Shenzhen.\textsuperscript{57}

IV. Major Conclusions

Looking back to the evolution of the Hong Kong-Shenzhen economic cooperation and the proposal on the establishment of the Hong Kong-Shenzhen Metropolis, the following conclusions can be drawn:

1. The history of Hong Kong-Shenzhen cooperation is not only a reflection of the need for economic development of the two cities and their pursuit of their respective interests. It is the result of both market forces, as well as being subject to the influence of China’s political and policy factors. Political factors play a crucial role in the Hong Kong-Shenzhen cooperation.\textsuperscript{58}

2. The history of Hong Kong-Shenzhen cooperation has worked its way up from the private level to the government level. Engagement of the two governments in this cooperation is beneficial as a source of support and guidance for the market sector. It is

\textsuperscript{57} Of course, the interaction between the governments of the two cities varies at different levels. In respect of city planning, although the Hong Kong Planning Department and the Shenzhen Planning Bureau maintain close contact with each other to exchange their views on long-term plans of the two cities, the Hong Kong government has not yet given a full reply on the cooperation proposal by Shenzhen. In the “Shenzhen 2030 City Development Strategy”, it was proposed that an international metropolis be established between Shenzhen and Hong Kong. In 2005, Shenzhen published a consultative paper in respect of certain proposals on its medium to long-term plans to promote the coordination and interface between the two cities in their regional urban planning strategies and the proposal on the joint establishment of a Shenzhen-Hong Kong Metropolis. The Shenzhen government also intended to visit Hong Kong for further exchanges and discussions.

Yet, the Hong Kong government is more responsive on the proposal of the “Shenzhen-Hong Kong Innovative Circle” made by Shenzhen in 2006. The panels on professional services, information, technology and tourism in the Economic Summit on “China’s 11th Five-Year Plan and the Development of Hong Kong” pointed out that Hong Kong must strengthen its cooperation with Shenzhen to study the concrete measures for the establishment of the “Shenzhen-Hong Kong Innovative Circle”. On 21 May 2007, the Commerce, Industry and Technology Bureau (now Commerce and Economic Development Bureau) of Hong Kong signed a cooperation agreement with Shenzhen to jointly set up the Steering Group on Shenzhen-Hong Kong Cooperation in Innovation and to formulate the implementation measures for the “Shenzhen-Hong Kong Innovative Circle” and strengthen technology cooperation between Hong Kong and Shenzhen; the bureau has also entered into negotiations with the Ministry of Information Industry to formulate cooperation plans to arrange for Hong Kong enterprises, research institutes and experts to participate in the setting of national technology and product standards.

\textsuperscript{58} Political factors also affect the internal affairs of Hong Kong. For example, after the 1997 handover, the HKSAR government did not change its attitude in cooperation with the Shenzhen government. At the time, some officials of the HKSAR government had different views on integration between Hong Kong and the Mainland. Certain officials, adhering to the “Big Hong Kong” mentality, wanted to keep a distance from the Mainland; as such, the HK government became very passive and seldom gave any positive response to cooperation proposals from Shenzhen. In the early days following the handover, some people in Hong Kong remained cautious about the Mainland and were doubtful if the political and social environment in Hong Kong would remain unchanged. In 2001, the Hong Kong government started to change its attitude to the Mainland. To recover from the shadows of the financial turmoil, Hong Kong began to seek cooperation opportunities with the Mainland. The vision of “taking on the world with the back up of China” was raised as Hong Kong sought to ride on China’s enormous economic power to develop itself into a gateway for the entry of foreign investments to the Mainland and for Mainland enterprises to expand their reach in the world.
also beneficial for the comprehensive consolidation of the economic and social resources, as well as a driving force for the further progress of the Hong Kong-Shenzhen cooperation.

3. The history of Hong Kong-Shenzhen cooperation has been a process of constant expansion of the scope and depth of cooperation from industrial development to city functions and the institutional engagement. It has progressed from economic cooperation into social and livelihood cooperation, from single-facet to multi-facet cooperation, from restrictive flow to relatively free flow of the key resources between the two cities.

4. The objective of the Hong Kong-Shenzhen cooperation is to “integrate the two cities into the top international metropolis in Asia to closely link up the vast hinterland of China to the overseas market and to achieve a GDP, GDP per capita, and an import and export trading volume (goods and services) that rank among the top world cities in order to stand up against North America’s New York Metropolitan Area and Western Europe’s Greater London.”59 In other words, the objective is the establishment of a Hong Kong-Shenzhen Metropolis.

5. The Hong Kong-Shenzhen cooperation is a “cross-boundary cooperation” and is required to comply with the premise of “One Country, Two Systems”, as well as being subject to the rules and conditions of the WTO in recognition of the existence of different tariff zones and boundaries.

6. The Hong Kong-Shenzhen cooperation requires an effective solution to institutional issues and social cost of cultural differences. The different systems and administrative models of the two cities will have an impact on their cooperation. There are differences between Hong Kong and Shenzhen in respect of their administrative systems, political situations, economic policies and legal frameworks, and the two governments play a different role and have different functions in the running of economic activities. Yet, no matter what, the Hong Kong-Shenzhen cooperation may not and will not challenge the legal framework of “One Country, Two Systems”.

7. The Hong Kong-Shenzhen cooperation requires a concrete solution to practical issues and conflicts of interests that may arise between the two places. Given that the land available for development in Shenzhen is less than 300 square kilometres, such cooperation could overload the city with its demand for land and water resources and in

59 Lau, Siu-kai, speech to the “first Shenzhen-Hong Kong Cooperation Forum” (20060803)
respect of living conditions. Also, the Shenzhen Special Economic Zone is divided into the internal and external parts, which differ widely in their conditions. In the case of Hong Kong, it is under the pressure of having to undergo economic restructuring while maintaining its status as an international transportation centre. In addition, there is competition between the two cities in respect of urban planning and development and in certain industries. In the past, Hong Kong and Shenzhen each had their own sphere of comparative advantages and could complement each other to achieve a win-win situation. Nowadays, Hong Kong’s comparative advantage over Shenzhen has dwindled remarkably and the latter is less dependent on the former. Instead, there is more and more competition between the two. The crux of the problem today is how they can work together to once again achieve a win-win situation. Under the “One Country, Two Systems” arrangement, integration between Hong Kong and Shenzhen cannot proceed exactly along the path taken by other cities on the Mainland. The peculiar issues facing the Hong Kong-Shenzhen economic cooperation which must be addressed are: the effect of the “One Country, Two Systems” arrangement, the lack of consensus between the two cities in respect of ideology and understanding, the central government’s stance and support for different policies, the different roles and functions of the Hong Kong and Shenzhen governments in their local economic activities, the political factors in Hong Kong (such as opposition from politicians), differences in the economic structure of the two cities, differences in the status quo and needs for urban planning and development etc. In fact, these issues affect not only the Hong Kong-Shenzhen cooperation, but also cooperation between Hong Kong and the Pan-Pearl River Delta.  

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Chapter 3: The Effect and Influence of a Hong Kong-Shenzhen Metropolis on the Economic Development of China and the World

One clear fact is that mega cities and major metropolitan circles are most often the sources of effects and influences on national and global economic development. As political, economic, social and cultural resources are rapidly concentrated in mega cities and metropolitan circles, their functions in the management and control of the national, regional and global economies are increasingly prominent. Hence, the study on the effect and influence of a Hong Kong-Shenzhen Metropolis on the economic development of China and the world requires comparisons with other metropolitan areas, including Shanghai, Beijing-Tianjin and Guangzhou-Foshan in China, and New York, London and Tokyo at the international level, in order to identify the position, functions and influence of a Hong Kong-Shenzhen Metropolis.

One researcher has classified world cities into three levels: the nucleus layer – global cities, such as New York, Tokyo and London, the generally accepted global cities, where there is an extraordinarily high concentration of the world’s most important economic organisations, particularly multinational companies, having a strategic effect and influence on a global scale; the sub-nucleus layer – regional international cities, such as Paris, Berlin, Rome, Sydney, Osaka, Los Angeles and Hong Kong in a list of around 20 such cities, which are often regarded as the international city centres of their regions or as sub-global cities, functioning as the exchange floors for international capital and goods, the international economic, political, cultural and information centres, as well as the nexus connecting national and international economies; the third level – national or regional central cities, such as Beijing and Shanghai in China (similar mega cities are also emerging elsewhere in Asia and Latin America), which are the leading cities of the rapidly developing countries and regions (in terms of both economic scale and population growth), usually also functioning as the major marine or aviation ports and most often the political, economic, cultural and academic centres of their countries, as well as acting as the windows to the world to connect their countries with the outside and as the pioneering force to lead other cities of their countries to interact with the international community.61

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61 Duan, Xia, “The Basic Paradigm and Development Strategies of World Cities (世界城市的基本格局與發展戰略)” in
The objective of building a Hong Kong-Shenzhen Metropolis is to create a “global city” at the nucleus layer to fully capitalize on China’s economic influence on the world.

I. Comparison of Hong Kong-Shenzhen Metropolis with Guangzhou-Foshan, Shanghai and Beijing-Tianjin Metropolises

The Yangtze River Delta, Pearl River Delta and Beijing-Tianjin, being China’s three major metropolitan circles, generate as much as one third of the national gross domestic product (GDP), have an import and export trading volume representing over 80% of the national total, and their role as leader of the Chinese economy is increasingly prominent. It takes a long time to develop an international mega city, from a central city to a metropolitan circle, mega metropolitan circle and then international metropolitan circle. In each phase, the nucleus city performs different concentration and radiation functions for a different scope of coverage. Shanghai, Guangzhou/Shenzhen and Beijing/Tianjin are the nucleus cities of the Yangtze River Delta, Pearl River Delta and Beijing-Tianjin-Hebei metropolitan circles respectively.

1. Hong Kong-Shenzhen Metropolis Versus China’s Three Major Metropolises

(1) GDP: A Hong Kong-Shenzhen Metropolis would have an unparalleled GDP and economic scale. A Hong Kong-Shenzhen Metropolis would have a GDP equivalent to the combined GDP of the Beijing-Tianjin, Shanghai and Guangzhou-Foshan Metropolises. In terms of GDP, a Hong Kong-Shenzhen Metropolis would be the most influential metropolis in China.


Guangzhou and Foshan are very closely linked both geographically and economically. Therefore, the Guangzhou-Foshan Metropolis is used as a case for comparison in this study.


**Hong Kong-Shenzhen/Beijing-Tianjin/Shanghai/Guangzhou-Foshan Metropolises**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP of Hong Kong-Shenzhen Metropolis</th>
<th>GDP of Beijing-Tianjin Metropolis</th>
<th>GDP of Shanghai Metropolis</th>
<th>GDP of Guangzhou-Foshan Metropolis</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>16573.02</td>
<td>5436.55</td>
<td>5272</td>
<td>3896.39</td>
</tr>
<tr>
<td>2002</td>
<td>17255.76</td>
<td>6084.96</td>
<td>5867.45</td>
<td>4349.89</td>
</tr>
<tr>
<td>2003</td>
<td>18275.82</td>
<td>6835.65</td>
<td>6589.06</td>
<td>5063.03</td>
</tr>
<tr>
<td>2004</td>
<td>20120.85</td>
<td>7841.41</td>
<td>7524.5</td>
<td>5954.27</td>
</tr>
<tr>
<td>2005</td>
<td>21777.85</td>
<td>8849.74</td>
<td>8359.64</td>
<td>7306.84</td>
</tr>
</tbody>
</table>


(2) Population Size: The total population of a Hong Kong-Shenzhen Metropolis would be second only to that of Beijing-Tianjin. The combined population of Hong Kong and Shenzhen has reached the scale of an international metropolitan nucleus city, which ranges from 10 million to 15 million.

**Comparison of Total Population**

<table>
<thead>
<tr>
<th>Year</th>
<th>Year-end total population of Hong Kong-Shenzhen Metropolis (ten thousand people)</th>
<th>Year-end total population of Beijing-Tianjin Metropolis (ten thousand people)</th>
<th>Year-end total population of Shanghai Metropolis (ten thousand people)</th>
<th>Year-end total population of Guangzhou-Foshan Metropolis (ten thousand people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>1397.07</td>
<td>2036.28</td>
<td>1327.14</td>
<td>912.82</td>
</tr>
<tr>
<td>2002</td>
<td>1425.32</td>
<td>2055.35</td>
<td>1334.23</td>
<td>922.87</td>
</tr>
<tr>
<td>2003</td>
<td>1458.57</td>
<td>2074.80</td>
<td>1341.77</td>
<td>932.50</td>
</tr>
<tr>
<td>2004</td>
<td>1489.10</td>
<td>2095.45</td>
<td>1352.39</td>
<td>950.81</td>
</tr>
<tr>
<td>2005</td>
<td>1521.35</td>
<td>2120.01</td>
<td>1360.26</td>
<td>971.76</td>
</tr>
</tbody>
</table>

Source: *Statistics Yearbook of China*.

(3) Land Area: A Hong Kong-Shenzhen Metropolis would have the smallest land

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64 Taking into account the comparability and accessibility of the data, the population figures in the table are based on the number of usual residents indicated by local census statistics.

65 One should be aware that Shenzhen’s floating population is much bigger than that of other cities. For example, according to official statistics, Shenzhen’s population in 2005 was 8,270,500 based on the number of usual residents, and up to 12,000,000 if its floating population was included, which would result in a total population of nearly 20 million for a Hong Kong-Shenzhen Metropolis. Yet, even on this expanded basis, its population density, GDP per capita and GDP per square kilometre would remain at the top. For the sake of accuracy, data used in this study have been extracted from the relevant statistics yearbook.
area. The land area of a Hong Kong-Shenzhen Metropolis would be half of that of the Shanghai Metropolis, one third of the Guangzhou-Foshan Metropolis, and one ninth of the Beijing-Tianjin Metropolis.

Land Area Comparison:

<table>
<thead>
<tr>
<th>Land Area of Hong Kong-Shenzhen Metropolis (square kilometres)</th>
<th>Land Area of Beijing-Tianjin Metropolis (square kilometres)</th>
<th>Land Area of Shanghai Metropolis (square kilometres)</th>
<th>Land Area of Guangzhou-Foshan Metropolis (square kilometres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3054.84</td>
<td>28330.24</td>
<td>6340.5</td>
<td>11282.89</td>
</tr>
</tbody>
</table>

(4) Economic Structure: A Hong Kong-Shenzhen Metropolis would have the economic structure closest to that of a world city. The tertiary industry-based economic structure of a Hong Kong-Shenzhen Metropolis would comply with the economic structure characteristics of world cities. In comparison, the Beijing-Tianjin, Shanghai and Guangzhou-Foshan Metropolises have the economic structures of industrial cities.


<table>
<thead>
<tr>
<th>Year</th>
<th>Hong Kong-Shenzhen Metropolis</th>
<th>Beijing-Tianjin Metropolis</th>
<th>Shanghai Metropolis</th>
<th>Guangzhou-Foshan Metropolis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary industries</td>
<td>Secondary industries</td>
<td>Tertiary industries</td>
<td>Primary industries</td>
</tr>
<tr>
<td>2001</td>
<td>0.17</td>
<td>17.79</td>
<td>82.04</td>
<td>2.8</td>
</tr>
<tr>
<td>2002</td>
<td>0.16</td>
<td>17.92</td>
<td>81.92</td>
<td>2.6</td>
</tr>
<tr>
<td>2003</td>
<td>0.13</td>
<td>18.25</td>
<td>81.63</td>
<td>2.3</td>
</tr>
<tr>
<td>2004</td>
<td>0.11</td>
<td>18.00</td>
<td>81.90</td>
<td>2.2</td>
</tr>
<tr>
<td>2005</td>
<td>0.09</td>
<td>18.09</td>
<td>81.82</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: Statistics Yearbook of China. Unit: %

(5) Population Density: A Hong Kong-Shenzhen Metropolis would have the highest population density. The population density per square kilometre of a Hong Kong-Shenzhen Metropolis would be twice that of Shanghai, about 6 times that of the Guangzhou-Foshan Metropolis, and about 7 times that of the Beijing-Tianjin Metropolis.

Hong Kong-Shenzhen/Beijing-Tianjin/Shanghai/Guangzhou-Foshan Metropolis

<table>
<thead>
<tr>
<th>Year</th>
<th>Population Density of Hong Kong-Shenzhen Metropolis</th>
<th>Population Density of Beijing-Tianjin Metropolis</th>
<th>Population Density of Shanghai Metropolis</th>
<th>Population Density of Guangzhou-Foshan Metropolis</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>0.4573</td>
<td>0.0719</td>
<td>0.2093</td>
<td>0.0809</td>
</tr>
<tr>
<td>2002</td>
<td>0.4666</td>
<td>0.0725</td>
<td>0.2104</td>
<td>0.0818</td>
</tr>
<tr>
<td>2003</td>
<td>0.4775</td>
<td>0.0732</td>
<td>0.2116</td>
<td>0.0826</td>
</tr>
<tr>
<td>2004</td>
<td>0.4875</td>
<td>0.0740</td>
<td>0.2133</td>
<td>0.0843</td>
</tr>
<tr>
<td>2005</td>
<td>0.4980</td>
<td>0.0748</td>
<td>0.2145</td>
<td>0.0861</td>
</tr>
</tbody>
</table>

Source: Statistics Yearbook of China. Unit: ten thousand people/square kilometre

(6) Economic Efficiency: A Hong Kong-Shenzhen Metropolis would be way ahead in terms of GDP per capita and per square kilometre. Even with a substantially higher proportion of floating population in Shenzhen, a Hong Kong-Shenzhen Metropolis would still have the highest GDP per capita and per square kilometre.

Comparison of GDP per capita/per square kilometre (2001 - 2005):

<table>
<thead>
<tr>
<th>Year</th>
<th>Hong Kong-Shenzhen Metropolis</th>
<th>Beijing-Tianjin Metropolis</th>
<th>Shanghai Metropolis</th>
<th>Guangzhou-Foshan Metropolis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP per capita</td>
<td>GDP per square kilometre</td>
<td>GDP per capita</td>
<td>GDP per square kilometre</td>
</tr>
<tr>
<td>2001</td>
<td>11.863</td>
<td>5.425</td>
<td>2.670</td>
<td>0.192</td>
</tr>
<tr>
<td>2002</td>
<td>12.107</td>
<td>5.649</td>
<td>2.961</td>
<td>0.241</td>
</tr>
<tr>
<td>2003</td>
<td>12.530</td>
<td>5.983</td>
<td>3.295</td>
<td>0.241</td>
</tr>
<tr>
<td>2004</td>
<td>13.512</td>
<td>6.587</td>
<td>3.742</td>
<td>0.277</td>
</tr>
<tr>
<td>2005</td>
<td>14.315</td>
<td>7.129</td>
<td>4.174</td>
<td>0.312</td>
</tr>
</tbody>
</table>

Source: Statistics Yearbook of China. Unit: RMB hundred million/ten thousand people; RMB hundred million per square kilometre

2. Comparative Analysis of the Three Major Metropolitan Circles (Covering the Four Metropolises)

The Beijing-Tianjin-Hebei Metropolitan Circle covers Beijing and Tianjin, both municipalities directly under the central government, and Tangshan, Chengde, Zhangjiakou, Baoding, Langfang, Qinhuangdao, Cangzhou and Shijiazhuang in Hebei province. The
Yangtze River Delta Metropolitan Circle covers Shanghai and 16 prefectural or higher-class cities, including Nanjing, Zhenjiang, Yangzhou, Taizhou, Nantong, Suzhou, Wuxi and Changzhou in Jiangsu province and Hangzhou, Jiaxing, Ningbo, Shaoxing, Zhoushan and Taizhou in Zhejiang province. The Pearl River Delta Metropolitan Circle covers, in the narrow sense, Guangzhou, Huizhou, Zhaoqing, Jiangmen, Dongguan, Zhongshan, Shenzhen, Zhuhai and Foshan, and in the broad sense, the Hong Kong and Macau Special Administrative Regions as well.

As far as the relationship between the nucleus cities and their metropolitan circles is concerned, Beijing-Tianjin’s position in the Beijing-Tianjin Metropolitan Circle is the most secure, with no other city in the circle be able to stand up against it in terms of standing and influence. In the Yangtze River Delta Metropolitan Circle, although the leading position of Shanghai is increasingly clear, the influence of Nanjing and Hangzhou should not be taken lightly. In fact, it takes time to develop a solid relationship between the nucleus cities and their metropolitan circles.

Being the double domestic nucleus cities of the Pearl River Delta Metropolitan Circle, Shenzhen and Guangzhou have a subtle relationship. Guangzhou was once the foreign trade centre of China, but now Shenzhen has taken up the position as the largest foreign trade centre on the Mainland, handling more than one seventh of the export goods from China; Guangzhou Port (廣州港) was once the largest foreign trade port in South China, but now Shenzhen is China’s second largest container port, second only to Shanghai; Guangzhou was once the financial centre of South China, but the emergence of the Shenzhen Stock Exchange has completely changed the landscape as a large number of securities dealers, fund houses and national financial organisations such as China Merchants Bank and Ping An Insurance have taken roots there, giving Shenzhen a superior position to Guangzhou in the financial sector.

On the other hand, compared with Shenzhen, Guangzhou continues to have a solid status and crucial functions as a core city of South China. In terms of transportation, Guangzhou’s status remains unchanged as the rail, road and water transportation hub in South China, and there is still a wide gap between Guangzhou and Shenzhen; compared with the airport in Shenzhen, Guangzhou’s Baiyun Airport continues to excel as the aviation hub of South China, with a much higher volume and growth rate of take-off/landing frequency and air cargo throughput, as well as a passenger throughput.
volume that is more than 100% above (but at the same growth rate) that of Shenzhen Airport. In light of the construction of the Nansha port, the port transportation capacity of Guangzhou will only continue to grow further, which is expected to increase the regional competition. Hence, the relative position and relationship of Guangzhou and Shenzhen will be a crucial factor for the establishment of a Hong Kong-Shenzhen Metropolis. Below is a comparison of the three major metropolitan circles in China:

(1) **The Greater Pearl River Delta has the strongest GDP and economic power among the three major metropolitan circles.** Hong Kong and Macau contribute more than 50% of the combined GDP of the Greater Pearl River Delta, resulting in its greater economic power compared to the Yangtze River Delta.

(2) **The Greater Pearl River Delta has the highest economic efficiency among the three major metropolitan circles.** The Greater Pearl River Delta has a much higher GDP per capita and per square kilometre than the other two metropolitan circles.

### Comprehensive Comparison of the Three Major Metropolitan Circles

<table>
<thead>
<tr>
<th></th>
<th>GDP (RMB hundred million)</th>
<th>GDP per capita (RMB)</th>
<th>Year-end total population (ten thousand people)</th>
<th>GDP as a percentage of national total (%)</th>
<th>Population as a percentage of the national total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Pearl River Delta</td>
<td>25296.6</td>
<td>67403.6</td>
<td>3753.6</td>
<td>21.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Yangtze River Delta</td>
<td>23797.6</td>
<td>26733.3</td>
<td>8529.9</td>
<td>20.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Beijing-Tianjin-Hebei</td>
<td>11756.3</td>
<td>16788.0</td>
<td>7002.8</td>
<td>10.1</td>
<td>5.4</td>
</tr>
</tbody>
</table>


(3) **The Greater Pearl River Delta has the smallest population size and land area among the three major metropolitan circles.** The hinterland of the Pearl River Delta as the metropolitan circle of the Hong Kong-Shenzhen Metropolis has a smaller scale than that of the Yangtze River Delta metropolitan circle of the Shanghai and the Beijing-Tianjin-Hebei metropolitan circle of Beijing-Tianjin.

<table>
<thead>
<tr>
<th></th>
<th>Great Pearl River Delta</th>
<th>Yangtze River Delta</th>
<th>Beijing-Tianjin-Hebei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic Area (Square kilometers)</td>
<td>66576.7</td>
<td>105165.8</td>
<td>184369.5</td>
</tr>
</tbody>
</table>
3. Major Conclusions

(1) Key Strengths of a Hong Kong-Shenzhen Metropolis relative to the Guangzhou-Foshan, Beijing-Tianjin and Shanghai Metropolises

Firstly, unparalleled GDP and economic scale: Hong Kong is the region’s international city and one of the four little tigers in Asia, while Shenzhen is China’s fourth largest city by GDP. Simple statistics show that the GDP of a Hong Kong-Shenzhen Metropolis would be unparalleled at the national level.

Secondly, leading economic efficiency: A Hong Kong-Shenzhen Metropolis would be way ahead in terms of GDP per capita and per square kilometre, and population density, these being the indicators of economic strength and economic efficiency. Its economy would be one full of vigour and competitiveness.

Thirdly, functions of a highly international metropolis: a well-established market economy operation and administration system based on the model of Hong Kong; a highly-developed international marketing and information network; a highly developed modern service sector, particularly those segments supportive of the manufacturing sector, with a high degree of division of labour; and a competitive edge in the financial, transportation and high and new technology industries. Given that Shenzhen is the city with the highest industrial competitiveness at the national level, a Hong Kong-Shenzhen Metropolis would be likely to become the first world city in China.

(2) Key Weaknesses of a Hong Kong-Shenzhen Metropolis relative to the Beijing-Tianjin, Shanghai and Guangzhou-Foshan Metropolises

Firstly, the institutional and technical obstacles facing the establishment of a Hong Kong-Shenzhen Metropolis on the basis of two systems and two tariff zones under the premise of the “One Country, Two Systems” arrangement: an effective solution is needed to link up the two different legal systems; further efforts should be made to achieve a higher position in the overall national economic strategy; gradual adjustments are needed to narrow the differences in mindsets due to the different systems in the two cities; great

| As a percentage of the national total (%) | 0.7 | 1.1 | 1.9 |
| GDP per square kilometre (RMB ten thousand) | 3799.6 | 2262.9 | 637.7 |
skills are required to maintain relationships with the hinterland and regional competitors. Guangzhou is the capital, as well as the political and economic centre of Guangdong province. The integration and relationship of the Hong Kong-Shenzhen Metropolis with the Guangzhou-Foshan Metropolis is important for the integration and development of a Hong Kong-Shenzhen Metropolis.

Secondly, there is a considerable gap between the land area of the hinterland and total population of the Pearl River Delta and those of Beijing-Tianjin and Shanghai, its economic growth rate also lags behind. As China is being fully opened up, the focus of its regional development is also shifting from the Pearl River Delta to the Yangtze River Delta and the Bohai Bay Area. From 2001 to 2005, the GDP growth rate was 63.8% for the Beijing-Tianjin Metropolis, and 68% for the Shanghai Metropolis, but only 38.3% for Hong Kong and Shenzhen, which lags behind that of the Beijing-Tianjin-Hebei and Yangtze River Delta Metropolitan Circles.

II. Comparison of Hong Kong-Shenzhen Metropolis with New York, London and Tokyo

Being China’s top international metropolis that brings it to the world, therefore, a Hong Kong-Shenzhen Metropolis, the subject of this study, also needs to be compared with the major metropolises of the world. In this section, we will compare a Hong Kong-Shenzhen Metropolis with New York, London and Tokyo in respect of fundamental economic strengths (including GDP, land area, population size and economic structure) and key economic functions.

1. Comparative Analysis of Fundamental Economic Strengths

(1) In respect of GDP as a benchmark, there is a considerable gap between Hong Kong-Shenzhen Metropolis and Tokyo, New York and London. On 7 March 2007, based on the relevant information from the United Nations and the World Bank, and the gross domestic product (GDP) of various cities calculated using the purchasing power parity (PPP) method, PriceWaterhouseCoopers conducted a ranking of the productivity of major cities around the world. In 2005, the Tokyo Metropolis was the No. 1 world city with a GDP of US$1.19 trillion, New York the No. 2 with a GDP of US$1.13 trillion and
London the sixth with a GDP of US$352 billion; Hong Kong was No. 14 with a GDP of US$244 billion (calculated using the PPP method), and would be No. 7 when combined with Shenzhen as a Hong Kong-Shenzhen Metropolis with a GDP of over US$350 billion (calculated using the PPP method), though still with a considerable gap to New York and Tokyo.

(2) In respect of land area and population size as a benchmark, a Hong Kong-Shenzhen Metropolis would have considerable advantages compared to Tokyo, New York and London. A Hong Kong-Shenzhen Metropolis, extending from the metropolis to the urban agglomeration in the Pearl River Delta and the Pan-Pearl River Delta, would have remarkable advantages over New York, Tokyo and London in respect of population size and land area. The building of a Hong Kong-Shenzhen Metropolis will require the support of an urban agglomeration in the Pearl River Delta (urban belt) and the economic hinterland and expansive land area in the Pan-Pearl River Delta. If the Greater Pearl River Delta or Pan-Pearl River Delta were not to be included, a Hong Kong-Shenzhen Metropolis would lack the regional support that it needs in order to come into being. On the other hand, Hong Kong and Shenzhen, with their functions further enhanced as the region’s central cities, would be able to jointly grow and develop into a world-class metropolis which functions as the nuclei driver and role model for the economic development of the Pearl River Delta and Pan-Pearl River Delta to the benefit of the region’s economic integration.

### International Metropolises: Land Area and Population Size

<table>
<thead>
<tr>
<th>City</th>
<th>Core City</th>
<th>Metropolitan Area</th>
<th>Metropolitan Circle</th>
<th>Metropolitan agglomeration</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>780</td>
<td>738</td>
<td>9225</td>
<td>10202</td>
</tr>
<tr>
<td>London</td>
<td>321</td>
<td>234</td>
<td>7325</td>
<td>1580</td>
</tr>
<tr>
<td>Tokyo</td>
<td>598</td>
<td>816</td>
<td>13800</td>
<td>2162</td>
</tr>
</tbody>
</table>

Remark: The unit is square kilometres for land area, ten thousand people for population, and people/square kilometre for density. Source: Yan, Xiapei, “City, Region and Sustainable

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66 In 2005, based on the GDP of the world’s major cities calculated using the PPP method, the top ten cities of the world were Tokyo (US$1.2 trillion), New York (US$1.1 trillion), Los Angeles (US$638 billion), Chicago (US$460 billion), Paris (US$460 billion), London (US$352 billion), Osaka (US$341 billion), Mexico City (US$315 billion), Philadelphia (US$312 billion) and Washington DC (US$299 billion).
Economic Scale of the Pearl River Delta and the Pan-Pearl River Delta (2004)

<table>
<thead>
<tr>
<th></th>
<th>Pearl River Delta</th>
<th>Pan-Pearl River Delta (9 Provinces)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regional Total</td>
<td>% of provincial total</td>
</tr>
<tr>
<td>Land area (ten thousand square kilometres)</td>
<td>4.17</td>
<td>23.4</td>
</tr>
<tr>
<td>Year-end total population (ten thousand people)</td>
<td>2451</td>
<td>29.5</td>
</tr>
<tr>
<td>GDP (RMB hundred million)</td>
<td>13394</td>
<td>71</td>
</tr>
<tr>
<td>Local fiscal revenue (RMB hundred million)</td>
<td>932.0</td>
<td>65.7</td>
</tr>
<tr>
<td>Total import and export Trading (US$ hundred million)</td>
<td>3417.8</td>
<td>95.3</td>
</tr>
<tr>
<td>Aggregated retail spending (RMB hundred million)</td>
<td>4498.5</td>
<td>70.6</td>
</tr>
</tbody>
</table>


(3) In respect of economic structure, the development trend of a Hong Kong-Shenzhen Metropolis would be in line with that of the top three international metropolises. Since 2001, there have been substantial changes in Hong Kong and Shenzhen, as their primary industries continued to dwindle in weighting, down to as low as 0.09% in 2005, and became more and more insignificant in terms of the value added to their economies, while the value added by their secondary industries remained at around 18% and that by their tertiary industries was maintained at 81%. Such characteristics are relatively similar to that of the top three international metropolises. For New York, London and Tokyo, their tertiary industries all account for above 70% of their GDPs, and even above 80% for the first two.

Trends of Changes in the Economic Structure of Hong Kong and Shenzhen

<table>
<thead>
<tr>
<th>Year</th>
<th>Value added by primary industries</th>
<th>Value added by secondary industries</th>
<th>Value added by tertiary industries</th>
</tr>
</thead>
</table>

64
<table>
<thead>
<tr>
<th>Year</th>
<th>GVA (0.17%)</th>
<th>Finance (17.79%)</th>
<th>Service (82.04%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>0.17%</td>
<td>17.79%</td>
<td>82.04%</td>
</tr>
<tr>
<td>2002</td>
<td>0.16%</td>
<td>17.92%</td>
<td>81.92%</td>
</tr>
<tr>
<td>2003</td>
<td>0.13%</td>
<td>18.25%</td>
<td>81.63%</td>
</tr>
<tr>
<td>2004</td>
<td>0.11%</td>
<td>18%</td>
<td>81.9%</td>
</tr>
<tr>
<td>2005</td>
<td>0.09%</td>
<td>18.09%</td>
<td>81.82%</td>
</tr>
</tbody>
</table>

Remark: the above data, which are comparable, are based on the statistics yearbooks of Hong Kong and Shenzhen.

2. Comparative Analysis of Key Economic Functions

(1) Economic functions as an international metropolis. The key economic function of international metropolises is to be an international financial centre, which is the highest value added industry. The financial sector has become a major industry of international metropolises, and accounts for 17.2%, 21.2% and 10.7% of the tertiary industries in New York, London and Tokyo respectively. In the case of Hong Kong, the financial sector accounts for 19.15% of its tertiary industry, and, when combined with Shenzhen, 18.24% of that of the Hong Kong-Shenzhen Metropolis.

New York has its fundamental advantage in the global financial network. It is the nucleus of the world’s economy and has a high concentration of stock exchanges and commercial and investment banks. These advanced service networks can support and implement the decisions made by companies and control centres located there. Over the years, London has been the major exchange place for the European currencies and the largest foreign exchange centre in the world. Also, it has the world’s largest international banking network. Japan is the largest capital provider in the world, a large amount of capital flows through the financial institutions in Tokyo to elsewhere in the world, while profits, interest and rental income are imported through Tokyo into Japan. Tokyo controls the global economy as an exporter of capital.

In 2005, the combined turnover of the stock exchanges in Hong Kong and Shenzhen rose to above US$700 billion, yet this is still far behind those of the top three international metropolises. In 2003, of the top 500 banks in the world, 214 had branches in Hong Kong, which was also far less than in London. Hong Kong performs better in respect of its fund raising function as a capital market. Based on the data published by Arthur Anderson on 4 January 2007, the total amount of funds raised through initial public offerings in Hong Kong in 2006 amounted to HK$342.2 billion, an increase of 79% from HK$191.5 billion.
in 2005. For the same year, the Main Board of the Stock Exchange of Hong Kong Limited became the world’s No. 1 capital market with a 15.5% share of the total amount of funds raised worldwide for the year, representing the first time that Hong Kong has surpassed New York and London as the world’s largest fund raising market, second was the London Stock Exchange with a market share of 15.0% and third was the New York Stock Exchange with a market share of 10.5%. One of the major factors for this great achievement of the Stock Exchange of Hong Kong Limited was the fund raising activities of the Mainland enterprises. In 2006, the Industrial and Commercial Bank of China, the Bank of China and other state-owned and private enterprises from the Mainland accounted for over 90% of the funds raised in Hong Kong.

In fact, compared with overseas stock exchanges, such as the New York Stock Exchange and the NASDAQ Stock Market, the Stock Exchange of Hong Kong Limited has the competitive advantages of reasonable transaction costs and a speedy listing process. As a result, Hong Kong has for a long time been the first choice as an overseas listing destination for Mainland enterprises. In 2005 and 2006, respectively 72% and 86% of the Mainland enterprises seeking an overseas listing were eventually listed on the Main Board of the Stock Exchange of Hong Kong Limited. Taking into account such competitive strength, Hong Kong will continue to capitalise on the strong support from its motherland to attract more overseas investors to use Hong Kong as a gateway to enter the rapidly growing Chinese market.

(2) The functions in the management and control of the global production chain. In 1996, the number of top 500 multinational companies headquartered in the international metropolises were: 92 in Tokyo, 38 in New York and 27 in London. Revolving around the needs of multinational companies and multinational banking operations, various production service industries have quickly emerged in the world cities. In particular, high-end production service industries, such as advertising, accounting and legal services, have been experiencing rapid growth. This area has become an increasingly important benchmark for assessing the level of development of world cities. For example, in 1997, the advertising industry grossed a turnover of US$37.6 billion in New York, US$31.415 billion in Tokyo and US$15.312 billion in London. Among the 20 largest advertising agencies in the world, 6 are headquartered in New York, 4 in London and 5 in Tokyo. These figures are well ahead of other major cities and clearly show their status as the world’s iron triangle. In the case of Hong Kong, its total advertising spending in 2003 was
HK$14.457 billion, representing an increase of 9.9% over 2002, but still far behind the performance of the top three international metropolises.

Yet, Hong Kong plays a key role as the location of the regional headquarters of multinational companies. In 2004, the number of overseas companies with their regional headquarters in Hong Kong was 1098, which increased to 1167 in 2005. This shows that multinational companies continue to deem Hong Kong as a top choice for the management headquarters of their regional operations. Statistics also indicate that investors from traditional markets, such as the United States, the United Kingdom and Japan, continue to deem Hong Kong as a strategic location for the management of their operations in the region. Unlike the case for top international metropolises such as New York, Tokyo and London, where the multinational companies headquartered are derived from national giant corporations, few multinational companies headquartered in Hong Kong are home grown. Yet, Hong Kong does have some home grown multinational companies, such as the Hutchison Group and the Li & Fung Group. Meanwhile, Mainland enterprises have become increasingly important players in Hong Kong, as its stock market has also attracted more and more Mainland enterprises, such as the Industrial and Commercial Bank of China and the three major Mainland oil companies, to use Hong Kong as the starting point for their globalisation roadmaps. These factors are expected to continue to enhance Hong Kong’s functions in the management and control of the global production chain.

(3) Functions as transportation hub. All international metropolises have a well-developed and convenient land and air transportation network, a high speed rail and express way system, a deep-water harbour and an international aviation port to keep in close touch and have efficient access to the world. New York is the economic, cultural and trading centre of the United States, as well as the country’s most well-developed transportation hub, with a coastline running over 1200 kilometres and 913 metres deep and carrying over 400 berths that handle the nation’s second highest cargo throughput (next to New Orleans), and the nation’s highest foreign trading volume (1/5 of the national total). New York has 200 water transportation routes, 14 rail lines, a subway system that runs 380 kilometres, 3 modern airports and a criss-cross road transport network; and its ocean, river, rail, road and air transport combine into a comprehensive transportation network, with the

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67 Among the factors as to why Hong Kong has been chosen as the location of regional headquarters and regional offices, is its simple taxation system and low taxes, which are rated as the most important determinants, while other key determinants in order of importance are: freedom of information, clean government and absence of foreign exchange controls.
John F Kennedy International Airport being one of the world’s largest airports in terms of cargo and passenger throughput. Tokyo, as the political, economic, transportation and cultural centre of Japan, is the location of the nation’s biggest business groups and one third of its banking and financial groups. It has over 20 rail lines connecting different places in Japan and a highway network that spans more than 20,000 kilometres. Its port operates more than 10 terminals and can accommodate over 180 container vessels, while its two international airports, namely Tokyo International Airport and Narita International Airport, handles flights for scores of international routes. London has arguably the busiest and the oldest rail network in the world. It is estimated that the London Underground, as the world’s second largest rail system, second only to Tokyo, has a daily passenger load of as many as 3 million. London has 6 operating airports, with the largest among them being Heathrow Airport, which handles around 70 million passengers a year as the busiest airport in Europe and the third busiest in the world.

Hong Kong and Shenzhen have each developed their own world leading international port facilities. Since the 1990s, Hong Kong’s container throughput has consistently been the highest in the world, though it slipped slightly to No. 2 in 2005 and 2006. As for Shenzhen, the combined container throughput of its eastern and western ports has been consistently ranked No. 4 in the world since 2003. When combined, the ports of Hong Kong and Shenzhen make up the world’s best and leading port hub, both in terms of container throughput and cargo shipment volume, providing the strongest possible support for the successful establishment of a Hong Kong-Shenzhen Metropolis as a world-class metropolis.

Hong Kong and Shenzhen are ranked as world leaders in terms of their aviation facilities and aviation handling capacity. Over the years, the Hong Kong International Airport has been one of the world’s most well-known, most advanced and most well-established international airports, consistently topping the world rankings in terms of air cargo volume and passenger volume. Meanwhile, Shenzhen Airport is one of the important Mainland airports, with a leading national passenger and cargo throughput and the highest national growth rate in cargo throughput. In addition, Hong Kong has 6000 double-decker buses, 18138 taxis and 7 mass transit railway lines, with a combined daily passenger load of 11 million. Shenzhen’s network of roads, express ways, railways and high speed railways provides a high degree of convenience of access. In particular, it is the interchange point of both the Beijing-Guangzhou Railway and the Beijing-Kowloon
3. Major Conclusions

Compared with the world cities, a Hong Kong-Shenzhen Metropolis would be more like a regional international metropolis at the sub-nucleus layer, considerably lagging behind global cities such as Tokyo, New York and London. Still, a Hong Kong-Shenzhen Metropolis would have its own potential strengths.

(1) Obviously lagging behind global cities such as Tokyo, New York and London. In terms of GDP, a Hong Kong-Shenzhen Metropolis would considerably lag behind international metropolises such as Tokyo, New York and London. In respect of major economic functions, compared with the international metropolises, a Hong Kong-Shenzhen Metropolis would have a much smaller financial industry, its power of control in finances would be relatively inferior, and there would be room for improvement of its financial network. Concerning its functions in the management and control of the global production chain, a Hong Kong-Shenzhen Metropolis might not have substantial power of control and influence on the global economy and given that the coverage of its production service industries would be limited to the Pearl River Delta, its international service functions might be relatively weak. Concerning its scope of city influence, a Hong Kong-Shenzhen Metropolis would be much less powerful than the above metropolitan circles. Being a source of cultural influence, as an important part of economic power, a Hong Kong-Shenzhen Metropolis would have wide room for improvement.

(2) A Hong Kong-Shenzhen Metropolis would be well positioned for domestic growth potential and overseas opportunities. Hong Kong has a market economy system that is one of the freest in the world. Institutional advantage is one of the most important assets for a Hong Kong-Shenzhen Metropolis.

Firstly, as far as economic functions are concerned, a Hong Kong-Shenzhen Metropolis would have the potential to develop into a top-notch “world city”. In particular, Hong Kong has comparatively strong power in respect of fund raising as a capital market. Taking into account such competitive strength, Hong Kong will continue to capitalise on the strong support from its motherland to attract more overseas investors to use Hong Kong as a gateway to enter the rapidly growing Chinese market.
Secondly, the geographical location of a Hong Kong-Shenzhen Metropolis, particularly in the Asia-Pacific region, would enable it to become one of the command and control centres of the global economy. The rapid growth of China and the Asia-Pacific region leading to the relocation of the management functions of multinational companies towards the region, would create considerable potential for the business growth of a Hong Kong-Shenzhen Metropolis. In particular, Hong Kong plays an important role as a preferred location for the regional headquarters of multinational companies. Mainland companies are also expected to become increasingly important players in the Hong Kong business community.

Thirdly, a Hong Kong-Shenzhen Metropolis would have the potential to become one of the first-rate transportation hubs in the world. When combined, the ports of Hong Kong and Shenzhen make up the world’s best and leading port hub, both in terms of container throughput and cargo shipment volume, providing the strongest possible support for the successful establishment of a Hong Kong-Shenzhen Metropolis as a world-class metropolis. Hong Kong and Shenzhen are world leaders in terms of their aviation facilities and aviation handling capacity. Over the years, the Hong Kong International Airport has been one of the world’s most well-known international airports, consistently topping the world rankings in terms of air cargo volume and passenger volume.

III. The Economic Power and Proper Role of a Hong Kong-Shenzhen Metropolis

As the international core city of the region, relying on the rapidly growing Mainland economy, Hong Kong has the greatest potential to develop into a world class city that can reflect the international status of China. Under the special political and economic arrangements under “One Country, Two Systems”, Hong Kong is constricted to a certain extent in its ability to radiate its influence as a core city and drive the development elsewhere in the Mainland, thus making it difficult for Hong Kong to help effectively consolidate the resources of the Pearl River Delta. Nevertheless, the active pursuit of the establishment of a Hong Kong-Shenzhen Metropolis would break all limitations resulting from geographic boundaries by turning Shenzhen into a bridge for Hong Kong to reach into the Mainland and paving the way for China’s globalisation roadmap. Within the “Pan-Pearl River Delta”, a Hong Kong-Shenzhen Metropolis would be the leader of
regional growth. A Hong Kong-Shenzhen Metropolis would also be able to play an active role in further pushing forwards the cooperation and development of the “China-ASEAN” Free Trade Zone, which would be a significant input for the national strategy.

Firstly, a Hong Kong-Shenzhen Metropolis would become a key driving force for regional economic integration. For the Greater Pearl River Delta, a Hong Kong-Shenzhen Metropolis could leverage Hong Kong’s status as an international city and its influence on the external economy, and Shenzhen’s link to the Pearl River Delta and Pan-Pearl River Delta, and its influence on the internal economy. If the concentration and radiation power of Hong Kong and Shenzhen could be strengthened as the core cities, nucleus cities and international cities, the beneficial effects would spread to the urban agglomeration and the Pearl River Delta in an increasingly obvious manner, and the flow of capital, manpower, technology and innovation power would then also flood into the Greater Pearl River Delta. In this way, a Hong Kong-Shenzhen Metropolis would become the nucleus and the major driving force of the regional economic integration of the Greater Pearl River Delta and the Pan-Pearl River Delta.

Secondly, a Hong Kong-Shenzhen Metropolis would reinforce China’s bargaining and control power in the global economy. Although China’s economy is increasingly substantial in terms of size, its bargaining and control power in the global economy is not as significant. One of major reasons for this is that China lacks a first-class international city that is positioned among the top world cities with global economic, political and cultural influence. China had a GDP growth rate of 10.1% (compared with the world’s average of 5.1%) in 2004, 9.9% (compared with the world’s average of 4.3%) in 2005 and 10.7% (compared with the world’s average of 3.8%) in 2006. Its GDP in 2006 was US$2.59 trillion, ranking No. 4 in the world, and would be boosted to US$3.23 trillion when combined with those of Taiwan, being No. 20, and Hong Kong, being No. 34, far ahead of Germany (US$2.56 trillion), which was No. 3. Such an economic scale is not reflected in the bargaining and control power China currently enjoys in the global economy. A Hong Kong-Shenzhen Metropolis would be able to extend and expand the functions and effect of Hong Kong as a global city in the Asia-Pacific region and promote the position of Hong Kong and Shenzhen in the global economy, and accordingly the influence and control power of China in the global economy.

Thirdly, a Hong Kong-Shenzhen Metropolis would enhance the global status of the economies of China and Asia. The Asian economy led by China as well as other
countries is an important engine for the global economy. Yet, its economic status does not match up with its contribution to the global economy. Along with the growing economic power of China and Asia, and as the Renminbi continues to strengthen and become more influential in the global currency market, a Hong Kong-Shenzhen Metropolis would become an important nexus in the international financial and production service network by relying on the advantage of Hong Kong in those areas and turning it into an offshore financial centre for the Renminbi and a global production service network. This would make such a Hong Kong-Shenzhen Metropolis rank among the world cities with a considerable management and control power in the global economy, thereby asserting the position of China and Asia in the global economy, which would in turn become a key driver for promoting the economic development of China and Asia.
Chapter 4: Assessment of the Economic Impact of a Hong Kong-Shenzhen Metropolis

To assess the effect and influence of a Hong Kong-Shenzhen Metropolis on the economic development of the Greater Pearl River Delta, the Pan-Pearl River Delta, China as a whole and the world, and whether it can adopt its anticipated role, both a qualitative and quantitative analysis is necessary. What would be the economic impact of a Hong Kong-Shenzhen Metropolis? What would be the results of this Hong Kong-Shenzhen “1+1” Model? Through an econometric model, this study has conducted a quantitative analysis and projections of the economic impact of the establishment of a Hong Kong-Shenzhen Metropolis on Hong Kong and Shenzhen both individually and as a whole. One should be aware that the quantitative analysis conducted as part of this study serves purely as a concise simulative study and forecast of the possible economic impact of a Hong Kong-Shenzhen Metropolis. Given the constraints of various factors, such as the design of the model and the selectivity and availability of data, the results of such a simulative study may be imprecise and incomplete. Hence, the results of this part of the study should be used for reference only.

I. Analysis Method and Econometric Model

1. Methods and Models for the Analysis of the Economic Impact of a Hong Kong-Shenzhen Metropolis

Hong Kong academic Sung Yun-Wing has quantitatively analysed the impact of less-educated Mainland immigrants and inflows of direct investment income from China on the economic growth of Hong Kong, and concluded that the Mainland factor has been positive for the economic growth of Hong Kong. Mainland academic Tao Tao has conducted an empirical study on the impact of Hong Kong’s direct investments on the
economic growth of Guangdong province from 1985 to 2002. He found that Hong Kong’s direct investments have been the major driver of the economic growth of Guangdong province, and each percentage point of growth in Hong Kong’s direct investments would lead to 0.15% economic growth for Guangdong. He also found that Hong Kong’s direct investments contributed nearly 2/3 of the economic growth of Guangdong. In the empirical analysis carried out by Chen Xiuzhen\textsuperscript{70} of the economic impact of the integration between Hong Kong and the Mainland on both sides, it was found that for every 1% increase in the degree of economic integration between Hong Kong and the Mainland, the total output per capita in Hong Kong, the Mainland, Guangdong province and Shenzhen rose by 0.31%, 0.39%, 0.73% and 0.87% respectively. In conclusion, although there has not been any comprehensive study on the economic impact of a Hong Kong-Shenzhen Metropolis, based on the research studies conducted by academics from different perspectives, it has been largely established that the economic integration between Hong Kong and the Mainland has had a positive impact on the economic growth of both sides.

1 Presumptions for the Analysis of the Economic Impact of a Hong Kong-Shenzhen Metropolis

To begin with, it is presumed that freer flow of key resources between Hong Kong and Shenzhen will optimise the resource allocation in the two cities and enhance the efficiency of such resource allocation, which will in turn result in the spillover effect of the flow of key resources between the two cities, thus creating a win-win situation for their economic growth.

Firstly, the effect on improving resource allocation. From the perspective of sub-regional economic cooperation; geographic proximity, a high degree of synergy between the two economies and their differences in comparative advantages are driving the flow of key resources between the two cities to achieve optimal utilisation, this has led to the formation of a bottom-up model for the “flow and dispersion of key resources between the two cities”. The tendency for convergence of allocation efficiency and of prices and returns on investments of the key resources will operate to result in an improvement of the economic structure and resource allocation of less satisfactory performers, thereby promoting the growth of the two cities and enhancing their economic effectiveness.

\textsuperscript{70} Chen, Siuzhen, “Quantitative Research on the Impact of the Economic Integration between Hong Kong and the Mainland on their Economic Growth (香港與內地經濟一體化的經濟增長效應的計量研究)” in “China Opening Herald (開放導報)” (2005 Fifth Issue)
Secondly, the spillover effect of the flow of key resources between the two cities. According to the Law of Diminishing Returns, the spillover effect will quickly diminish as the regional spatial and geographic distances increase. Hong Kong and Shenzhen are only divided by a river, and it takes less than one hour to travel between the centres of the two cities. There is a high frequency flow of people, vehicles, cargo and capital between them and the spillover effect in respect of knowledge, information and human resources is relatively substantial. Under the New Theory of Growth, where the spillover effect in respect of knowledge, information and human resources is sufficiently substantial, the effect of geographic dispersion and regional economic growth covariance on the neighbouring area will substantially promote the economic development of laggards and reduce the gaps among the economies of the region.

(2) Design of the Model for Analysing the Economic Impact of a Hong Kong-Shenzhen Metropolis

The model for analysing the economic impact of a Hong Kong-Shenzhen Metropolis is designed on the basis of the above assumptions and the results of the empirical analysis of the data collected. Details of the analysis framework are set out below:

![Diagram of the analysis framework]

- Presumption for the economic impact of a Hong Kong-Shenzhen Metropolis
- Construction of the method and procedure for the empirical study
- Selecting parameters and defining each parameter
- Collecting and compiling data for each parameter
- Selecting suitable research methods & econometric tools
- Analysis model and results

Framework for the Analysis of the Economic Impact of a Hong Kong-Shenzhen Metropolis

Based on the framework and the presumptions of the analysis, as well as the
characteristics of the data samples collected for the study, we have used Eviews4.1 as the major tool for the empirical analysis, mainly utilising the time series analysis method with the application of a time series model, including the Log-Log Model and Log-Level Model.

Where there are a series of explanatory variables (e.g. \( N = K \)), the Log-Log Model is as follows:

\[
\ln(y) = \beta_0 + \sum \beta_i \ln(x_i) + \mu \quad i=1,2,\ldots,K
\]

whereas the coefficient of the explanatory variable represents elasticity, and in the case of the Multiple Log-Log Model (多元對數模型), \( \beta_i \) is called partial elasticity and measures the elasticity effect of the explanatory variable \( x_i \) on the dependent variable \( y \), under the assumption that other things are constant. Under the Log-Log Model, the Ordinary Least Squares (OLS) can be applied as the estimation method.

The Log-Level Model, also called the growth model, is usually used to measure the average growth rate of the dependent variable. It is the combination of the linear model and the log-linear model:

\[
\ln(y) = \beta_0 + \beta_1 t + \mu
\]

Let \( t \) be “time” (t) and t equal to 1, 2, ..., T as a time series, the coefficient \( \beta_1 \) of the variable \( t \) measures the difference of \( \ln(y) \) with the passage of time: if \( \beta_1 \) is a positive value, \( \ln(y) \) will grow with the passage of time; otherwise if \( \beta_1 \) is a negative value, \( \ln(y) \) will decline with the passage of time. As such, \( t \) can be deemed as a time variable, while \( \beta_1 \) is the average growth rate of \( y \). As in the case of the Log-Log Model, the Ordinary Least Squares (OLS) can be applied as the estimation method under the Log-Level Model.

2. Selection of Variables for the Econometric Model

One of the key components of the cooperation between Hong Kong and the Mainland is the Hong Kong-Shenzhen cooperation, which is a type of sub-regional economic cooperation. A Hong Kong-Shenzhen Metropolis would have the characteristics of sub-regional cooperation. In selecting the relevant data, given that the Hong Kong-Shenzhen data are inseparable from the Hong Kong-Mainland data, the variables on the key resources on the part of Hong Kong are mainly derived from the aggregate “Mainland-Hong Kong” data, while the variables on key resources on the part of Shenzhen
are mainly derived from the Hong Kong-Shenzhen data. On the one hand, such data selection is based on the availability and reliability of the data, and, on the other hand, that such data are able to reflect the true view of the trends of Hong Kong-Shenzhen cooperation. This study has focused on five variables, namely economic impact, capital flow, trade flow, manpower flow and temporal dummy variables, of which the definitions are set out below. All the data are derived from the statistics yearbook and official websites of the two cities.

**Variable 1: Economic impact variable (GDP).** GDP is a major indicator of economic impact, and can reflect the comprehensive impact of a “Hong Kong-Shenzhen Metropolis” on the economic growth of the two cities. GDP is also adopted as the economic impact indicator by both Hong Kong and Shenzhen.

**Variable 2: Capital flow variable (CF).** Capital flows between Hong Kong and Shenzhen lead to a higher efficiency in resource allocation in the two cities and drive the development of related industries, such as the financial sector, and thus result in greater economic benefits for the two cities. For Hong Kong, “liabilities owed by Hong Kong to the Mainland” has been used as the capital flow indicator, as it can reflect the flow of Mainland investments into Hong Kong. Taking into account that “Hong Kong’s direct investments in Shenzhen” constitute the “liabilities owed by Shenzhen to Hong Kong”, the former is used as the capital flow indicator for Shenzhen.

**Variable 3: Trade flow variable (TF).** Trade flows can drive the development of the relevant industries such as logistics and transportation, and thereby promote the increase in economic benefits generated in Hong Kong and Shenzhen. For Hong Kong, the “trading volume between Hong Kong and the Mainland (including re-exports)” has been used as the indicator for its trade flows. For Shenzhen, the “road cargo volume handled at the Shenzhen crossing points” has been used as the indicator for its trade flows.

**Variable 4: Manpower flow variable (LF).** The flow of people can drive the development of the relevant industries, such as tourism and retailing, and the free flow of people can enhance the allocation of manpower and economic benefits generated in the two cities. The “number of Mainland visitors to Hong Kong” has been used as the indicator for Hong Kong, while the “number of Hong Kong people departing for the Mainland” has been used for Shenzhen.

**Variable 5: Temporal dummy variables (TDs).** The Hong Kong-Shenzhen
cooperation is an impressive process of institutional changes. Each phase of deepening this cooperation relationship brings with it a significant impact on the flow of the three major key resources between the two cities and their economies. To describe the impact of such institutional changes, this study has introduced temporal dummy variables TD1 and TD2, which represent the “1997 impact” and the “CEPA impact” respectively. The value of TD1 is 1 during the period from 1997 to 2003, and 0 during other periods; while the value of TD2 is 1 during the period from 2004 to 2010, and 0 during other periods.

Based on the above model design and analysis methods, we have conducted an analysis of the economic impact of a Hong Kong-Shenzhen Metropolis on the output of Hong Kong and Shenzhen both individually and as a whole following the above reasoning. Hong Kong-Shenzhen cooperation has been and will continue to be a progressive process with three major impact issues: the handover of Hong Kong in 1997, or the “1997 Impact”; the official implementation of the CEPA in 2004, or the “CEPA Impact”; and the major breakthrough in the Hong Kong-Shenzhen cooperation with the preliminary formation of a Hong Kong-Shenzhen Metropolis in 2010, or the “2010 Impact”. In 2017, it is expected that the Hong Kong-Shenzhen Metropolis will enter the medium phase of construction, and degree of economic integration between Hong Kong and Shenzhen will be substantially enhanced.

II. The Economic Impact of a Hong Kong-Shenzhen Metropolis on Hong Kong and Shenzhen Individually and As a Whole

1. The Economic Impact of a Hong Kong-Shenzhen Metropolis on Hong Kong

   (1) The Simulative Analysis of the Relationship between Hong Kong’s GDP and the Flow of its Three Major Key Resources

   With “liabilities owed by Hong Kong to the Mainland”, the “trading volume between Hong Kong and the Mainland” and the “number of Mainland visitors to Hong Kong” as the explanatory variables, the “gross domestic product of Hong Kong” as the explained variable, and with the introduction of two temporal dummy variables, the expression of Econometric Model is as follows:
\[ \text{lnGDP} = \alpha_0 + \alpha_1 \text{TD1} + \alpha_2 \text{TD2} + (\beta_0 + \beta_1 \text{TD1} + \beta_2 \text{TD2}) \text{lnCF} + \\
(\beta_3 + \beta_4 \text{TD1} + \beta_5 \text{TD2}) \text{lnTF} + (\beta_6 + \beta_7 \text{TD1} + \beta_8 \text{TD2}) \text{lnLF} \]

Whereas GDP represents the gross domestic product of Hong Kong, CF represents the liabilities owed by Hong Kong to the Mainland, TF represents the trading volume between Hong Kong and the Mainland, LF represents the number of Mainland visitors to Hong Kong; \( \beta_0, \beta_3 \) and \( \beta_6 \) are the elasticity coefficients and reflect the elasticity of GDP growth to the changes in the flow of key resources, that is, the percentage change in GDP for every 1% change in the flow of key resources; while TD1 and TD2 are the temporal dummy variables, \( \alpha_1, \beta_1, \beta_4 \) and \( \beta_7 \) represent the “1997 Impact” and \( \alpha_2, \beta_2, \beta_5, \beta_8 \) the “CEPA Impact”.

Applying the time series data (1985 - 2010), we have used Eviews4.1 to conduct an analysis of the relationships between Hong Kong’s GDP and the flow of its three major key resources, the results of which are shown in the following table.

Quantitative Analysis of the Relationships between Hong Kong’s GDP and the Flow of its Three Major Key Resources

<table>
<thead>
<tr>
<th>Explanatory Variables</th>
<th>Explained Variable: Hong Kong’s gross domestic product (lnGDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated Coefficient</td>
</tr>
<tr>
<td>Constant</td>
<td>( \alpha_0 )</td>
</tr>
<tr>
<td>TD1</td>
<td>( \alpha_1 )</td>
</tr>
<tr>
<td>TD2</td>
<td>( \alpha_2 )</td>
</tr>
<tr>
<td>lnCF</td>
<td>( \beta_0 )</td>
</tr>
<tr>
<td>lnTF</td>
<td>( \beta_3 )</td>
</tr>
<tr>
<td>lnLF</td>
<td>( \beta_6 )</td>
</tr>
<tr>
<td>TD1* lnLF</td>
<td>( \beta_7 )</td>
</tr>
<tr>
<td>TD2* lnLF</td>
<td>( \beta_8 )</td>
</tr>
<tr>
<td>Adjusted ( R^2 )</td>
<td>0.9979</td>
</tr>
<tr>
<td>F-statistics</td>
<td>1715 (0.0000)</td>
</tr>
<tr>
<td>D-W Value</td>
<td>1.78</td>
</tr>
<tr>
<td>Estimation Method</td>
<td>OLS</td>
</tr>
</tbody>
</table>

Remark: ***, ** and * represent a >1%, >5% and >10% significance level respectively.

From the above table, we can see that: the estimated value of all the observation data have a significance value of >5% or >1%, which are all applied in the model; the adjusted \( R^2 \) is 0.9979 and the F-statistics is 1715 (P=0.0000), which indicates that the overall fitness of the model is satisfactory; the D-W value is 1.78, which indicates that no significant serial correlation exists in the data, and the simulative results are reliable.
(2) Analysis of the Economic Impact of a Hong Kong-Shenzhen Metropolis on Hong Kong

Based on the above results of the quantitative analysis, we have arrived at the CEPA Impact model to serve as the economic impact analysis model for Hong Kong, of which the details are as follows:

\[ \ln(GDP) = -2.7854 + 0.1377 \ln(CF) + 0.2683 \ln(TF) + 0.6852 \ln(LF) \]

Whereas GDP represents the gross domestic product of Hong Kong, CF represents the liabilities owed by Hong Kong to the Mainland, TF represents the trading volume between Hong Kong and the Mainland (including re-exports) and LF represents the number of Mainland visitors to Hong Kong.

The estimated coefficient of CF is 0.1377, which indicates that the gross domestic product of Hong Kong will increase by 0.1377 percentage points for every 1% increase in the liabilities owed by Hong Kong to the Mainland.

The estimated coefficient of TF is 0.2683, which indicates that the gross domestic product of Hong Kong will increase by 0.2683 percentage points for every 1% increase in the trading volume between Hong Kong and the Mainland (including re-exports).

The estimated coefficient of LF is 0.6852, which indicates that the gross domestic product of Hong Kong will increase by 0.6852 percentage points for every 1% increase in the number of Mainland visitors to Hong Kong.

In 2010, if a Hong Kong-Shenzhen Metropolis were to make a substantial step forward to significantly enhance the degree of economic and social integration between the two cities, there would be an impact on the flow of key resources. Based on the input in sequence of the projected values of the key resources for the years from 2011 to 2017, it is possible to project Hong Kong’s GDP after the impact and compare it with the value it would have without the impact, and it is also possible to project the relative contribution value of a Hong Kong-Shenzhen Metropolis to Hong Kong’s GDP, that is, the increase in the GDP growth rate in the year. The results of the projection indicate that there are two features of the contribution value of a Hong Kong-Shenzhen Metropolis to Hong Kong’s GDP:

Firstly, a Hong Kong-Shenzhen Metropolis would have a positive impact on Hong Kong’s GDP, as all the contribution values are positive during the period from 2011 to
2017, which indicates that a Hong Kong-Shenzhen Metropolis would enhance the flow of key resources between Hong Kong and Shenzhen and improve the allocation of their key resources, thereby effectively promoting the growth of Hong Kong’s GDP.

Secondly, the impact of a Hong Kong-Shenzhen Metropolis on Hong Kong’s GDP should show a trend of gradual expansion. In 2011, the relative contribution of a Hong Kong-Shenzhen Metropolis to Hong Kong’s GDP would be 0.31%, which means that a Hong Kong-Shenzhen Metropolis would lead to an increase of 0.31 percentage points in Hong Kong’s GDP growth rate in the year. Thereafter, this figure would increase year after year and in 2017, the relative contribution of a Hong Kong-Shenzhen Metropolis to Hong Kong’s GDP would increase to 0.67%, which means that a Hong Kong-Shenzhen Metropolis would lead to an increase of 0.67 percentage points in Hong Kong’s GDP growth rate in the year.

2. The Economic Impact of a Hong Kong-Shenzhen Metropolis on Shenzhen

(1) Simulative Analysis of the Relationships between Shenzhen’s GDP and the Flow of its Three Major Key Resources

With “Hong Kong’s direct investments in Shenzhen”, the “road cargo volume handled at the Shenzhen crossing points” and the “number of Hong Kong people departing for the Mainland” as the explanatory variables, and “Shenzhen’s GDP” as the explained variable, and with the introduction of two temporal dummy variables, the expression of the Econometric Model is as follows:

\[
\ln(GDP) = \alpha_0 + \alpha_1 \cdot TD_1 + \alpha_2 \cdot TD_2 + (\beta_0 + \beta_1 \cdot TD_1 + \beta_2 \cdot TD_2) \cdot \ln(CF) + \\
(\beta_3 + \beta_4 \cdot TD_1 + \beta_5 \cdot TD_2) \cdot \ln(TF) + (\beta_6 + \beta_7 \cdot TD_1 + \beta_8 \cdot TD_2) \cdot \ln(LF)
\]

Whereas GDP represents Shenzhen’s gross domestic product, CF represents Hong Kong’s direct investments in Shenzhen, TF represents the road cargo volume handled at the Shenzhen crossing points, LF represents the number of Hong Kong people departing for the Mainland; \( \beta_0, \beta_3 \) and \( \beta_6 \) are the elasticity coefficient and reflect elasticity of GDP growth to the changes in the flow of key resources, that is, the percentage change in GDP for every 1% change in the flow of key resources; while \( TD_1 \) and \( TD_2 \) are the temporal dummy variables, \( \alpha_1, \beta_1, \beta_4 \) and \( \beta_7 \) represent the “1997 Impact” and \( \alpha_2, \beta_2, \beta_5, \beta_8 \) the “CEPA Impact”.
Applying the time series data (1985 - 2010), we have used Eviews4.1 to conduct an analysis of the relationships between Shenzhen’s GDP and the flow of its three major key resources, and the results are shown in the following table.

**Quantitative Analysis of the Relationships between Hong Kong's GDP and the Flow of its Three Major Key Resources**

<table>
<thead>
<tr>
<th>Explanatory Variables</th>
<th>Explained Variable: Shenzhen’s gross domestic product (lnGDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated Coefficient</td>
</tr>
<tr>
<td>Constant</td>
<td>α0</td>
</tr>
<tr>
<td>TD2</td>
<td>α2</td>
</tr>
<tr>
<td>lnCF</td>
<td>β0</td>
</tr>
<tr>
<td>TD1* lnCF</td>
<td>β1</td>
</tr>
<tr>
<td>lnTF</td>
<td>β3</td>
</tr>
<tr>
<td>TD1* lnTF</td>
<td>β4</td>
</tr>
<tr>
<td>lnLF</td>
<td>β6</td>
</tr>
<tr>
<td>TD2* lnLF</td>
<td>β8</td>
</tr>
</tbody>
</table>

Adjusted $R^2$ 0.9973

F-statistics 1301 (0.0000)

D-W Value 2.24

Estimation Method OLS

Remark: ***, ** and * represent a >1%, >5% and >10% significance level respectively.

From the above table, we can see that: the estimated value of all the observation data have a significance value of >1%, which are all applied in the model; the adjusted $R^2$ is 0.9973 and the F-statistics is 1301 (P=0.0000), which indicate that the overall fitness of the model is satisfactory; the D-W value is 2.24, which indicates that no significant serial correlation exists in the data, and the simulative results are reliable.

(2) Analysis of the Economic Impact of a Hong Kong-Shenzhen Metropolis on Shenzhen

Based on the above results of the quantitative analysis, we have arrived at the CEPA Impact model to serve as the economic impact analysis model for Shenzhen, of which the details are as follows:

$$\text{lnGDP} = -8.7031 + 0.1865 \times \text{lnCF} + 0.6954 \times \text{lnTF} + 0.9102 \times \text{lnLF}$$

Whereas GDP represents the gross domestic product of Shenzhen, CF represents Hong Kong’s direct investments in Shenzhen, TF represents the road cargo volume handled at the Shenzhen crossing points, and LF represents the number of Hong Kong
people departing for the Mainland.

The estimated coefficient of CF is 0.1865, which indicates that the gross domestic product of Shenzhen will increase by 0.1865 percentage points for every 1% increase in Hong Kong’s direct investments in Shenzhen.

The estimated coefficient of TF is 0.6954, which indicates that the gross domestic product of Shenzhen will increase by 0.6954 percentage points for every 1% increase in the road cargo volume handled at the Shenzhen crossing points.

The estimated coefficient of LF is 0.9102, which indicates that gross domestic product of Shenzhen will increase by 0.9102 percentage points for every 1% increase in the number of Hong Kong people departing for the Mainland.

In 2010, if a Hong Kong-Shenzhen Metropolis were to make a substantial step forward to significantly enhance the degree of economic and social integration between the two cities, there would be an impact on the flow of key resources. Based on the input in sequence of the projected values of the key resources for the years from 2011 to 2017, it is possible to project Shenzhen’s GDP after the impact and compare it with the value it would have without the impact, it is also possible to project the relative contribution value of a Hong Kong-Shenzhen Metropolis to Shenzhen’s GDP, that is, the increase in the GDP growth rate in the year. The results of the projection indicate that there are two features of the contribution value of a Hong Kong-Shenzhen Metropolis to Shenzhen’s GDP:

Firstly, a Hong Kong-Shenzhen Metropolis would have a positive impact on Shenzhen’s GDP, as all the contribution values are positive during the period from 2011 to 2017, which indicates that a Hong Kong-Shenzhen Metropolis would enhance the flow of key resources between Hong Kong and Shenzhen and improve the allocation of their key resources, thereby effectively promoting the growth of Shenzhen’s GDP.

Secondly, the impact of a Hong Kong-Shenzhen Metropolis on Shenzhen’s GDP should show a wave pattern growth trend. In 2011, the relative contribution of a Hong Kong-Shenzhen Metropolis to Shenzhen’s GDP would be 0.54%, which means that a Hong Kong-Shenzhen Metropolis would lead to an increase of 0.54 percentage points in Shenzhen’s GDP growth rate in the year. Such contribution would increase to 0.59% in 2012, and then fall to 0.53% in 2013 before rising again to 0.58% in 2014.
3. The Economic Impact of a Hong Kong-Shenzhen Metropolis on Hong Kong and Shenzhen As a Whole

(1) Analysis of the Economic Impact on Hong Kong and Shenzhen as a Whole

On the basis that Hong Kong and Shenzhen are considered as a whole, firstly, a static trend analysis of the GDPs of Hong Kong and Shenzhen has been conducted to project their GDP values from 2011 to 2017, which have been translated into Renminbi amounts at 2000 prices, followed by adding up the two sets of values to arrive at the GDP values of Hong Kong and Shenzhen as a whole on the static basis. Subsequently, a dynamic analysis has been conducted to determine the economic impact of the flow of key resources on the two cities; the affected data on the flow of key resources have been input in the economic impact projection model to obtain the GDP values of the two cities from 2011-2017, followed by adding up the two sets of data to arrive at the GDP values of Hong Kong and Shenzhen as a whole on the dynamic basis. Finally, the dynamic and static GDP values of Hong Kong and Shenzhen as a whole have been compared to determine the economic impact of a Hong Kong-Shenzhen Metropolis on Hong Kong and Shenzhen as a whole. The results of the project show that there are two characteristics of the contribution of a Hong Kong-Shenzhen Metropolis to the GDP of Hong Kong and Shenzhen as a whole:

Firstly, a Hong Kong-Shenzhen Metropolis would have a positive impact on the GDP of Hong Kong and Shenzhen as a whole, as all the contribution values are positive during the period from 2011 to 2017, which indicates that a Hong Kong-Shenzhen Metropolis would enhance the flow of key resources between Hong Kong and Shenzhen and improve the allocation of their key resources, thereby effectively promoting the growth of the GDP of Hong Kong and Shenzhen as a whole.

Secondly, the impact of a Hong Kong-Shenzhen Metropolis on the GDP of Hong Kong and Shenzhen as a whole should show a trend of gradual expansion. In 2011, the relative contribution of a Hong Kong-Shenzhen Metropolis to the GDP of Hong Kong and Shenzhen as a whole would be 0.38%, which means that a Hong Kong-Shenzhen Metropolis would lead to an increase of 0.38 percentage points in the GDP growth rate of Hong Kong and Shenzhen as a whole in the year. Thereafter, this figure would increase year after year and in 2017, the relative contribution of a Hong Kong-Shenzhen Metropolis to the GDP of Hong Kong and Shenzhen as a whole would increase to 0.61%, which means that a Hong Kong-Shenzhen Metropolis would lead to an increase of 0.61
percentage points in the GDP growth rate of Hong Kong and Shenzhen as a whole in the year.

The above projection by this study of the economic impact of a Hong Kong-Shenzhen Metropolis has been conducted in accordance with prevailing mathematical models. A conclusion worth noting of the above analysis is that a Hong Kong-Shenzhen Metropolis would have a largely similar magnitude of positive economic impact on the two cities both individually and as a whole. To a certain extent, this is in line with the concerns expressed during our interviews with some people from the industrial and commercial sectors of Hong Kong that the interests of Hong Kong would be impaired during the cooperation process, or that Shenzhen would benefit more, and Hong Kong less from the economic impact generated from the cooperation. Certainly, many theories have elaborated on the rationality of the integration of a number of “cities” into a “metropolis”, as well as the factors and conditions for its success, and the steps that need to be taken throughout the process. Yet, there are also empirical cases of cities failing to achieve integration. As such, Hong Kong and Shenzhen need to conduct further studies to find out whether any of these theories can apply to the case of Hong Kong and Shenzhen in order to establish the necessity and feasibility of the establishment of a “Hong Kong-Shenzhen Metropolis”. For example, whether such a “Hong Kong-Shenzhen Metropolis” should be a “commuting metropolis” or “administrative metropolis”? Is it true that the successful establishment of mega metropolises in the world all requires a sufficiently sizable population and asset base? Is it really possible, “in theory”, to achieve an effective scale for two such huge cities to integrate as one? If Hong Kong is to gain direct access the Mainland through Shenzhen, should Shenzhen also gain “direct access to the outside” through Hong Kong? Can the “metropolis” concept really bring out the advantages of the two cities? Will the integration of the two cities prevent them from being marginalised? Are specific government and social initiatives required to bring about the integration of the two cities? These questions are precisely what we will deal with in the latter two sections of this report.

III. GDP Comparison between a Hong Kong-Shenzhen Metropolis and the Three Major World Cities

Based on the ranking of the productivity of major cities in the world conducted by PriceWaterhouseCoopers on 7 March 2007, the top ten world cities are: Tokyo (US$1.19
trillion), New York (US$1.13 trillion), Los Angeles (US$639 billion), Chicago (US$460 billion), Paris (US$460 billion), London (US$352 billion), Osaka (US$341 billion), Mexico City (US$315 billion), Philadelphia (US$312 billion), Washington DC (US$299 billion). Taking into account that the above cities are mainly developed economies and their economic growth will gradually become steady, as well as in light of the availability of data, this study has used the mean GDP growth rates of the countries of these major cities during the period from 2001 to 2005 to project their average growth rates in the next 15 years. For the period from 2001 to 2005, the mean GDP growth was 3.08% for the United States, 1.24% for Japan, 2.48% for the United Kingdom, 1.54% for France and 2.26% for Mexico. Based on this data, our projected GDP data for the top ten cities in 2020 (in order) are: New York (US$1.78 trillion), Tokyo (US$1.43 trillion), Los Angeles (US$1.01 trillion), Chicago (US$725.1 billion), Paris (US$578.5 billion), London (US$508.3 billion), Philadelphia (US$491.8 billion), Washington (US$471.3 billion), Mexico City (US$440.4 billion) and Osaka (US$410.2 billion).

Using the purchasing power parity (PPP) method, Hong Kong’s GDP in 2005 was US$244 billion, and a Hong Kong-Shenzhen Metropolis would be ranked No. 7 with a GDP of more than US$350 billion, slightly lower than that of London. As shown in the following chart, if the Hong Kong-Shenzhen cooperation factor is taken into account and a Hong Kong-Shenzhen Metropolis is into the middle phase of development by 2017, based on the above projections, by 2020 a Hong Kong-Shenzhen Metropolis would have an annual GDP growth rate of around 8% and would be ranked the No. 3 world city with a GDP of US$1.11 trillion in 2020, surpassing that of London, Paris, Chicago and Los Angeles (based on a projected growth rate of 6%, a Hong Kong-Shenzhen Metropolis would also have a ranking of No. 4 that year).

71 http://www.singtaonet.com/fin/200703/t20070308_484185.html

72 According to the forecast by PriceWaterhouseCoopers, Tokyo will remain at the top with a GDP of US$1.60 trillion in 2020. For details, please see http://www.runsky.com/news/2007-03/08/content_928266.htm

73 Based on the projected data of the GDP of a Hong Kong-Shenzhen Metropolis in the previous sub-section.
If we take into account positive factors such as Renminbi appreciation, the overall economic strengths of the Hong Kong-Shenzhen Metropolis would be even greater. Capitalising on the strong economy of the Mainland hinterland, the position of the Hong Kong-Shenzhen Metropolis as the world’s most important capital raising centre would be further consolidated by that time. Simultaneously, with its strong economic capabilities, first-rate aviation and harbour operating capabilities, as well as competitive advantages of a free port, the Hong Kong-Shenzhen Metropolis can no doubt join the league of the world’s major metropolises.
Chapter 5: Promoting the Relatively Free Flow of Key Resources is Fundamental to Building a Hong Kong-Shenzhen Metropolis

From the perspective of regional economics, there are two classifications of regional key resources: the components of regional economic units, such as economic centres, economic hinterland and economic networks; and all the various key resources and materials that affect the development of regional economies, including natural resources, labour, capital, goods, science and technology, organisational management and information, as well as geographical factors, such as regional position and environment, that affect the course of development. In this report, regional key resources are defined as the latter. As far as the mobility of key resources is concerned, land, geographical position and minerals are immovable under normal circumstances. On the basis of mobility, this study will only focus on people, capital, goods, and information and services as the four key resources in its scrutiny of the Hong Kong-Shenzhen regional development.

In the conventional sense, an international “metropolis” is formed by a couple or dozen cities or urban agglomerations which complement each other in different functions. For example, Greater New York, Greater London, Greater Paris and Greater Tokyo have all been built around the same concept; key resources can flow freely within the metropolis. As such, achieving the free flow of key resources between Hong Kong and Shenzhen through easing the regulations that block their free flow is a necessary prerequisite and foundation work for the establishment of a Hong Kong-Shenzhen Metropolis.

Today, the gap between Hong Kong and Shenzhen has greatly narrowed in respect of economic development and social livelihood. After more than two decades of cooperation between the two cities in economic and social activities, which were mainly driven by social factors, there is a high degree of mutual penetration between the two cities, which has created some sort of foundation and enabled the practicability and feasibility of the free flow of key resources between Hong Kong and Shenzhen. The formation, development and prosperity of a Hong Kong-Shenzhen Metropolis all depend on the two-way free flow of key resources between the two cities. As such, the free flow of key resources is the starting point of a Hong Kong-Shenzhen Metropolis.
The objective of building a Hong Kong-Shenzhen Metropolis is to enable both Hong Kong and Shenzhen to share resources, optimise allocation, complement each other’s functions, achieve collaborative development and share benefits during their economic development, thereby strengthening the competitiveness of the two cities. The successful realisation of this objective depends on a series of institutional arrangements and participation from different sectors of society. These policies, measures and arrangements are the means to be eventually put in place for the flow of all types of key resources between the two cities. Improving the conditions for the flow of key resources would achieve a relatively free flow of people, capital, goods, information and services between the two cities and increase the efficiency and output of resource allocation in the Metropolis, thereby enhancing the degree of prosperity of the Metropolis’ economic development and its global competitiveness. As such, the essence of the Hong Kong-Shenzhen Metropolis concept is in fact the desire to increase the highly efficient two-way flow between the two cities, enabling them to complement each other and enjoy mutual benefits in macro development and micro operations, as well as to achieve results greater than those attained when operating separately under globalisation and regionalisation. This concept does not call for the “assimilation” of the two cities in substance.  

I. Current Status of the Flow of Key Resources between Hong Kong and Shenzhen

Although the conditions are currently quite satisfactory for the flow of some of the key resources (such as the flow of goods) between Hong Kong and Shenzhen, there is still a considerable gap between the general status of such flow and the ideal status. Given that the efficiency of the flow of key resources is an important indicator of the level of regional economic integration, Hong Kong and Shenzhen must focus their efforts on addressing

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74 The Mainland and Hong Kong have different interpretations for the term “integration”. Mainland academics are more inclined to define it as economic integration, while Hong Kong people are concerned that it connotes the broad sense of integration, which covers social livelihood and the legal framework. In this report, references to “integration” are seldom used to avoid the differences in interpretation. The focus herein is also on economic integration.

75 During an in-depth interview conducted by our focus study unit, a Shenzhen expert pointed out that: Economic integration and regional integration are two yardsticks to assess the progress of Shenzhen-Hong Kong cooperation. Economic integration is the pursuit of profit maximisation, which involves the division of labour and cooperation in industrial development and is largely driven by the market behaviour of enterprises. Regional integration is the pursuit of cost minimisation, which involves the interface between systems and mechanisms and is largely driven by government behaviour. Currently, there is a high degree of economic integration, but very low degree of regional integration between Hong Kong and Shenzhen, and in certain aspects, the two cities have not even achieved the basic level of regional
Currently, the two-way flow of people between Hong Kong and Shenzhen is subject to substantial constraints, and is mainly manifested in the difficulties encountered by Shenzhen residents in moving into and out of Hong Kong, due to the large number of formalities and restrictions. The effect of this unsatisfactory flow of people is that it is difficult to achieve relatively satisfactory state for the flow of other key resources between Hong Kong and Shenzhen, such as capital, goods, information and services. Particularly, the technology, legal, accounting, medical, intermediary, tourism, convention and exhibition, logistics, construction and other service sectors in the two cities meet with substantial restrictions in the course of integration.

This report will set out the detailed analysis of the current status of the flow of key resources with the focus on people, capital, goods and information and services.

1. Current Status of the Flow of People

There are two aspects to the flow of people between Hong Kong and Shenzhen, the flow of natural persons and labour. In respect of the flow of natural persons, given that Shenzhen is a frontier city and a crossing point, the flow of people between Hong Kong and Shenzhen not only reflects the movement of Shenzhen and Hong Kong residents, but also the movement of other Mainland residents who enter Hong Kong through Shenzhen, as well as overseas visitors entering and leaving China through the crossing points between Hong Kong and Shenzhen. The above is reflected in the official statistics, which cover the total number of inbound and outbound visitors, the number of visitors from Hong Kong and Macau, Mainland visitors and overseas visitors. However, there is no corresponding database to reflect the number of Shenzhen residents entering and leaving Hong Kong and Macau. The questionnaire surveys conducted for the purpose of this study show that the interviewees from Hong Kong are satisfied with the current status of the flow of people between the cities, but not with the cross-boundary flow of expatriates holding overseas passports. Based on the interviews conducted in Shenzhen, however most interviewees are not satisfied with the cross-boundary flow. Hence, this study will only focus on examining the problems related to the flow of Shenzhen residents into Hong Kong.\textsuperscript{76} To a certain

\textsuperscript{76} This is also the primary reason as to why this study has not conducted any survey specifically targeting Hong
extent, solving this problem can help facilitate the cross-boundary flow of expatriates. One point that needs to be made clear is that there are less than 2 million people in Shenzhen who have registered residence, but the number of usual residents in Shenzhen has broken through 8 million; if the number of floating residents is included as well, Shenzhen’s population is over 12 million. “Usual residents” refers to those residents who have registered their usual residence with the municipal public security system of Shenzhen. There are a large number of floating residents who have not registered their usual residence in Shenzhen; judging from the length of their stay in Shenzhen, the majority of such residents are those who work and live in Shenzhen for more than 180 days a year. To visit Hong Kong, these two groups of residents must return to the place of their registered residence to apply for a pass and visa. Hence, many individuals who frequently visit Hong Kong with a Mainland pass are actually usual residents or so-called floating residents of Shenzhen.

(1) Size of the Flow of People Passing through the Crossing Points and the Degree of Their Convenience of Access

- The Hong Kong-Shenzhen Crossing Points are the Cross-Boundary Road Crossing Points with the Highest Traffic Flow in China. In 2006, the total number of people entering or leaving China through the Hong Kong-Shenzhen crossing points reached 170 million, representing 44.7% of the national total.\textsuperscript{77} In particular, the number of people entering or leaving China through the Lo Wu Crossing Point accounted for 29% of the national total.\textsuperscript{78} The above reflects the size of the flow of natural persons passing through the Hong Kong-Shenzhen crossing points. Since none of the relevant departments of Hong Kong and Shenzhen has any separate statistics on the number of people crossing the boundary between the two cities, there is no available quantified data on the number of people crossing the boundary between the two cities.

<table>
<thead>
<tr>
<th>Number of People Entering and Leaving China through the Shenzhen Crossing Points (2002 – 2006)</th>
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<tbody>
<tr>
<td>Number of people entering and leaving China through the Shenzhen</td>
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<td>1.3</td>
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\textsuperscript{77} According to the website of the Ministry of Public Security, the number of people entering and leaving China in 2006 was 318,000,000.

\textsuperscript{78} According to the website of the Ministry of Public Security, the number of people entering and leaving China through the Lo Wu crossing point in 2006 was 92.68 million.
crossing points (hundred million)

Source: the website of the Statistics Bureau of Shenzhen at http://www.sztj.com/ and the website of the Office for the Crossing Points in Shenzhen (深圳市口岸辦)

Number of Overnight International Visitors to Shenzhen (2002 - 2005)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Number of domestic visitors (ten thousand)</td>
<td>1073.5</td>
<td>1013.7</td>
<td>1383.1</td>
<td>1526.4</td>
</tr>
<tr>
<td>Number of international visitors (ten thousand)</td>
<td>449.4</td>
<td>435.1</td>
<td>559.8</td>
<td>616.5</td>
</tr>
<tr>
<td>Including: Overseas individuals (ten thousand)</td>
<td>80.6</td>
<td>69.9</td>
<td>105.2</td>
<td>120.2</td>
</tr>
<tr>
<td>Hong Kong and Macau Chinese (ten thousand)</td>
<td>319.9</td>
<td>331.5</td>
<td>407.0</td>
<td>445.3</td>
</tr>
<tr>
<td>Hong Kong and Macau visitors as a percentage of the total number of overnight visitors to Shenzhen</td>
<td>21.0%</td>
<td>22.9%</td>
<td>20.9%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Hong Kong and Macau visitors as a percentage of the total number of overnight international visitors to Shenzhen</td>
<td>71.2%</td>
<td>76.2%</td>
<td>72.7%</td>
<td>72.2%</td>
</tr>
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</table>

Source: Statistics Yearbook of Shenzhen 2006

Mainland Visitors to Hong Kong (2001 – 2005)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
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<tbody>
<tr>
<td>Total (ten thousand)</td>
<td>1656.6</td>
<td>1553.7</td>
<td>2181.1</td>
<td>2335.9</td>
<td>2523</td>
</tr>
<tr>
<td>Including: Mainland individuals (ten thousand)</td>
<td>682.5</td>
<td>846.7</td>
<td>1224.6</td>
<td>1254.1</td>
<td>1350</td>
</tr>
</tbody>
</table>

Source: Statistics Yearbook of Hong Kong and Macau 2006, data of the Hong Kong Tourism Board

- **Hong Kong and Shenzhen residents represent the core of the passenger traffic cleared at the Hong Kong-Shenzhen crossing points.** From the data on visitors to Hong Kong and Shenzhen, it can be found that during the period from 2002 to 2005, the number of overnight Hong Kong and Macau visitors accounted for 72% to 76% of the total number of international visitors to Shenzhen. Since Hong Kong has no separate statistics on the number of Shenzhen residents visiting Hong Kong, there is no concrete data on the number of Shenzhen visitors to Hong Kong. Nevertheless, according to estimates by the Hong Kong Tourism Board, the number of Guangdong visitors to Hong Kong in 2005 was around 9.15 million, representing 70% of the total number of Mainland visitors to Hong Kong. Meanwhile, according to a publication on Hong Kong Tourism Development Research, the average number of visits to Hong Kong per Shenzhen visitor per year was 3.3 before the implementation of Individual Visit Scheme, following which the figure increased to 5.6 per year. As a part of this study, in a questionnaire survey of Shenzhen residents visiting Hong Kong and Macau, it was found that over 66% of the interviewees visit Hong Kong twice or more a year. Around 60% of the interviewees visit Hong Kong for travelling or shopping purposes and 54% of the interviewees stay in Hong Kong for
two to three days. These data demonstrate that people in Hong Kong and Shenzhen are the major source of the flow of people passing thorough the Hong Kong-Shenzhen crossing points.

- **The Hong Kong-Shenzhen crossing points do not provide more favorable entry and exit conditions for Shenzhen residents than for residents from elsewhere on the Mainland.** Firstly, just like elsewhere on the Mainland, Shenzhen residents visiting Hong Kong are required to apply for a multiple-entry permit beforehand. With regard to this procedure, during our interviews, Shenzhen residents and enterprise have unanimously called for amendments to the relevant policy. 60% of the interviewees commented that the formalities for having to apply for a permit or visa endorsement to gain entry to Hong Kong are the major reasons for their less frequent visits to Hong Kong. Around one third of the interviewees said the visa endorsement fee is too high. All corporate interviewees said that the current policy on business visa endorsement substantially restrains their normal business activities with Hong Kong. The general attitude of Shenzhen enterprises is that they are pleased to have business meetings with Hong Kong people in Shenzhen, but they will avoid business visits to Hong Kong. In a public street survey conducted by way of interception at crossing points, it was found that business visitors to Hong Kong account for 28.7% of the total number of interviewees. So, we can reckon that if the business visa endorsement policy is relaxed, this proportion of visitors will increase by a relatively high degree.

Secondly, like all other Mainland residents, Shenzhen residents are required to wait for a long time at the crossing points before clearance. 30% of the responding residents and all corporate interviewees criticised the waiting time for clearance as being too long and unacceptable. Most interviewees stated that their waiting time was around one hour or more. Business visitors find that under the current visa endorsement and inspection arrangements, all the resources on the speedy channels at the crossing points are allocated to visitors under the Individual Visit Scheme; this is in fact “crowding out” or “driving away” business visitors. Based on international experience, business visitors are usually high-end travellers, whose spending and potential contribution are both higher than visitors under the Individual Visit Scheme.79

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79 Currently, Shenzhen is implementing the automatic passenger clearance arrangement for “multi-entry business or official visit visa endorsement” to increase the clearance efficiency for these groups of people. However, very few people can benefit from such automatic passenger clearance arrangement. Besides, these people rarely go alone for business visits to Hong Kong, and the actual effect of such passenger clearance arrangement will substantially diminish if the same
Boundary connecting transport systems between Hong Kong and Shenzhen basically satisfy current clearance demand. There is a long frontier between Hong Kong and Shenzhen, with both road and water crossing points. Providing comprehensive transport connections for individuals after clearance at the crossing points is a basic condition to speed up traffic at the crossing points to ensure a smooth flow of people. In this respect, all social segments in Shenzhen are extremely satisfied. In particular, government officials, customs and boundary inspection officers find this to be a very great achievement. However, certain demands remain unsatisfied: in a questionnaire survey of Shenzhen residents, 49% of the interviewees hope that the railways of Hong Kong and Shenzhen will be linked up as soon as possible; during our interviews with some enterprises in Shenzhen, a considerable number of Hong Kong-invested enterprises and those with a close business link with Hong Kong expressed that they have strong short-term and ad-hoc demand for a cross-boundary car service, mainly for entertaining important guests or when organising important business events, and these enterprises are willing to pay for such convenience on an ad-hoc basis through a formal channel. Currently, such demand is occasionally satisfied by the use of “black market cars” operated illegally in the boundary area by those with licenses issued by both Hong Kong and Shenzhen. Still, from a security point of view, enterprises find it difficult to make the appropriate arrangements when they have to entertain important guests or organise important business events. As for the “24-hour passenger clearance” service, which is frequently discussed, this study finds that after taking a comprehensive review of factors such as cost and benefit, the mainstream opinion is that there is no need to extend the “24-hour passenger clearance” service to other crossing points at this moment, the one in Lo Ma Chau is able to take care of the flow of people late at night. Yet, regular review is necessary to extend the passenger clearance service at other crossing points or extend the “24-hour passenger clearance” service to other crossing points.

One point that is worth mentioning here is that in a relevant survey for this study of Shenzhen residents, government authority officials largely responded with positive comments on the flow of people and clearance efficiency between Hong Kong and Shenzhen, however residents and enterprises did not comment as favourably and found that there are too many clearance formalities and too little efficiency. For specific details, speedy clearance is not available to their entourage. Moreover, certain Shenzhen enterprises’ executives at the rank of Chairman or General Manager have expressed time and again that: “We visit Hong Kong less often than our staff. They have to go to Hong Kong for business purposes. If they cannot go there, our business will not be able to move on, no matter how many times we go.”
please see the following three charts.

For detailed results of the three questionnaire surveys, please see "Report on Questionnaire Survey of Shenzhen Citizens, one of the topical reports for this study."
② Current Status of the Flow of Labour between Hong Kong and Shenzhen

- Essentially there is no policy restriction on the employment of Hong Kong people in Shenzhen and the Mainland. According to data released by the Hong Kong Census and Statistics Department in November 2005, the number of Hong Kong residents working on the Mainland at the time was around 238,000, representing an increase of 3.55 times over 52,300 in 1998, and accounting for 7.9% of the employed population in Hong Kong, representing an increase of 6 percentage points over 1998. Of these Hong Kong residents working on the Mainland, three quarters were employees and one quarter were employers/self-employed. In respect of working location, 85% of these people worked in Guangdong province, primarily Shenzhen and Dongguan; if 40-50% of those Hong Kong people working in Guangdong province worked in Shenzhen, then there should be 80,000 – 100,000 Hong Kong people working in Shenzhen. In respect of working hours,
most of them only stayed on the Mainland for a short period of time, and 85% of them stayed there for less than seven days.

- **Shenzhen or other Mainland residents may work in Hong Kong under Hong Kong’s Admission of Mainland Professionals Scheme.** In recent years, Hong Kong introduced the Admission of Mainland Professionals Scheme, which, despite its small scale, has sparked quite a controversy in Hong Kong society. In recent years, Hong Kong introduced the Admission of Mainland Professionals Scheme, which, despite its small scale, has sparked quite a controversy in Hong Kong society. According to statistics by the Immigration Department of the HKSAR government, the number of applications approved for the admission of Mainland professionals in 2006 was 5031, representing an increase of 25% over 2005. Also, according to reports by the media in Hong Kong, 346 overseas residents holding Chinese passports, representing an increase of 47% over 2005, were approved to work in Hong Kong in 2006. Since its implementation in July 2003, the Admission of Mainland Professionals Scheme has approved 16600 applications, and the average monthly salary of these applicants is HK$25,000. In respect of occupation, the majority (58%) work in academic research and education, followed by commerce and trading (10%) and then financial services (7%). Given that it is being implemented as a scheme for all Mainland residents, there is no specific data on the successful applications by Shenzhen residents. Since the employment of Mainland residents to work in Hong Kong involves extremely complicated legal issues, this study has no intention of causing any disruption to the immigration system of Hong Kong. Hence we do not recommend that Hong Kong should open up its job market to Shenzhen residents, and we will not discuss such issue further.

In respect of the cross-boundary flow of people, one more point that is worth noting is the procedure for Mainland visa applications by expatriate employees of Hong Kong enterprises. Currently, many expatriate employees or executives of Hong Kong enterprises, without a “return permit”, are required to apply for a visa to travel between Hong Kong and the Mainland, with the application and clearance procedures resulting in higher operating costs in terms of money and time for such enterprises.

2. **Current Status of the Flow of Capital**

   (1) **No policy restriction on Hong Kong’s direct investments into Shenzhen**

   - **Hong Kong’s direct investments are the major foreign capital inflows into**
Since the State policy encourages foreign investments, there is basically no policy restriction on the flow of capital from Hong Kong to Shenzhen. In view of the considerable gap between Hong Kong and Shenzhen in economic development, the flow of capital between Hong Kong and Shenzhen has been mainly from the former to the latter. From 1986 to 2005, the accumulated actual investments from Hong Kong and Macau in Shenzhen were more than US$24 billion, representing 80% of the total actual foreign investments in Shenzhen during the same period. Capital from Hong Kong has been a major factor fuelling the take-off, growth and expansion of the Shenzhen economy. Its contribution to Shenzhen’s economic development is unanimously recognised.

<table>
<thead>
<tr>
<th>Total direct investments from Hong Kong and Macau into Shenzhen (2001 – 2005)</th>
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<tr>
<td>Total investments from Hong Kong and Macau (US$ hundred million)</td>
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<tr>
<td>---------------------------------------------------------------</td>
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<tr>
<td>Total investments from Hong Kong and Macau (US$ hundred million)</td>
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</table>

Source: Statistics Yearbook of Shenzhen (2006)

- **The Mainland is the major investor in Hong Kong, with the largest share of direct investments in the city.** Hong Kong is a free port and there is no government policy restriction on capital inflow and outflow. Hence, capital from Shenzhen can freely flow into or out of Hong Kong if allowed by Chinese regulations. Following the international code of practice for statistics, the statistics of Hong Kong only cover investments in the city from independent economies. Hence, there are no statistics on direct investments from Shenzhen or Guangdong province. In this study, we will look at Mainland investments in Hong Kong as a reference.

For a long time, Hong Kong has been an important link for Mainland enterprises to gain access to the international arena. With the prosperity of the Chinese economy, the Mainland has become a major investor in Hong Kong. In 2004, Mainland investments in Hong Kong had already reached around US$125 billion, representing approximately 30% of the foreign investments in Hong Kong. These Mainland enterprises, having turned

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82. Based on the compilation of the relevant statistics from the Statistics Yearbook of Shenzhen 2006
83. Data compiled from the contents of the important notices posted on the website of the Trade and Industry Department of the HKSAR. The most recent year for the updates of such statistics is 2004, and the data for 2005 and 2006 have not yet been published.
into key players in the Hong Kong market, maintain a business and market share of around 25% of the major industries in Hong Kong, such as banking, insurance, shipping and tourism; their undertaking of various construction projects in Hong Kong account for a 12-14% share of the total construction volume in Hong Kong; and their trading revenue accounts for approximately 5% of the total trading revenue in Hong Kong. These Mainland enterprises, on the one hand, play a positive role in maintaining economic prosperity and stability in Hong Kong, and, on the other hand, have become an important channel for access to Mainland information, demand and resources to link up Hong Kong with the Mainland market.

<table>
<thead>
<tr>
<th>Total Mainland direct investments in Hong Kong (2000 – 2004)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total direct investments from the Mainland (HK$ billion)</td>
</tr>
<tr>
<td>2000</td>
</tr>
<tr>
<td>110.7</td>
</tr>
</tbody>
</table>

Source: Economic Yearbook of Hong Kong and Macau (2006), which covers the latest data on this item up to 2004

(2) The Hong Kong and Shenzhen financial markets are integrating

The flow of capital has driven the integration of the financial markets in Hong Kong and Shenzhen. In turn, such integration has also resulted in a considerable positive effect on promoting the two-way free flow of key capital resources between Hong Kong and Shenzhen, particularly cooperation between the two cities in the development of financial infrastructure. For example, the cross-boundary payment system networking project is making good progress at the technical level. However, there are three less satisfactory aspects in the flow of capital between Hong Kong and Shenzhen: they are, the lack of a long-term and stable cooperation mechanism between the two cities in respect of the financial arena; that their cooperation is merely focused on information exchange and lacks business integration; and that the two cities have different sets of laws, which may affect the scope of their cooperation in the financial arena.

- **Cooperation between banks in Hong Kong and Shenzhen.** Firstly, Hong Kong and Shenzhen have both established financial institutions across the border and some Hong Kong financial institutions have also set foot in Shenzhen. Up to May 2006, a total of 25 Hong Kong banks had made inroads into Shenzhen, including HSBC, Bank of East Asia, Wing Hang Bank and Nanyang Commercial Bank. Meanwhile, China Merchants Bank,
which is a legal-person bank headquartered in Shenzhen, has established a branch in Hong Kong, while Shenzhen Development Bank has set up a representative office in Hong Kong. The two futures companies, namely China International Futures Co., Ltd. and Jinrui Futures Co., Ltd. have also opened subsidiaries in Hong Kong to engage in the futures business, and two securities companies, namely China Merchants Securities and Ping An Securities, have created branch entities in Hong Kong. Nevertheless, Hong Kong financial institutions’ branch entities in Shenzhen have a very limited business scope and obviously insufficient room for market development; whereas Shenzhen financial institutions’ branch entities set up in Hong Kong are still in the start-up stage. At present, Hong Kong banks in Shenzhen are on a tiny scale compared with the existing scale of the banking sector in Shenzhen, while the branch entities set up by Shenzhen legal-person banks in Hong Kong are even smaller in scale.  

Secondly, Hong Kong and Shenzhen have started cooperation on the development of financial infrastructure. Since 1998, the Hong Kong Monetary Authority and Shenzhen Central Sub-branch of the People’s Bank of China have been working closely to successively launch the Hong Kong-Shenzhen Hong Kong dollar and United States dollar two-way bill clearing systems, as well as the Hong Kong-Shenzhen Hong Kong dollar and United States dollar two-way Real Time Gross Settlement (RTGS) systems. Currently, cooperation between Hong Kong and Shenzhen on the payment settlement system covers the bill clearing and RTGS systems, and the acceptable payment means include Renminbi bills and bank cards issued in Hong Kong, and bills in foreign currencies, such as the Hong Kong dollar and United States dollar. At the current stage, only a number of systems in respect of payment, settlement and custody activities in Hong Kong and Shenzhen have been connected, and the connections remain weak for other financial infrastructure facilities. Hong Kong also lacks a financial platform that can handle a complete range of Renminbi transactions.

Thirdly, Hong Kong and Shenzhen have begun cooperation on Renminbi businesses.

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84 Up to December 2006, the total assets of Shenzhen financial institutions had reached RMB1.610 trillion. At the end of 2006, the local and foreign currency deposit balance in Shenzhen was RMB1.060 trillion. Of the above amounts, the total assets of Shenzhen banks in Hong Kong were equivalent to RMB46.5 billion (accounting for only 3%), and their aggregate deposit balance was RMB4.622 billion (accounting for only 0.4%). In comparison, the aggregate assets of the Hong Kong banking sector was over HK$6 trillion, and the asset size of the Hong Kong branch of the China Merchants Bank was HK$9 billion (less than 0.15%).

85 In 2005, the Real Time Gross Settlement (RTGS) system network in Shenzhen and Guangdong province handled a daily volume of more than 16,000 transactions with an aggregate value of over RMB150 billion.
In August 2002, the Hong Kong-Shenzhen Mortgage Instalment Payment Automatic Remittance Transfer System, jointly developed by Hong Kong and Shenzhen, was launched to realise the arrangement for Hong Kong people to “buy houses and take mortgages in Shenzhen and pay in Hong Kong”. The channels for capital flow between Hong Kong and Shenzhen have formed the initial set-up for the two-way flow system built on a real-time payment system for bills (cheques and drafts) and bank cards in Hong Kong and United States dollars. On 25 February 2004, the Shenzhen Central Sub-branch of the People’s Bank of China officially launched its clearing and settlement arrangements for personal Renminbi deposits, remittances, currency exchange and bank card businesses operated by banks in Hong Kong. This initiative has led to the gradual inclusion of the formerly unregulated and spontaneous Renminbi businesses in the regulated and licensed banking market, thereby promoting economic and financial integration between Hong Kong and Shenzhen, as the flow of Renminbi capital rapidly picks up between Hong Kong and Shenzhen. Currently, the Renminbi business has already become an important front for business expansion for banks in Hong Kong.86

Fourthly, communication and coordination mechanisms have been established between the financial administrative bodies in Hong Kong and Shenzhen. After the introduction of Renminbi businesses in Hong Kong, the Shenzhen Central Sub-branch of the People’s Bank of China and the Hong Kong Monetary Authority set up a regular communication mechanism. The Shenzhen Central Sub-branch of the People’s Bank of China has taken up the responsibility for providing the clearing and settlement arrangements for Renminbi businesses in Hong Kong, as well as the supervision of such businesses, making a substantial breakthrough in its cooperation with the Hong Kong side beyond the scope of payment and settlement. The two sides regularly exchange views and propose solutions with regard to the operating conditions and problems, as well as potential for expansion of the Renminbi businesses in Hong Kong. In addition, the Shenzhen Central Sub-branch of the People’s Bank of China has also formed a consensus with the Hong Kong Monetary Authority, the Hong Kong Police Force and the Security Bureau of Hong Kong on anti-money laundering measures.

86 Up to the end of 2005, of the total assets and total liabilities of Hong Kong banks, the Renminbi segment amounted to RMB15.7 billion and RMB13.8 billion respectively. Of their outstanding balance of various loans, the Renminbi segment amounted to RMB9.9 billion, including RMB1.8 billion loans to Mainland enterprises. Of their outstanding balance of various deposits, the Renminbi segment amounted to RMB6 billion. Of their working capital (or contributed capital) balance, the Renminbi segment amounted to RMB1.83 billion. Inter-bank borrowings are an important source for the Renminbi businesses of banks in Hong Kong. Up to the end of 2005, the size of inter-bank borrowings by banks in Hong Kong reached RMB4.75 billion, representing an increase of 175% over 2004.
Fifthly, Shenzhen has become the base of back office service support for Hong Kong financial institutions. The back office centres of a number of Hong Kong financial institutions, such as Standard Chartered, Bank of China (Hong Kong) and Nanyang Commercial Bank, have been in Shenzhen for more than a decade, as many banks in Hong Kong have started to move some of their operation units, such as database management centres, document handling operations, call centres, from Hong Kong to Shenzhen. The Shenzhen municipal government has even promulgated a specific policy document to attract Hong Kong financial institutions to relocate their relevant operations in order to enjoy the lower costs of Shenzhen.

Furthermore, in respect of the capital flow between the two cities, one point worth mentioning is the problem of illegal underground operations. This problem arises as people remit their Renminbi holdings to Hong Kong for conversion into foreign currencies due to the limited convertibility between Hong Kong dollar and the Renminbi, or when foreign and Hong Kong businesses are unable to remit their Renminbi revenues out of the Mainland through regulated channels. In the past, black market exchange rates between the Renminbi and the Hong Kong dollar or foreign currencies were higher than the official prices. Then illegal underground operations emerged as part of cross-boundary activities, the scale and strength of these illegal underground operations in respect of capital transfer are relatively strong and sometimes their charges are even lower than those of banks. On the other hand, as illegal underground operations are not subject to the supervision of financial regulators, they have also become a channel for money laundering.

- **Cooperation between the securities markets of Hong Kong and Shenzhen.** As early as 1993, some Guangdong enterprises, such as Guangshen Railway and Shenzhen Expressway, listed their H shares in Hong Kong. However, in general, there are only a few Shenzhen enterprises leveraging Hong Kong’s stock market to conduct financing activities and the amount of funds they raise are very small. At present, there are 8 Shenzhen enterprises listed on the Growth Enterprise Market in Hong Kong. Some other enterprises headquartered in Shenzhen, such as China Merchants Bank and Ping An Insurance of China, are also listed in Hong Kong. Yet, the number of Shenzhen enterprises listed in Hong Kong is very insignificant for Hong Kong’s stock market, as the combined market capitalisation of these stocks is less than 0.1% of the total market capitalisation of the Hong Kong stocks. In addition to fund raising, Mainland enterprises seek overseas listings to improve their corporate governance and promote their international image. Meanwhile,
in the face of the boom of the Mainland stock market, many Mainland enterprises listed in Hong Kong are seeking ways to be re-listed on the Mainland, while from time to time foreign enterprises are also voicing their wishes to be listed on the Mainland. Then in February 2005 Foxconn, a well-known Taiwanese company with huge investments in Shenzhen, was listed in Hong Kong with strong performance amid enthusiastic market interest, leading to a series of listings by Taiwanese enterprises in Hong Kong.\footnote{In the opinion of the market participants during our interviews, Taiwanese enterprises listed in Hong Kong have good asset quality and, in particular, they have world-leading production procedures and technologies. In addition, they can take advantage of the inexpensive land and labour on the Mainland to further reduce their costs, while riding on the immense market in China. Further, they have a similar language culture and should have no problem in communications with their Mainland customers. These advantages are the biggest appeals for Taiwanese enterprises. If the Mainland stock market can make some arrangements for allowing Taiwanese enterprises to be listed on the Mainland, it will, without doubt, help enhance the quality of the Mainland capital market, which is beneficial for the healthy development of the Mainland capital market.}

### Statistics on Mainland Stocks in the Hong Kong Stock Market

(\textit{up to 31 May 2007})

<table>
<thead>
<tr>
<th></th>
<th>Main Board</th>
<th>GEM Board</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H Shares</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of listed issuers</td>
<td>99</td>
<td>45</td>
</tr>
<tr>
<td>Market capitalisation (HK$ million)</td>
<td>3489922.29</td>
<td>22314.74</td>
</tr>
<tr>
<td>As a percentage of the total market capitalisation (%)</td>
<td>23.52</td>
<td>15.44</td>
</tr>
<tr>
<td><strong>Red Chips</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of listed issuers</td>
<td>87</td>
<td>4</td>
</tr>
<tr>
<td>Market capitalisation (HK$ million)</td>
<td>3303491.00</td>
<td>7057.11</td>
</tr>
<tr>
<td>As a percentage of the total market capitalisation (%)</td>
<td>22.26</td>
<td>4.88</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined market capitalisation (HK$ million)</td>
<td>6793413.29</td>
<td>29371.85</td>
</tr>
<tr>
<td>As a percentage of the total market capitalisation (%)</td>
<td>45.79</td>
<td>20.32</td>
</tr>
</tbody>
</table>

Source: The website of the Stock Exchange of Hong Kong Limited at \url{www.hkex.com.hk}

Hong Kong is a free port, goods from around the world can freely enter its market, which is essentially duty-free. The same applies to products from Shenzhen and the Mainland. Under the CEPA arrangement, goods originating from Hong Kong also enjoy zero import tariffs in Shenzhen and elsewhere on the Mainland. Hence, the status of the flow of goods between Hong Kong and Shenzhen is relatively satisfactory. From the table below, we can see that the total trading volume between Hong Kong and Shenzhen has grown by nearly 1.37 times from 2002 to 2005. In particular, the export of goods from Shenzhen to Hong Kong has grown even faster with an increase of 1.46 times. This indicates that the status of the flow of goods between Hong Kong and China is relatively satisfactory.

The areas that need improvement are the conditions for the flow of “small logistics” goods related to R&D and technology, the procedure and transparency of customs control, as well as the compatibility of inspection standards in Hong Kong and Shenzhen. During interviews with Hong Kong enterprises, many interviewees expressed their dissatisfaction with Shenzhen’s customs efficiency.

The value of the commodities trade between Shenzhen and Hong Kong (2002-2005) US$ 100 million

<table>
<thead>
<tr>
<th></th>
<th>Shenzhen exports to Hong Kong</th>
<th>Shenzhen imports from Hong Kong</th>
<th>Total imports and exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>182.9</td>
<td>17.2</td>
<td>200.1</td>
</tr>
</tbody>
</table>

88 Some interviewees pointed out that: there are many difficulties related to the flow of “small logistics” goods related to R&D when Shenzhen enterprises use the testing platform in Hong Kong to test their products, such products will be classified as exports when they are sent out and as imports when they are returned back. This is a huge obstacle, and is a customs administration issue which can neither be solved by Shenzhen alone, nor can it be solved within a short period of time.

89 In a business forum held by our topical unit, a department manager of a furniture company in Shenzhen recounted that they once took a big order from Hong Kong for office furniture and encountered difficulties at customs when arranging for the export. The major problem was that the company, as a retail enterprise, was not allowed to export goods, since only manufacturers were qualified to do so. Anyway this problem was finally resolved. But when the goods entered Hong Kong, the customs inspection officers at Hong Kong claimed that as the furniture contained wood, it must be inspected according to the standards applicable to imports of wood as agricultural products. Given the long inspection period, it was impossible to provide the customer with an accurate time for when the clearance would be completed, and as the company was unable to make any promise to the counterparty in Hong Kong, the order finally fell through. Also, many enterprises at the forum said that there was insufficient standardisation and transparency with regard to customs inspections during the process of goods clearance.

90 For example, some interviewees pointed out that food imports to the Mainland are subject to inspection by random sampling. Many interviewees complained that there are insufficient facilities for food inspection in the Mainland, and that the long inspection process leads to higher warehousing expenses for the enterprises and the inspection charges are also expensive.
4. Current Status of the Flow of Information and Services

(1) Current status of Hong Kong-Shenzhen cooperation in the information sector

- Fixed line telephone, mobile phone communications and information services.

Competition is intense in the telecommunications sector in Hong Kong, and its level of charges is among the lowest in the world. Owing to the inexpensive charges, Hong Kong’s external voice traffic volume has been on the rise. On a per capita basis, Hong Kong has been generating the largest amount of IDD voice traffic in the world for five years in a row. Voice traffic between Hong Kong and the Mainland accounts for a very high proportion of the IDD voice traffic generated in Hong Kong. In particular, the fastest growth segment is voice traffic between Hong Kong and Shenzhen. Meanwhile, the cross-boundary fixed line telephone service between the Mainland and Hong Kong is growing at the rate of 10% per year, and the growth rate is even faster for the telecommunication service between Guangdong province and Hong Kong in terms of volume.

<table>
<thead>
<tr>
<th>Year</th>
<th>Outgoing Voice Traffic (100 million minutes)</th>
<th>Incoming Voice Traffic (100 million minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outgoing</td>
<td>39.501</td>
<td>42.326</td>
</tr>
<tr>
<td>voice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>traffic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>minutes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incoming</td>
<td>17.56</td>
<td>16.762</td>
</tr>
<tr>
<td>voice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>traffic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>minutes)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Office of the Telecommunications Authority

Hong Kong also provides international dedicated line services for various Mainland cities which act as gateways. Also, some telecommunications operators provide their mobile phone and paging customers with roaming services on the Mainland.

<table>
<thead>
<tr>
<th>Year</th>
<th>Export – electronic communication services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>23.52</td>
</tr>
<tr>
<td>2001</td>
<td>33.58</td>
</tr>
<tr>
<td>2002</td>
<td>47.89</td>
</tr>
<tr>
<td>2003</td>
<td>50.73</td>
</tr>
<tr>
<td>2004</td>
<td>54.52</td>
</tr>
</tbody>
</table>

Source: Report on Hong Kong Trade in Services: Statistics for 2004, Census and Statistics Department (HK$ 100 million)
At the same time, Mainland telecommunications operators also actively penetrate into the Hong Kong telecommunications market. The Hong Kong telecommunications market is highly open. In respect of telecommunications cooperation between Hong Kong and Shenzhen, there is no institutional obstacle for Mainland operators and equipment providers to enter the Hong Kong market. The major problem for cooperation between the two cities is that the primary telecommunication service market on the Mainland is not yet open, and the scope of deregulation for value-added telecommunications services is limited to the five areas identified under CEPA. Hence, telecommunications service providers from Hong Kong can only obtain an operating permit by way of joint equity ventures, which are subject to a 50% shareholding ceiling. Telecommunication cooperation between Hong Kong and Shenzhen is unable to break through the national policy framework. In respect of profit sharing, users are normally required to pay telecommunications tariffs chargeable in Hong Kong or on the Mainland, and to the two relevant operators on a largely equal basis.

- Construction of cross-boundary broadband networks. In Hong Kong and Shenzhen, the cross-boundary broadband business is growing at a rapid rate of 10% per year, while the cross-boundary internet business maintains a double-digit growth rate. In 1991, the first Guangdong-Hong Kong dedicated line was opened, which was installed by Guangdong Telecommunications (廣東電信) and the former Hong Kong Telecom. Afterwards, Guangdong Telecommunications (廣東電信) successively launched similar services for New T&T and New World Telecom in Hong Kong. From 1995 to 2000, the number of international dedicated lines of Guangdong Telecommunications (廣東電信) increased from 13 to 600. In October 2000, the Guangzhou-Shenzhen-Hong Kong Third Synchronous Digital Hierarchy Fibre Ring, which was jointly developed by Hong Kong’s Hutchison Telecom and China Telecom, was officially opened to link up their
respect of optic fibre operations, 7 operating territorial systems are serving the constantly
growing communications businesses between Hong Kong and the Mainland. The major
existing problem is that Hong Kong and Shenzhen are not permitted to engage in direct
construction of broadband and optic fibre networks. Hong Kong must work with
Guangdong province and most of the broadband and optic fibre equipment must arrive at
Guangzhou before being forwarded to Shenzhen. Also, there are many restrictions on the
construction of broadband and optic fibre networks. Such restrictions on broadband
development are a primary reason for enterprise users’ broadband demand not being
satisfied.

- **Television media.** Programmes of the four channels of the two major Hong Kong
television stations have entered Shenzhen by way of cable television services in Shenzhen.
Phoenix TV, AsiaTVRO and TVB have been approved by the State Administration of
Radio, Film and Television to broadcast their programmes via digital television channels in
Shenzhen. Also, Shenzhen can receive the frequency signals from all Hong Kong radio
stations. Meanwhile, programmes from Shenzhen television and radio stations also
transmit to some regions of Hong Kong. In May 2004, Shenzhen Satellite Television was
aired and landed in Hong Kong to provide another choice for Hong Kong people to find
out more about Shenzhen.\(^93\)

Currently, the television media in Hong Kong and Shenzhen basically cover both
optic fibre networks in Shenzhen and Hong Kong; this was also the first-ever network integration between a Hong Kong
fixed-line telephone operator and China Telecom. In September 2001, New World Telephone Limited (New World
Telephone) opened its Third Synchronous Digital Hierarchy Fibre Ring with China Telecom, starting from Shenzhen and
entering Hong Kong by way of Man Kam To and Lok Ma Chau to link with the local network of New World Telephone.
In early December 2003, China Telecom group and Hong Kong’s China Motion jointly developed a cross-boundary optic
fibre transmission network that spans Guangzhou, Shenzhen and Hong Kong to provide a range of services from voice to
text, video and multi-media messaging for cross-boundary mobile service users in the Mainland and Hong Kong. In 2005,
the Shenzhen and Hong Kong governments arrived at the decision by way of negotiations that one more optic fibre cable
be set up to cover the Shenzhen Bay Port in order to avoid cargo being double inspected for clearance, as the optic fibre
enables quick exchange between the customs of Hong Kong and Shenzhen of cargo information, including X-ray images
and cargo inspection results, beneficial for the risk management and cargo clearance on both sides. In May 2006, PCCW
Global and Chinese Telecom group announced the joint launch of the first ever high-end business International Ethernet
Private Line (IEPL) that covers both Hong Kong and the Mainland to provide end-to-end cross-boundary dedicated
telecommunication connectivity for enterprise users.

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\(^93\) In 2001, Hong Kong’s Phoenix TV obtained official approval for broadcasting in Guangdong province. In July 2002,
the two channels, Home and World, of Hong Kong’s AsiaTVRO (ATV) were approved to be aired in Guangdong
province. In May 2004, Hong Kong’s Television Broadcasts Limited (TVB) reached an agreement with Shenzhen
Television Station, pursuant to which TVB’s news and variety channels have been aired to households in Shenzhen since
26 May directly through the cable television platform of Shenzhen Television Station, marking the first time Hong
Kong’s television channels have gained direct access by way of an official means to the mass market on the Mainland
through a cable television platform; and the cable television station can hire a Mainland advertising agency to produce
commercials to be aired on its own channel, The New Information Channel (新資訊台), and the television announcements
of public interest are not aired in Shenzhen. Besides, the two television stations from Hong Kong, being the main content
providers for Shenzhen Television Station, work closely with it on programme production.
cities. However, owing to the landing right issue, as well as the requirement for Hong Kong television stations to allocate free air time for “television announcements of public interest” and the “Cantonese factor”, a profit sharing mechanism on commercial revenue has not yet been settled. In 2004, ATV chose to make a capital injection to increase its shareholding in Guangdong Cable TV in return for profit sharing. In the same year, Guangdong Cable TV proposed a 10% profit sharing offer to TVB, which demanded a 50% share instead, as a result negotiations between the two parties were unsuccessful and came to a dead-end.94

- **Press, magazines and publications.** In the late 1990s, the Shen Xing Times (深星時報), a Hong Kong-Shenzhen cooperation, became the first newspaper to be jointly published by Mainland and overseas media. At the beginning of this century, the Shenzhen News Group (深圳報業集團) took over Hong Kong Commercial Daily in Hong Kong to report with extensive coverage the current situation of Shenzhen and elsewhere on the Mainland. Ta Kung Pao and Wenhui Daily are also circulated in Shenzhen and elsewhere on the Mainland. Over 20 major newspapers and scores of magazines have also entered part of the Shenzhen market through various channels. The market deregulation measures brought in by China after its accession to the WTO are limited to distribution only. Foreign investors are not allowed to engage in publication activities or the importing of overseas publications. Currently, the participation of Hong Kong companies to explore this sector of the Mainland market is mainly through copyright trading and establishing relationships with Mainland publishers in import and distribution matters.

(2) **Current status of cooperation between Hong Kong and Shenzhen in the service industries**

- **Tourism.** Hong Kong and Shenzhen have already established an initial mechanism for collaborative development of their tourism industries. A proactive communication and coordination mechanism has been established between Hong Kong and Shenzhen for the Golden Week holidays and other peak travelling seasons. The two have also strengthened coordination in tourism planning and resources allocation, and

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94 Also, since the implementation of the CEPA, cooperation between the Mainland and Hong Kong on film production has been steadily progressing. Such progress was substantial compared with about 10 films being produced per year before the signing of the CEPA. 26 films were produced in 2003, 31 in 2004 and 29 in 2005. Currently, the number of Mainland-Hong Kong jointly-produced films account for over 70% of the number of films jointly produced with the Mainland and overseas production houses per year. Up to the end of January 2007, the Hong Kong government had issued the Certificate of Hong Kong Service Supplier to 20 audio-visual service companies.
joined forces in developing regional tourism resources, such as the Gold Coast resort area, including the Dapeng Peninsula, in Eastern Shenzhen. Shenzhen has even invited tourism experts from Hong Kong to participate in the evaluation of the tourism development planning of Shenzhen and the Dapeng Peninsula. Such cooperation initiatives in tourism have become more institutionalised and standardised under the “1+8” Agreement (the Memorandum on Closer Co-operation between Hong Kong and Shenzhen) signed by Hong Kong and Shenzhen governments in 2004.

By way of a joint equity venture, Hong Kong’s Skal Travel Service Limited and Shenzhen’s China International Travel Service have established Shenzhen Skal Travel Service Limited, the first Hong Kong-invested travel agency in Shenzhen. Yet, entry barriers still exist in the Mainland market for Hong Kong travel agencies, such as the visa issue. Also, on the Mainland, there is excessive administrative involvement in professional qualifications verification for the licensing of travel agencies. In respect of the protection of consumer rights, there are also regulatory differences between Hong Kong and Shenzhen.

- **Conventions and exhibitions.** The Hong Kong Convention and Exhibition Centre, being focused on international events, is more attractive to manufacturers and buyers on the Mainland, while the Shenzhen Convention & Exhibition Centre mainly targets Mainland buyers. Hence, the two cities have great potential for exploiting their complementary functions in the convention and exhibition industry. On 4 July 2003, the Shenzhen-Hong Kong Convention and Exhibition Cooperation Agreement (深港會展合作協議) was signed by Hong Kong and Shenzhen. In November 2003, under the CEPA and based on the actual circumstances, the Hong Kong Trade Development Council changed the venue for its Building Materials Exhibition (建築建材展覽會) from Guangzhou to Shenzhen in order to merge with Shenzhen’s Residential Property Fair (住宅交易會) as a single event, making it the first exhibition to be jointly held by the two cities. Since the implementation of the CEPA, Hong Kong and Shenzhen have jointly organised a large number of large-scale exhibitions. Up to July 2006, 43 applications for the Certificate of Hong Kong Service Supplier had been made by Hong Kong’s providers of convention and exhibition services and related management and consultancy services, with 35 of such applications being approved.

- **Logistics.** Shenzhen has always had the development of its modern logistics
industry as a high priority. Based on port operations, Shenzhen considers the modern logistics industry as one of its pillar industries. As a result, Shenzhen has aggressively implemented its development strategy that emphasizes “driving the growth of the city through the port business”, gaining insights from the Hong Kong shipping industry’s advanced management experience and international operating model. Hong Kong has already established its status as an international shipping centre and has maintained a free port policy, it also has extensive experience in developing connections with the international market. Such common areas in economic background and their unique geographic locations have led to a special cooperation and competition relationship between Hong Kong and Shenzhen.95

Hong Kong and Shenzhen each have their own strengths and weaknesses in air transportation, and there is strong potential for exploiting their complementary functions. Hong Kong’s advantage lies in the global coverage of its international flying routes, while Shenzhen has a better position in Mainland flying routes and is also closer to the source of cargo. Against this backdrop, Hong Kong International Airport launched the “FLY via HK” campaign to attract more Mainland and international transit passengers. Meanwhile, Shenzhen’s airlines also partnered with certain large-scale logistics warehousing enterprises in Hong Kong to roll out its “Fly via Shenzhen (經深圳飛)” and “Ship via Shenzhen (經深圳港)” programmes. In respect of goods being shipped from Hong Kong to the Mainland, a Shenzhen-Hong Kong Logistics Through Train or Truck & Plane (卡車班機) programme would be activated in case such goods were to be transported via the Shenzhen Airport or the Shenzhen Port, in order to provide an air transportation service to Hong Kong agencies handling the transportation and clearance of the goods from Hong Kong to the Mainland. To facilitate the Mainland cargo owners, Hong Kong International Airport has also extended its reach to the hinterland by setting up a cargo station in

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95 Cooperation between Hong Kong and Shenzhen in this area started early in 1993, when Hutchison Whampao and Yantian Port Group entered into a joint equity venture to establish the Shenzhen Yantian International Container Terminals Limited Company in order to jointly undertake Phases I and II of the construction of the Yantian Port Area. In November 2001, Yantian Port Group and Hutchison Whampoa further cooperated on the construction of Phase III of the Yantian Port Area. In November 2005, the two parties joined hands to drive forward the extension project of Phase III of the Yantian Port Area. The annual container handling capacity of the Yantian Port Area was 5 million TEUs. Completion of the Phase III extension project was expected to increase the throughput to 9.6 million - 10 million TEUs. Apart from cooperation on the Yantian Port, in September 2005, Shenzhen Dachan Bay Port Investment and Development Co., Ltd. and Modern Terminals Limited entered into a joint equity venture to construct the Dachan Bay Container Terminals. Phase I of this project has already commenced. Shenzhen Dachan Bay Modern Port Development Co., Ltd., with a registered capital of RMB2 billion and an operating term of 50 years, was thereby established by the two enterprises in Hong Kong and Shenzhen, and their scope of cooperation covers the construction of terminals and ancillary facilities, as well as the relevant safety and environmental protection facilities.
Shenzhen, so that cargo owners from the Pearl River Delta are only required to drop off their cargo at the cargo station for it to be delivered on board the plane. Complementing each other’s strengths and weaknesses, the two cities will both enhance their competitiveness in air transportation.

Information is the soul of logistics and as such, Hong Kong and Shenzhen have also started cooperation on the development of a logistics information platform. On the Shenzhen side, it has started the design of the first logistics information public sharing platform on the Mainland, the Shenzhen Modern Logistics Information Public Sharing Platform (深圳現代物流信息公用平台), and has set up the Shenzhen Logistics and Procurement Data Centre (深圳物流與採購數據中心). On the Hong Kong side, the world’s most powerful electronic logistics platform, the Digital Trade and Transport Network (DTTN) System, has been put on stream. This system provides an open, natural and secure e-platform to facilitate the exchange of information and data in the logistics and other relevant industries. Logistics enterprises using different messaging formats and transmission technology standards can communicate with each other on this platform. The DTTN System has already become the information exchange centre for logistics enterprises in Hong Kong, and is relied on by most enterprises as a medium for lateral communications. As soon as Hong Kong, Shenzhen and Macau have taken their cooperation to the next level, logistics enterprises in Shenzhen and Macau can be the first to gain access to the DTTN System to share all logistics information with enterprises in Hong Kong, resulting in seamless information and data connection ahead of others. The interface between the logistics information systems of the two cities can enable fully automated customs clearance, including electronic pre-classification, electronic pre-price review and electronic inspection. Cooperation between the two cities on their information platforms will help enhance the efficiency and competitiveness of their logistics services.

● Technology. The two cities are in active cooperation on the technology front. In August 1998, the PKU-HKUST Shenzhen-HongKong Institution (深港產學研基地) was officially founded. In 2004, a cooperation framework agreement was signed by the Shenzhen Municipal Technology Bureau and the Innovation and Technology Commission of Hong Kong to promote interactive cooperation, such as academic exchange and commercialisation of technology deliverables, between the two cities. In March 2006, the Hong Kong Science and Technology Parks, Shenzhen High-Tech Industrial Park and Xian High-Tech Industrial Park signed a Memorandum of Understanding on Cross-region
Innovation and Technology Cooperation. In April 2006, the Shenzhen municipal government, Peking University and the Hong Kong University of Science and Technology joined hands to develop the Shenzhen-Hong Kong Development Research Institute. In 2007, the Shenzhen/Hong Kong Innovation Circle Cooperation Agreement was signed between Hong Kong and Shenzhen. Cooperation in this area is going to deepen further and further.

In respect of concrete cooperation initiatives, Shenzhen is supportive of those Hong Kong tertiary education institutions which have been admitted into the Shenzhen Virtual University Park to set up their training institutes in Shenzhen to promote cooperation projects that encourage the establishment of independent vocational training entities by Hong Kong tertiary education institutions in Shenzhen, the admission of Shenzhen secondary vocational training school graduates in Hong Kong tertiary vocational training colleges, and cross-boundary organisation of international professional qualification certificate training courses. Shenzhen has also invested RMB30 million to support those technology enterprises in cooperation with Hong Kong to start up their businesses or pursue technology development in Shenzhen. Every year Hong Kong takes part in the China Hi-Tech Fair (CITF) held in Shenzhen to showcase the science and technology products of Hong Kong in the Hong Kong Pavilion (香港館). The Shenzhen Academy of Metrology and Quality Inspection and the Textile Manufacturing Technology Centre, Hong Kong Polytechnic University - Apparel and Textile Testing Laboratory have entered into a cooperation agreement on mutual recognition of laboratory results. Also, the Hong Kong tertiary education institutions have established a total of 11 enterprises in Shenzhen. The Hong Kong University of Science and Technology and the City University of Hong Kong are engaged in a series of cooperation projects with government authorities and enterprises in Shenzhen.

- **Accounting.** Currently, there are 13 representative offices set up on the Mainland by roughly ten Hong Kong accounting firms. The total export value of Hong Kong accounting services in 2004 was US$111 million, and the Mainland is currently the largest export market for Hong Kong accounting services. The major services exported include: statutory auditing services, investment-related advisory services (such as due diligence inspections), taxation consultancy, computer support and corporate services.

At present, Hong Kong accounting firms continue to face relatively high barriers for
entry to Shenzhen. According to the requirements under the CEPA, to enter the Mainland market, Hong Kong accounting firms must have an annual revenue of over US$20 million and a headcount of not less than 200 auditors. There are only a few accounting firms in Hong Kong which can satisfy such revenue and scale requirements. The relatively high barriers have denied entry to the Mainland of a substantial number of small to medium-sized accounting firms with excellent service quality.

- **Law.** In December 2003, the Shenzhen Lawyers Association and the Law Society of Hong Kong signed a cooperation agreement in Shenzhen, and announced that lawyers in the two cities will pursue more business exchange opportunities and will strengthen their business cooperation within the framework of the CEPA. Lawyers in Shenzhen and Hong Kong will also form a cooperation committee to analyse and discuss subjects concerning Hong Kong-Shenzhen legal affairs. The total export value of Hong Kong legal services in 2004 reached US$96 million and the Mainland is currently the most important export market for Hong Kong legal services.

Since the implementation of the CEPA, four or five legal firms in Hong Kong have set up affiliates on the Mainland, but only one of them in Guangzhou within the Guangdong province. Currently, more than ten legal firms in Hong Kong are completing the procedures for such applications, yet most of them are targeting Beijing and Shanghai. Guangdong province is not the first choice as the location for setting up affiliates for Hong Kong legal firms. In fact, Hong Kong and Shenzhen together have the largest pool of lawyers, with a headcount of around 10,000 in China. After the implementation of the CEPA, so far no Hong Kong-Shenzhen legal firm has been formed. While the Law Society of Hong Kong has already established cooperation relationships with 28 cities and provinces on the Mainland, only two offices for Hong Kong legal firms have been established in Shenzhen.  

- **Construction.** The first Mainland qualification examination designed for Hong

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96 For example, Hong Kong lawyers still face a lot of problems in setting up their practices in Shenzhen. The two cities have different legal systems, also, there are technical problems, including the fact that Hong Kong lawyers are not familiar with simplified Chinese characters, and are also not used to the Mainland’s examination format, which is largely based on multiple choices. In the China Judicial Exam held in 2004, only 4 of the 460 Hong Kong candidates passed. Meanwhile, under the national rules, Hong Kong lawyers who have passed the China Judicial Exam and obtained the practicing qualification certificate may practice on the Mainland only if they give up their practicing qualifications in Hong Kong. Indeed, this arrangement is also not particularly fair. Also, Hong Kong and Shenzhen lawyers do not know enough about each other and remain far from acquainted. Neither the solicitor ordinance of Hong Kong, nor that of Shenzhen, has established a resources sharing system, and certain requirements under the solicitor ordinance of Shenzhen remain restrictive for the services provided by Hong Kong lawyers.
Kong architects was held in Shenzhen in May 2004. A more recent one was held in Guangzhou in July 2006. Altogether, a total of 277 Hong Kong architects were awarded the qualification of Class I Registered Architect. Up to the end of September 2006, 58 applications for the Certificate of Hong Kong Service Supplier were received from Hong Kong companies engaged in the provision of professional architectural services and construction and relevant engineering services, 51 of such applications were approved. Currently, the problems for the entry of Hong Kong architects into the Shenzhen market include, on the one hand, the huge differences in salaries and, on the other hand, the continuing restrictions on their scope of service, professional qualification, etc.

- **Medical.** Before the implementation of the CEPA, there was only one Hong Kong doctor practising in Shenzhen. After the implementation of the CEPA, only one more has joined the market. Despite the CEPA having relaxed the limit on practice hours, Hong Kong doctors are not practising in Shenzhen mainly due to economic interests. Mainland hospitals are still not paying high enough salaries to attract Hong Kong doctors. Besides, there are also practical problems in respect of their entry into the market.

In respect of the cooperation between medical institutions, given that Shenzhen’s medical spending is less than that of Hong Kong, the Shenzhen side intends to attract investors to open special hospitals for Hong Kong people. Some Hong Kong people with investments in Shenzhen are optimistic about this market, however, others are worried that the medical sector in Hong Kong will be affected. Hence, to date the Hong Kong side has not made its intentions clear. Moreover, due to differences in the medical service standards between Hong Kong and Shenzhen, insurance companies in Hong Kong are unlikely to recognise the eligibility of Shenzhen hospitals, which means their treatments will probably not be covered by medical insurance policies purchased in Hong Kong. This will be an obstacle to further cooperation between the medical institutions in the two cities.

On the whole, the major problem for cooperation between Hong Kong and Shenzhen in respect of professional services is the differences in law between the two cities, which results in two difficult situations for Hong Kong professionals entering the Shenzhen market: the first situation is “mind your own business”, where Mainland professionals

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97 On 16 January 2004, Shenzhen Luohu (Lo Wu) Hospital (深圳羅湖醫院) and the Chinese University of Hong Kong signed a letter of intent on comprehensive cooperation, pursuant to which Shenzhen Luohu (Lo Wu) Hospital would add the name Chinese University of Hong Kong Luohu (Lo Wu) Hospital (香港中文大學羅湖醫院) to its sign in order to jointly build an integrated hospital that can radiate its influence to the medical markets in both cities. This is also the first CEPA medical cooperation project in Shenzhen.
continue to practice their profession according to the prevailing Chinese laws and regulations, while Hong Kong professionals stick to internationally generally accepted standards; the second situation is that owing to excessive regulation on the Mainland, Hong Kong professionals find it difficult to get qualified as an independent practitioner and are also unable to practise in accordance with international standards, thus rendering the entry conditions meaningless in substance. Besides, there is lack of relevant policy support or platform for two-way free exchange of experience to facilitate cooperation between the professional service sectors of Hong Kong and Shenzhen. Huge salary gaps between Hong Kong and Shenzhen professionals are also a major obstacle for cooperation between the two cities.

- **Intermediary.** Hong Kong and Shenzhen enterprises unanimously agreed that there is a relatively low exchange between the two cities in respect of intermediary services. There is a severely inadequate exchange of information between Hong Kong and Shenzhen enterprises. Shenzhen enterprises find it extremely difficult to obtain industry, manpower and market information on Hong Kong. Hong Kong enterprises interested in entering the Shenzhen market also find it very difficult to explore new business opportunities and business partners in Shenzhen. Meanwhile, the industry associations in both cities vary in their capabilities and service standards in providing assistance to Hong Kong and Shenzhen enterprises in building connections. It is impossible for Shenzhen enterprises to find a way to satisfy their demand for industry and related services in Hong Kong, while Hong Kong enterprises are also helpless with their demand for intermediary services in Shenzhen.

(3) **Opinions of Hong Kong professional service providers on gaining entry to the Shenzhen market**

This study finds that in respect of the flow of key resources between the two cities, the primary characteristic is that the flow of resources from Hong Kong to Shenzhen is far more convenient than the other way round. However, in the area of professional services, a large number corporate interviewees in Hong Kong pointed out many practical and operational difficulties, which they were unable to resolve effectively and have always remained. As a result, their business development in Shenzhen or elsewhere in China was hampered. Hence, this sub-section is specifically allocated for setting out such opinions.

- Hong Kong is an international city. In particular, its professional services have
attained an international standard. However, Shenzhen is more “self-centred” and has its own unique set of rules for operation and management. Hence, it is very difficult for the professional service sector of the two cities to cooperate. For example, their differences in medical and accounting services are particularly obvious: Mainland hospitals only offer treatment after payment, and some doctors also receive commissions. Yet, Hong Kong hospitals offer treatment before payment and do not have a commission system; as for the accounting sector, the accounts prepared by Hong Kong professionals are internationally compatible, whereas those prepared by Mainland professionals are only understandable to themselves. Hence, it is necessary to improve cooperation between the professional service sector of Hong Kong and Shenzhen.

- Hong Kong and Mainland professionals who intend to practise across the border are required to obtain the professional qualifications accepted on the other side. There is no mutual recognition of the qualifications awarded in the two cities. The interviewees reflected that although the Mainland does have professional qualification examinations for those who want to practise there, the threshold for these examinations are very high and they are difficult to pass. For some industries (such as accounting and law), the qualification requirements even include a minimum number of practice hours per year or an internship. Some interviewees suggested that there should be more communication between industry participants in the two cities to reduce the barriers between the two cities in respect of professional qualifications. However, some enterprises said that even if they can obtain professional recognition on the Mainland, it is still very difficult to practise there, because it is very hard to open a new business or establish a branch on the Mainland.

- Professional service providers encounter many obstacles in establishing a company or a branch on the Mainland. On the Mainland, there are a lot of registration, licensing and operational restrictions imposed by the government, rendering it impossible for such enterprises to start business activities. For example, the legal industry; Hong Kong lawyers are not permitted to form partnerships with Mainland lawyers so they have to search for a Mainland legal firm as a “host” and cannot run their businesses independently. In respect of the construction industry, the Mainland government requires that Hong Kong companies must have a certain amount of capital and staff, and certain categories of staff before they can establish a company on the Mainland. In respect of the engineering industry, Hong Kong engineering companies are not allowed to bid for certain large-scale engineering projects, yet giant Mainland enterprises are able to secure engineering
contracts due to connections. Hence, Hong Kong enterprises do not have a high chance when bidding for projects. As for the medical sector, Hong Kong medical institutions must have a minimum investment capital of RMB20 million (irrespective of their business scale) in order to get started on the Mainland. This is obviously unaffordable for medical practitioners with small capital. Moreover, Hong Kong medical institutions are not allowed to run their businesses on the Mainland on a wholly-owned basis, and are subject to a maximum shareholding of 70%, with the remaining shareholding to be held by Mainland entities or individuals. Such restrictions make it very difficult for Hong Kong enterprises to enter the Mainland market.

- In the area of warehousing and retailing, enterprises also encounter more obstacles to business development in Shenzhen than in Hong Kong. For example, some food enterprises reflected that the Mainland’s quality control on food is not as strict as Hong Kong’s, and their management is also less satisfactory. The market sensitivity of Mainland people is also not sharp enough. It is very difficult to communicate with Mainland producers in respect of quality issues. Furthermore, the taxation system on the Mainland is more complicated. Although there are Arrangements Against Double Taxation and Tax Evasion (避免雙重徵稅與漏稅安排), cases still exist where one is subject to taxes charged by Hong Kong and the Mainland at the same time. The problems encountered by cosmetic enterprises are even bigger. Hong Kong cosmetic retailers normally adopt the operating model of buying parallel imports to keep prices low so as to compete with cosmetic specialty shops. However, parallel imports are not allowed on the Mainland. As such, they are unable to establish their business in the Mainland market.

II. Achieving Relatively Satisfactory State for the Flow of Key Resources in a Hong Kong-Shenzhen Metropolis

1. Overall Description of the Current Status of the Flow of Key Resources

Based on the above analysis, below is our overall description of the current status of the flow of key resources between Hong Kong and Shenzhen:

At present, there is a relatively large gap between the overall status of the flow of key
resources between Hong Kong and Shenzhen and the relatively satisfactory state required. In the case of the flow of people, there exists serious asymmetry as demonstrated by the heavy restrictions imposed on the flow of people from Shenzhen to Hong Kong. Arrangements are not flexible for people with registered residence in Shenzhen and its “usual residents”, and high-end business activities between Hong Kong and Shenzhen have not been given sufficient attention (including cross-boundary mobility of foreigners). To a certain extent, this forms a barrier to further economic integration between Hong Kong and Shenzhen. As this important element, namely the flow of people, is not satisfactory, the flow of other key resources is also affected.

With respect to the flow of capital, both cities are aware of the importance of integration, but are constrained by the State’s financial regulatory policies, which are still at a superficial stage of cooperation. The difference between the liberal financial policies of Hong Kong and restrictive financial policies of the Mainland creates a big institutional gap, which together with a non-fully convertible Renminbi, leads to an unsatisfactory flow of capital between the two cities. As a result of the constricted legal channels, illegal underground operations have emerged.

In terms of the flow of goods, despite the fact that the status of the flow of goods is close to being relatively satisfactory, customs and boundary points operations require continued improvement and enhancement. Various aspects such as inspection standards, the speed and efficiency of customs clearance, special arrangements for specific goods, the transparency of customs operations, the application of technology and skills at customs and crossing points all require close cooperation and coordination to enhance as much as possible the effectiveness and efficiency of the flow of goods.

On the issue of the flow of information and services, there are even more constraints in place due to State regulations and differences in the systems and laws of the two cities. Although one of the main objectives of the CEPA is to liberalise the entry of Hong Kong’s modern service providers, the different legal systems in place in Hong Kong and Shenzhen have resulted in greater obstacles for the cooperation and integration of the service industries of the two cities. Enterprises in particular face difficulties during actual operations. The two cities need to go through a process of developing a deeper understanding of each other and make efforts to adapt to one another.
2. Gap in the Flow of Resources and the Reasons

The gap between the current status of the flow of key resources between Hong Kong and Shenzhen and the relatively satisfactory status is mainly manifested in two aspects, “quantity” and “quality”.

Technical factors lead to the “quantity” gap. As a result of issues in respect of technology, procedures and execution capacity, the scope, frequency and efficiency of the flow of key resources is not satisfactory.

In respect of the flow of people: the flow of people between Hong Kong and Shenzhen is very frequent compared with two decades ago. The volume of flow is also large. However, there has been no significant improvement in the degree of convenience for the flow of Shenzhen people to and from Hong Kong over the recent ten years. For visa endorsement and customs inspection and immigration clearance, the performance remains unsatisfactory with regard to efficiency, convenience, unreasonable restrictions and the level of fees and charges.

In respect of the flow of information: Hong Kong and Shenzhen share a common culture. The only issue is the difference in language and usage of words, leading to minor disruptions in the flow of information between the two cities. So, technical obstacles are the major problem. Shenzhen’s official websites do not have English versions, and therefore cannot accommodate certain highly capable people in Hong Kong who can only understand English, and not Chinese or Cantonese.

In respect of the flow of services: the CEPA offers a relatively high degree of institutional convenience for the entry of the Hong Kong service industries into the Shenzhen market. Yet, further negotiations are needed regarding business registration requirements, professional qualifications, regulatory procedures and so on. Further integration of the service and trading sectors requires extensive and in-depth communication between people as well as the sharing of information. A certain amount of time is also needed for the two cities to understand each other’s demands. Strengthening the business exchange among various industries of Hong Kong and Shenzhen can effectively promote and support the flow of services between the two cities.

Institutional factors lead to the “quality” gap. Owing to institutional obstacles, the flow of certain key resources between Hong Kong and Shenzhen is infrequent or
barely existing.

In respect of the flow of capital, since “the Renminbi is not fully-convertible” and is under the financial regulations of the State, the flow of capital and financial services between Hong Kong and Shenzhen is full of difficulties. Nevertheless, social interactions between the two cities over the years have led to the emergence of private “underground financial (capital) services” to partially meet market demand. The process of “legalisation” and institutionalisation of such interactions, services and networks depend on institutional changes at the national level. Only when ground-breaking arrangements have been put into place for the relevant systems, will there be a “quality” takeoff in the flow of capital, funds and financial services between Hong Kong and Shenzhen.

In respect of the flow of legal services, given that Hong Kong and Shenzhen have completely different legal systems, the flow of legal services within the region is almost impossible. Hong Kong lawyers must pass the China Judicial Exam in order to practise on the Mainland, while Shenzhen lawyers are also required to pass the LLB examinations in order to practise in Hong Kong. Still, regarding the foreign legal affairs of enterprises and individuals on the Mainland, such as the examination of foreign contracts, foreign legal affairs advisory services and foreign notary services, there is wide room for legal services from Hong Kong.

To build a Hong Kong-Shenzhen Metropolis, the above issues must be addressed to get rid of the obstacles in order to achieve a relatively satisfactory state for the flow of key resources between Hong Kong and Shenzhen.

3. Achieving a Relatively Satisfactory State for the Flow of Key Resources

The absolute free flow of key resources, that is, when people, capital, goods, information and services can move freely between the two cities, is the optimal state for economic integration as defined in international economics. In one sense, this optimal state is not possible under the political and legal frameworks of “One Country, Two Systems”; however, the current status is unacceptable in that the two cities have yet to fully exploit their complementary functions. As such, Hong Kong and Shenzhen need to pursue the “sub-optimal state” by achieving a relatively satisfactory state for the flow of key resources, that is, promoting, under the political and legal frameworks of “One Country, Two Systems”, freer flow of goods, capital, natural persons, information and services between...
the two cities than under the current status in order to exploit and explore the complementary economic functions of the two cities, thereby strengthening the global and national competitiveness of the two cities separately and as a whole. Achieving a relatively satisfactory state may not be the optimal state in the economic perspective, but it is the optimal state from the political and practical perspectives.

Based on the current status, we can describe the relatively satisfactory state for the flow of key resources in a Hong Kong-Shenzhen Metropolis through the following aspects. Of course this is the relatively satisfactory state in the relative sense, and the state for the flow of key resources will continue to improve in line with the economic and social development of the two cities. It is a dynamic and long term process.

**Firstly, achieving a relatively satisfactory state for the flow of people.** The flow of people is the foundation for the flow of all the key resources. Currently, there is no institutional restriction on the flow of Hong Kong people into Shenzhen, while Shenzhen people have difficulties in entering Hong Kong. Improvements are needed in the following areas:

1) Gradual implementation of the use of electronic pass or smart cards, advanced endorsement that allows unlimited entries within a specified period (e.g. six months or one year) and automated passenger clearance arrangements for people with registered residence in Shenzhen;

2) Implementation of automated passenger clearance arrangements through the use of smart cards as permits without the need for advanced endorsement that allows multiple entries within a specified period (e.g. in the past six months or three months) for Mainland residents (particularly usual residents in Shenzhen) who frequently visit Hong Kong and have a record of two or three valid entries within a certain period (e.g. six months or one year);

3) Lower endorsement fee or free of charge;

4) For residents to whom 1) or 2) applies, gradual implementation of customs inspection and immigration clearance without the requirement for advanced endorsement that allows instant endorsement and instant clearance. In this way, the endorsement serves purely as a customs inspection and immigration clearance record. If payment of the endorsement fee is required, a small transaction amount, prepaid value added function can
be built into the smart card used as the entry permit to enable instant payment at the time of endorsement; 

5) Waiting time for the clearance of Shenzhen and other Mainland people usually should not exceed 15 to 20 minutes;

6) With the support of the relevant Mainland authorities, simplification of visa application procedures for expatriate staff of Hong Kong enterprises, extending their permitted length of stay on the Mainland (particularly Shenzhen) and increasing the number of times the visa endorsement can be used. Also, for the convenience of high-end business visitors, a helicopter transportation service between the two cities should be launched (however, such helicopter service will involve the implementation of “co-location” arrangements for customs inspection and immigration clearance in Hong Kong);

7) In the long term, realisation of “co-location” arrangements for customs inspection and immigration clearance with the introduction of an identity card carrying the holder’s identification information in both cities. Some interviewees from Hong Kong suggested that there should be a smart identity card that carries the holder’s identification information in both cities to allow one clearance to satisfy customs inspections required by both cities, in order to achieve substantial time saving. Although this touches on the issue of privacy and boundary law enforcement, the proposal is worthy of a detailed study by the Hong Kong and Shenzhen governments.

8) Further speeding up of the passenger customs inspection and immigration clearance procedure. With the continued growth in the number of people crossing between Hong Kong and Shenzhen, apart from increasing the number of crossing points, the Hong Kong and Shenzhen governments should conduct studies on an ongoing basis on how to simplify inspection procedures and adopt improved customs inspection and immigration clearance procedures software in order to reduce the time needed for customs inspection and immigration clearance. Some interviewees pointed out that the technology used by the

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98 During our interviews, some interviewees suggested that in order to promote the flow of people and the economic and trading relationships between Hong Kong and Shenzhen, a phase by phase implementation of the use of a visa-on-arrival as the entry permit for every Shenzhen resident, and such a visa-on-arrival should allow instant application and approval upon arrival at the Hong Kong crossing point to allow more convenience than business visas and visas for visitors under the “Individual Visit Scheme”. In the first phase, usual residents and individuals with business proof should be the subjects for the pilot test. However, Hong Kong cannot implement this measure unilaterally and must obtain support from the central government and permission from the public security and immigration authorities of the Mainland. Hence, in this study it is recommended that the administrative authority relating to this “visa on arrival” arrangement should be vested in the crossing points of Shenzhen.
Hong Kong customs is very outdated and newer technology and more powerful computers can be used to enable a more rapid and convenient customs inspection and immigration clearance. The two governments may consider investing more resources to jointly develop a more efficient customs inspection and immigration clearance system to link up computers of the customs on both sides (upon successful development, such system can be exported to other places. Hence this is worthy of further studies). If the “co-location” arrangements for customs inspection and immigration clearance at the Western Corridor are proven to be successful, a study must be conducted on extending its application to other Hong Kong-Shenzhen crossing points (as well as trains from Hong Kong to other destinations), and issues regarding land resources can be further studied. In case the arrangements do not prove to be successful, Hong Kong and Shenzhen should develop other measures to simplify passenger clearance inspection and immigration clearance procedures, such as “entry inspection, but no exit inspection”.

9) Improvement of transport connections to and from crossing points. Other than cars with vehicle licenses in the two cities, all cross-boundary travellers must use public transport to travel across the border. The Lo Wu crossing point is only accessible by rail. After the Lok Ma Chau Spur Line is opened, the Lok Ma Chau crossing point will offer more means of access, but all of them are public transport. It is recommended that “park and ride” or “drop off points” be made available at crossing points to allow cross-boundary travellers to drive their private cars to the crossing points, park and then cross the border. This can provide more choices and convenience to cross-boundary travellers, as well as reduce the pressure on the demand for public transport. In respect of 24-hour passenger clearance service, after a comprehensive review of cost and benefit factors, this study finds that there is no need to extend the service to other crossing points at this moment. The one in Lok Ma Chau is able to take care of the clearance of the flow of people late at night. Yet, regular review is necessary on whether to extend the passenger clearance service at other crossing points or extend the “24-hour passenger clearance” service to other crossing points where appropriate.

10) Research on how to effectively improve cross-boundary arrangements for vehicle licences in the two cities. There is increasing demand from society for the free flow of vehicles between Hong Kong and the Mainland. In particular, corporate interviewees call for the revocation of the requirement for separate vehicle licences in the two cities. It is recommended that the two cities establish a committee to study the feasibility of
deregulation to allow the free flow of small vehicles and the mutual recognition of vehicle licences issued in the two cities. Some interviewees suggested that cross-boundary vehicle tickets be introduced to replace vehicle entry permits, and that the charge for the cross-boundary vehicle ticket for entry to Hong Kong should be higher than that for entry to the Mainland, since vehicle licence fees in Hong Kong are higher than those on the Mainland. Further, the revenue from such vehicle tickets can be shared among Mainland cities based on the road utilisation rate of Hong Kong vehicles.

11) With Shenzhen residents as the subjects for a pilot test, gradually alleviating employment difficulties facing Mainland people in Hong Kong. At present, Hong Kong has a shortage of talent and needs to import talent to maintain the competitiveness of the city. Other than local training, recruitment of capable individuals from around the world is also important. However, currently, Hong Kong enterprises recruiting non-Hong Kong residents are required to make an application to the Immigration Department and provide proof that they need to recruit externally as they are unable to find the relevant candidates locally. Such enterprises anxiously hope that the procedure can be simplified for recruiting Mainland talent to work in Hong Kong.

12) Studying how to minimise the procedure for the entry of other Mainland residents into Hong Kong. Currently, while Hong Kong International Airport has adopted various initiatives to spare Mainland transit passengers the trouble of customs inspection and immigration clearance formalities, flying via Hong Kong is often not the easiest way to go. Given the continued expansion of the Mainland aviation market, there are an increasing number of Mainland passengers flying to other countries or other cities on the Mainland. Hong Kong should study how to minimise the formalities required for these Mainland passengers to fly via Hong Kong. For example, the implementation of “co-location” arrangements for customs inspection and immigration clearance at the Hong Kong airport could be considered to allow passengers to go through the Hong Kong-Mainland arrival and departure customs inspection and immigration clearance in Hong Kong, without the need for another inspection on the Mainland. These arrangements can help expand the reach of Hong Kong-Mainland flying routes, since, currently, planes flying to or from Hong Kong may only land on Mainland airports with cross-boundary facilities, and the number of such airports is limited. The Hong Kong airport will need to make some space available in its restricted area for the Mainland immigration and customs authority and other relevant authorities to perform the necessary formalities for passengers under the
relevant Mainland laws and regulations.

Secondly, achieving a relatively satisfactory state for the flow of capital. The flow of capital between Hong Kong and Shenzhen must take place in accordance with the State policy. Under the premise that Renminbi business is yet to be fully liberalised, Hong Kong and Shenzhen should focus their cooperation on financial business and financial products innovation. Improvements are needed in the following areas:

1) Establishing financial institutions in both cities by way of cross shareholdings to mutually pursue business and market expansion:

2) Striving for the cooperation of an inter-bank borrowing market between the banks of the two cities to achieve the cross-boundary flow of the Renminbi and the Hong Kong dollar;

3) Cooperation between the fund businesses of the two cities, particularly the portfolio administration and management by Hong Kong fund houses in Shenzhen;

4) Cooperation between the capital markets of the two cities and cooperation between the Shenzhen Stock Exchange and the Growth Enterprise Market of Hong Kong to attract enterprises to be listed on the stock markets of Hong Kong and Shenzhen, and to partially open up the markets for cross-boundary investments;

5) Extension of the Shenzhen currency market to Hong Kong to act as the bridge between Hong Kong and the Mainland;

6) Deregulation of foreign exchange controls in Shenzhen to allow free convertibility of the Renminbi with the Hong Kong dollar provided the amount is small, and the free flow of small amounts of foreign exchange into and out of Shenzhen;

7) Comprehensive cooperation between the two cities on financial regulation through establishing government and inter-bank joint regulation mechanisms;

8) Facilitating the flow of information and management professionals between the two cities to allow the financial industry in Shenzhen to recruit banking management professionals from Hong Kong, particularly middle and senior management executives, and promoting the recognition of the qualifications of middle and senior banking
management professionals acquired in Hong Kong.

9) Jointly striving to have Hong Kong and Shenzhen as the pilot cities with regard to certain financial cooperation projects in China. While the financial policy is a national policy on the Mainland making single-city implementation very difficult, Shenzhen can still play the role of pilot city in some areas. This requires the Hong Kong and Shenzhen governments to join hands to seek support from the central government. For example, they can lobby for liberalising the flow of capital between Hong Kong and Shenzhen. Currently, Hong Kong enterprises are faced with liquidity issues on the Mainland, as it is not easy for them to remit their funds from the Mainland to Hong Kong. Sometimes they have to resort to various other methods, including illegal underground operations, which are risky and of course illegal, in order to remit funds to Hong Kong.

**Thirdly, achieving a relatively satisfactory state for the flow of goods.** Currently, among various key resources, the status of the flow of goods is the most satisfactory. Hong Kong’s free port policy and the CEPA’s zero import tariff preference for products originating from Hong Kong have laid the foundation for a relatively satisfactory status for the flow of goods between Hong Kong and Shenzhen. However, from the perspective of actual operation, improvements are needed in the following areas:

1) Strengthening communications between the two cities with regard to crossing point infrastructure planning. Crossing point facilities are the most fundamental condition for the flow of goods between Hong Kong and Shenzhen. Neither of them can unilaterally plan the positions of their crossing points. In the past, communications did exist between Hong Kong and Shenzhen in respect of crossing point infrastructure planning, but that was only limited to certain urgent projects for which the plans had been fixed, and such plans did not give comprehensive considerations to the situation or difficulties on the other side. For example, transport connections and whether land is available for the setting up of crossing point facilities. Hence it is recommended that Hong Kong and Shenzhen should strengthen their communications on their crossing point infrastructure facilities. A committee should be established to jointly plan for matters such as long term crossing point facilities and transport connections.

2) Further strengthening crossing point management through the use of advanced technology. Hong Kong and Shenzhen customs could adopt X-Ray and laser technologies to speed up the process of customs inspection by enabling the detection of undeclared
items or contraband without opening the containers. The databases on the Hong Kong and Mainland sides should be linked and cross-boundary computer facilities should have a higher capacity to speed up customs clearance. All documents and information should be digitalised to achieve electronic integration. Coordination should be sped up on the interface of the logistics information technology standards on both sides, and all documents and information should be stored in a database to allow information sharing between the Hong Kong and Shenzhen customs. One of the most important processes is to standardise the definitions of cargo and customs declaration items to save the time and costs of enterprises in completing customs declaration forms. The two governments should also encourage the private sector to adopt information technology. Also, high technology should be used to estimate the queuing time for each truck to enable the crossing points to keep track of the number of trucks waiting for clearance before closure. Some interviewees also suggested that truck drivers should be asked to notify the crossing points when they leave the factories so that the crossing points can use high technology to estimate the time of each of their arrivals, and if there will be too many trucks waiting for clearance at a certain time, the crossing points can make the necessary arrangements to extend their service hours (however, the cost of such measures is rather high and truck drivers are less capable of using technology, which may constitute an obstacle).

3) Shortening the time for customs clearance. The “co-location” arrangements for customs inspection and immigration clearance at the Western Corridor, if proven to be successful, should be applied to all other Hong Kong-Shenzhen crossing points, and issues regarding land resources can be further studied. In case the arrangements are not successful, Hong Kong and Shenzhen should develop other measures to simplify passenger customs inspection and immigration clearance procedures, such as “entry inspection, but no exit inspection”.

4) Solving the problem of traffic congestion in the boundary area. Currently, the reason for container trucks failing to cross the border before closure of the crossing points is the serious traffic congestion in Shenzhen city, which they are very often required to drive through before they reach the crossing points and because of this, they arrive late at the crossing points. The traffic congestion may even affect the boundary areas of the two cities and the major highways to the crossing points in Hong Kong. The urban planning and transportation authorities of the two cities must work together to solve the problem of traffic congestion in the boundary areas.
5) Speeding up the food inspection process. Food imports are subject to inspection by random sampling. Some interviewees complained that inspection charges are expensive and that food inspection facilities are insufficient, with the time consuming inspection leading to higher warehousing expenses for the enterprises. It is recommended that further studies be carried out to find out how to speed up the food inspection procedure and provide sufficient inspection facilities.

6) Finding out how to further relax the regulations for the flow of “small logistics” goods related to R&D and technology, and how to further reduce the regulatory restrictions on the flow of goods and increase the transparency in regulation.

Fourthly, achieving a relatively satisfactory state for the flow of information and services. The progress of the flow of information and services depend greatly on the flow of people. The flow of information, from a technical perspective, is achieved through various networks and publications, while a smooth flow of both people and information will certainly lead to the achievement of a satisfactory state for the flow of services. Improvements are needed in the following areas:

1) Various information is quickly exchanged, dissipated and updated by professionals in different industries with working experience in Hong Kong and Shenzhen. Making the industry associations the major support for the development of different industries in Hong Kong and Shenzhen which can offer services to enterprises in Hong Kong and Shenzhen to provide them with all sorts of valuable information of the locality or elsewhere;

2) Hong Kong and Shenzhen have the information platforms for various services and trades, and it will take from only four or eight hours to quickly search through the networks, telephone or publications for a vast amount of information relating to a particular professional service in Hong Kong or Shenzhen. The home affairs authorities of the two cities should be able to release government information through a common information platform to facilitate the ability of the enterprises of the two cities to comply with the relevant rules in transacting their businesses;

3) The technology innovation and intellectual property rights protection systems of the two cities should be linked to form a unified patent transaction market. Hong Kong has 8 tertiary education institutions to nurture technology talent, and to attract talent from around the world to come to Hong Kong. Such talent can help Hong Kong and Shenzhen on the research and development of different categories of products. One of the
competitive advantages of Hong Kong is in the commercialisation of research and development deliverables. Hong Kong should continue to play its role in the commercialisation of research and development deliverables, and Shenzhen in production. Besides, the universities in Hong Kong seldom engage in research and development cooperation with the business community (some interviewees considered that it is because the universities have enough funding and thus no motive to work with the business community for fund raising purposes). Universities and enterprises should change their mindsets and pursue more academic-business cooperation. Besides, Hong Kong’s superior intellectual property rights protection system should also be exploited to enable the commercial application of university research findings in a Hong Kong-Shenzhen Metropolis.

4) The complementary functions of the two cities through division of labour should be exploited in respect of production service industries, such as the legal, accounting, logistics, convention and exhibition, and construction industries, as well as mutual recognition of professional qualifications should be achieved as soon as possible. At the same time, the two cities should open up to each other their livelihood service industries, such as the medical, tourism and intermediary industries. For example, they may work through the CEPA to reduce the restrictions on Hong Kong professionals in establishing businesses in Shenzhen. Hong Kong professionals encounter very huge obstacles in opening their businesses on the Mainland. High entry barriers, institutional restrictions and differences in the professional qualification systems between the two cities result in their failure in successfully setting up their practices on the Mainland. For example, Hong Kong doctors are required to make a deposit of RMB20 million to establish a private practice on the Mainland, the current systems do not allow Hong Kong educational institutions to open schools on a sole proprietorship basis on the Mainland (in contrast, Mainland professionals are not subject to any restriction in establishing their businesses in Hong Kong). Hence, it is recommended that the obstacles for Hong Kong professionals in establishing their businesses on the Mainland should be reduced by way of the CEPA. Of course, this issue is not isolated to Shenzhen and efforts should be made to seek the approval of the central government to carry out pilot tests in Shenzhen.

5) An educational cooperation mechanism should be established in a Hong Kong-Shenzhen Metropolis to reduce the barriers against Hong Kong tertiary education institutions in the provision of courses on the Mainland. Currently, Hong Kong educational
organisations encounter many difficulties in the provision of courses on the Mainland. Besides, the Mainland is hesitant about the involvement of non-Mainland educational organisations in the provision of academic education. As such, Hong Kong educational organisations emphasize that they will only open training courses on the Mainland. Hong Kong educational organisations are regulated by “Regulations Governing Chinese and Overseas Educational Organisations” (中外辦學條例), and have to work with Mainland educational organisations to open courses by way of a joint venture. They are also subject to the requirement that there must be a greater number of Mainland students than Hong Kong students. Convergence on human resources development is crucial for building a Hong Kong-Shenzhen Metropolis. Hence, in this study it is recommended that the two governments should seek the approval of the central government to relieve the “Regulations Supporting the Provision of Courses by Hong Kong Educational Organisations on the Mainland” (有關“鼓勵香港到內地辦學”的條例) in Shenzhen and reduce the barriers against the provision of courses in Shenzhen. On the other hand, some interviewees also reflected that universities in Hong Kong do not pay enough attention to cross-boundary education and the Presidents of most of them do not understand or care about the importance of cross-boundary education, and they only focus on academic research. The Hong Kong government also does not encourage the provision of training education across the border. The Hong Kong government should offer more policy support to cross-boundary education and encourage tertiary educational institutions in Hong Kong to accept their social responsibilities (one of which being the provision of training education) other than purely focusing on the pursuit of research.

6) Establishing schools for the children of Hong Kong people in Shenzhen as soon as possible. Currently, there are 4,000 Hong Kong children living in Shenzhen travelling back to Hong Kong to go to school every day. There are special passageways for them, but their number is already above the capacity of the crossing points. Though accompanied by nannies, they are susceptible to accidents at any time. Moreover, they spend a lot of time travelling between Hong Kong and Shenzhen. They need to get up very early in the morning and miss out on the opportunity to take part in extra-curricular activities after

Moreover, some interviewees said that Mainland government authorities do not have a unified set of standards on the provision of courses by Hong Kong educational organisations on the Mainland. Sometimes they are regarded as overseas educational organisations, and sometimes the “Regulations Governing Chinese and Overseas Educational Organisations” (中外辦學條例) are considered inapplicable because Hong Kong is part of the Mainland. In addition, the application procedure is too complicated for the educational organisations to follow.
school, which hampers their learning efficiency and opportunities. In one forum, a speaker forecast that in three years time, the number of such cross-boundary students will exceed ten thousand which will increase the pressure on crossing points. It is therefore suggested that schools should be built in Shenzhen for the children of Hong Kong people, and such educational service should be provided by voluntary bodies from Hong Kong, in order to allow these students to receive a Hong Kong education without the need to travel across the border to go to school every day. At the same time, the policies on “non-portability of welfare” and public money not being spent outside Hong Kong have to be addressed, and it is also necessary for the Shenzhen government to provide land and allow the Hong Kong government to supervise these facilities.

7) Enhancing cultural exchanges between the two cities. After building the Hong Kong-Shenzhen Metropolis, more exchanges can be made to increase the two cities’ understanding of each other’s culture and values, including making contacts and business management methods, methods of interaction between companies and between enterprises and the governments, as well as understanding each other’s social and political situation. At present, cultural and arts exchanges between Hong Kong and Shenzhen are not smooth. For example, a philharmonic orchestra from Shenzhen was invited to perform in Hong Kong, as some of its members held Mainland passports, Hong Kong government officers claimed that they were going to work in Hong Kong and asked them to go back to the places of their original residence to apply for entry permits in order to perform in Hong Kong which was time consuming and unexpected. If such procedures are simplified in Hong Kong and Shenzhen, more round tour performances will be able to take place. Furthermore, given that the performing arts market is relatively small in Hong Kong, the economic effectiveness does not justify world-famous performing arts groups to perform in Hong Kong. If the performing arts markets in Hong Kong and Shenzhen, and even the Pearl River Delta as well, are considered as one, and necessary accommodative arrangements are made in respect of ticketing and the Mainland’s visa requirements for performers, the enlarged market should be able to support large-scale performances, thereby creating a positive effect on the art development of the two cities.

8) After the Hong Kong-Shenzhen Metropolis is established, certain Hong Kong newspapers should be permitted to publish the “Mainland version” of their newspapers in Shenzhen. To deepen Shenzhen citizens’ understanding of Hong Kong and overseas countries, it is recommended that the central government should allow Hong Kong
newspapers to publish a “Mainland version” of their newspapers in Shenzhen as a pilot market to report Hong Kong and international news. The “Mainland version” does not necessarily have to be the same as the “Hong Kong version”, and the editorial style cannot be too aggressive. From the perspective of Hong Kong, some people might say this is self-censorship by providing a “clean version”. However, if there is no such “clean version”, the Mainland will not open up its market to Hong Kong newspapers. If such a “clean version” can be worked out, on the one hand this can bring in business, and on the other hand it will help Mainland people to understand more about the outside world. If Hong Kong newspapers can successfully be published in Shenzhen, their coverage may be able to expand further to other Mainland cities.

Also, although there is no restriction on the entry of Mainland newspapers into Hong Kong, their market demand is not too big (due to the huge difference in editorial style and market preferences of the two cities). Hong Kong may adopt measures to encourage Shenzhen newspapers to be published in Hong Kong. Given that Hong Kong people are more and more interested in the Mainland, in theory, the circulation should not be a problem.
Chapter 6: Policy Recommendations for Building a Hong Kong-Shenzhen Metropolis

One point that is worth emphasizing is that achieving a relatively satisfactory state for the flow of key resources was, is and will be the first priority and long term goal for building a Hong Kong-Shenzhen Metropolis. One lesson worth learning is from the European Union: in rounds of meetings, the free flow of key resources among their member states is always the topic of concern for the long term.

In building a Hong Kong-Shenzhen Metropolis within the framework of “One Country, Two Systems”, one of the key focuses is to reduce the obstacles to the free flow of key resources between Hong Kong and Shenzhen to promote the progress of their integration process from a purely economic one to a comprehensive one that covers the livelihood and social facets as well, thereby changing the state for the flow of key resources from being restrictive to relatively satisfactory. To realise this objective, on the one hand, from the perspective of building a Hong Kong-Shenzhen Metropolis, the Hong Kong-Shenzhen city-to-city functions should be integrated to enhance the interface of the hardware infrastructure, such as the coordination in urban planning, the interface of city-to-city cross-boundary basic facilities, joint development of the Hong Kong-Shenzhen boundary area, distribution of crossing points and division of labour at the operational level. On the other hand, the future development of Hong Kong and Shenzhen should be sophisticatedly planned at the national level to find out their respective positions and roles in national economic and social development. Under this premise, innovation should be pursued in respect of the operating mechanism for planning and cooperation between Hong Kong and Shenzhen, the institutional arrangements should be improved to realise coordination in management, thereby enhancing software development in terms of the flow of key resources between Hong Kong and Shenzhen to create a Hong Kong-Shenzhen Metropolis that is “mutually inclusive” without losing the peculiar characteristics of each of the two components.

The continued growth of the GDP of the Mainland and its relatively high economic growth rate, as well as the increasing influence of the Mainland economy on the global
economy, constitute the “situational advantage” (天時) for building a Hong Kong-Shenzhen Metropolis. That the relatively high rate of increase in the GDP of Shenzhen as a late starter and the improvement of its social and living quality lead to a narrowing gap between Shenzhen and Hong Kong, and the complementary functions of the two cities in various areas constitute the “geographic advantage” (地利) for building a Hong Kong-Shenzhen Metropolis. The growing consensus among the governments and societies of Hong Kong and Shenzhen in respect of the importance of Hong Kong-Shenzhen cooperation, as well as the support from the central government, Guangdong province and other sectors constitute the “relationship advantage” (人和) for building a Hong Kong-Shenzhen Metropolis. With the existence of these “situational, geographic and relationship advantages” (天時地利人和), the present situation represents the best time to start building a Hong Kong-Shenzhen Metropolis. The conclusion reached from the economic impact analysis of a Hong Kong-Shenzhen Metropolis mentioned earlier is that, be it for Hong Kong or Shenzhen, the impact of flow of people > impact of flow of goods > impact of flow of capital. In accordance with this sequence, this study puts forward ten policy recommendations for achieving a relatively satisfactory state for the flow of key resources between the two cities within the shortest possible time, in order to realise innovation and breakthrough as quickly as possible.

1. **Strengthen infrastructure links to create a “Hong Kong-Shenzhen One-hour Metropolitan Life Circle”**

   The construction and interface of the infrastructure in Hong Kong and Shenzhen has consistently been geared towards the objective of constructing a “Hong Kong-Shenzhen One-hour Metropolitan Life Circle”. This objective is both appropriate and practical as for years Hong Kong and Shenzhen have been piloting the model “Developing Software Through Hardware Construction” (“以硬帶軟”) (The “co-location” arrangement for customs inspection and immigration clearance adopted by the Western crossing point is a successful case in point). The key to the building a “Hong Kong-Shenzhen One-hour Metropolitan Life Cycle” is to minimise the cost and maximise the efficiency of the flow of key resources. Therefore, the construction of both hardware infrastructure and key resources flow management software are both inevitable.
With respect to hardware construction, constant mutual adaptation and blending of the planning vision and design for Hong Kong and Shenzhen are necessary for the comprehensive urban planning of both cities. At present, Hong Kong and Shenzhen have established a communication mechanism between the senior management of their planning departments. This has resulted in a platform for direct communication and interaction and a system of regular meetings. Since the blending and of the planning vision is an ongoing long-term process, it is not possible to solve all problems at once. Moreover, the planning visions of the two cities will certainly be different and may be sometimes contradictory to each other. The two cities should therefore have regard to the overall situation and properly resolve the resulting problems in order to reach a win-win situation. Any planning geared to the benefit of one city only might hurt and affect not just the other party but both cities in the long run. For example, Hong Kong’s infrastructure planning strategies have always been demand driven and project based. In many instances, when there has been a demand, the supply of facilities and services has not been forthcoming. In Hong Kong, the decision-making process is a lengthy one and thus it is often a laggard in infrastructure development. Nowadays, with the fierce competition between cities, Hong Kong needs to grab every opportunity. Therefore, the Hong Kong Government should change its strategies and adopt forward-looking plans in order to be able to quickly provide services when they are needed.

With respect to regional infrastructure planning, industry planning, environmental protection, development of the frontier and long-term objectives and positioning, the two cities must engage in in-depth exchanges in order to reach consensus, and drive the joint economic development of Hong Kong and Shenzhen through urban planning. It needs to be emphasised that prior to the handover of Hong Kong, the British colonial government did not accept the joint planning between Hong Kong and Shenzhen. However, as the relationship between Hong Kong and Shenzhen has become closer, even though the objective of a Hong Kong-Shenzhen Metropolis did not exist, the urban and transport planning, particularly at the macro-level, needed the coordination of the two cities in order to reduce vicious competition and avoid a wastage of resources. If Hong Kong and Shenzhen want to jointly develop into a large international metropolis, there is a great need for the two cities to cooperate closely in these two aspects. Therefore, this report recommends that Hong Kong and Shenzhen must join hands to establish an appropriate organisation which would, under the premise of “One Country, Two Systems” and without
losing the independence and uniqueness of either city, formulate strategic urban and transport planning for a Hong Kong-Shenzhen Metropolis. This system of joint planning should be developed at the macro-level, e.g. plans such as “Shenzhen 2030”, “Hong Kong 2030” and “Hong Kong Comprehensive Transport Study”, etc. These plans coordinate the overall development direction of Hong Kong and Shenzhen (however, regional level planning need not be included) from the perspectives of urban development and transport. Such planning should also include implementation plans so that the macro scheme can be realized in practice.

Regarding cooperation between Hong Kong and Shenzhen in terms of transport facilities, the first issue to address is rationalising the cross-boundary transport system and clarifying the functions of various crossing points. There are already three road transport boundary points: Huanggang, Man Kam To and Sha Tau Kok. All of these are located in the central and eastern parts, the cross-border traffic has seriously disrupted the city traffic and urban functions of Shenzhen. The existing land transport crossing points have reached their saturation points. The completion of the western crossing point and its opening for traffic can basically alleviate the problem of a lack of land transport crossing points between Hong Kong and Shenzhen but the cross-border transport will continue to create disruption to the traffic and environment in Shenzhen. To rationalise the land transport planning, in the future, three major crossing systems between Hong Kong and Shenzhen should be established along the three development axes in the western, central and eastern parts, in order to achieve a spatial layout of “west in west out, centre in centre out and east in east out.” Following the completion of the western crossing point, and later the eastern one, the central crossing point should gradually change its primary focus from being a land transport crossing point for freight to being one mainly for passengers. Also, the western and eastern crossing points will be primarily responsible for cross-border freight. A division of labour system of “freight goes either side and passengers stay in the centre” (“貨走兩邊、客走中間”) can thus be formed. The second issue is to connect the railway networks of the two cities to gradually achieve seamless interface in order to meet the demand for high-capacity, fast, convenient and comfortable passenger transport, thereby facilitating passenger transport integration with railway as the major means of transportation.

On the construction of crossing points, the unsatisfactory situation regarding the
design of the existing Shenzhen facilities should be rectified. Shenzhen is located on a thin strip of land and at present, there are four land transport boundary points. On the one hand, there is no buffer zone between the Shenzhen urban area and the boundary points and on the other hand, the traffic planning of the roads for Hong Kong’s outbound vehicles is irrational. Regarding the present distribution and planning of crossing points, the two parties need to adjust the business operation of vehicles and crossing points and try their utmost to create traffic diversion. When modifying existing crossing points and building new ones, full consideration should be given to providing appropriate connecting transport systems which are compatible with the functions of the crossing point areas. The two cities should, as soon as possible, put in place studies and coordination work to enhance boundary crossings, to further improve their transport connections including railways, long-haul coaches, public transport and taxis etc., and to establish high-quality people-oriented facilities. The traffic flow should be rationally organised to shorten the walking distance in the boundary area when travellers are at the crossing points. Adequate car parks and vehicle waiting areas should be provided. People-oriented cross-boundary pedestrian bridges and vehicular bridges should also be built. In order to efficiently separate people and goods; fast-track lanes, VIP facilities, lanes for the disabled, etc. should be constructed to cater for special needs.

At present, transport planning and the construction of basic infrastructure hardware such as boundary crossings between Hong Kong and Shenzhen have already reached a relatively high standard. However, further enhancement is required in terms of functional linkage. Merely having simple hardware linkage is not enough. Enhancing functional linkage is necessary to fully develop the potential of the hardware and in this aspect, Hong Kong and Shenzhen need to address their differences. Hong Kong hopes that more public transport connection facilities can be built, e.g. buses, long-haul coaches, taxis, etc. The consideration of Shenzhen regarding its boundary crossing planning is more holistic; it is hoped that different crossing points can serve distinctive purposes. Different crossing points should be allocated for either freight or passengers. For example, in the early days, the idea was that the western crossing point should be for freight only; Futian for passengers only and as a subway connection. One can go to the Futian transport hub by long-haul coaches. However, in order to provide travellers with more choices and maximum convenience, Hong Kong demanded that the western crossing point should be for both passenger and cargo clearance. Shenzhen does not want to build long-haul bus
stops at the crossing points because of its concern about a backlog of travellers. However, in practice, relative concentration of passenger transport networks can attract more customers. The Futian long-haul vehicle terminal was built a long time ago but the Futian-Guangzhou route has never been developed to any scale. On the contrary, the transport network in Lo Wu is concentrated and Hong Kong people are willing to go there for transport connection. Therefore, the integration of cross-border and transport functions needs to be fully considered. Shenzhen can learn from the vision and planning of Hong Kong in this aspect.

Another important issue of fine-tuning infrastructure linkage is the functional convergence of the city signing systems whilst maintaining their respective uniqueness. Hong Kong and Shenzhen should start working from details and gradually eliminate the differences in hardware and service management between the two cities. The two cities should further converge on noticeable differences to achieve seamless linkage, so that people will not notice any difference after crossing the boundary. However, this does not reflect the present situation, as a large gap still exists when comparing Shenzhen with Hong Kong. Shenzhen has put forward the goal of building itself into an international city and it is quite natural that there should be some improvements in this aspect. In its form, the city signing system in Shenzhen should fully reflect “Chinese Characteristics, Chinese Style and Chinese Manner” (“中國特色、中國風格、中國氣派”) but their functions should be in line with international practice. Achieving this represents the basic requirement for building a Hong Kong-Shenzhen Metropolis.

Improving hardware linkage of infrastructure is merely the foundation for creating a

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100 One Mainland journalist described how she felt about Hong Kong and the differences between Hong Kong and Shenzhen. “Relying on clear directions, I easily found my way around the airport. I used the free public phone to ask for the location of my hotel. I bought a SIM card and took the Airport Express to reach Central in 28 minutes. In the next few days, I continued to experience from various aspects the service commitment of Hong Kong people and the good manners and order of the age of developed capitalism. I almost did not need to know any Cantonese, as there were clear directions in every place that one might get lost. I could also ask for help from the friendly passers-by. There is a sense of security due to good urban planning and development. On this count, no other city on the mainland can compare with it. Most of the streets are very narrow and easy to walk. The public transport and MTR network are also very well developed. Passenger flyovers can also bring you to every nook and corner. It’s almost as if whenever you need something, it will be right there before your eyes. For example, I was lost in Queensway Plaza, and then there was an information desk within every three to five steps. I wanted to throw away some rubbish, and then I saw a rubbish bin immediately. I wanted to go to the toilet and I saw it around the corner. I thought about a few days ago when I went to Shenzhen. I crossed the border to Lo Wu and it was a different world. I could not find any clear directory sign. The people were also a mess.” (Guo, Yujie, “Hong Kong, Out of the 1980s (香港，走出 80 年代)" in "Asian Business Leaders (東方企業家)" (200702)
“Hong Kong-Shenzhen One-hour Metropolitan Life Circle”, which also requires further relaxation of regulations on software such as institutional arrangements. At present, the flow of people between Hong Kong and Shenzhen has not achieved a state of relative freedom, with the procedures being particularly cumbersome when Shenzhen people go to Hong Kong. This has become a big constraint for Shenzhen people going to Hong Kong for business activities, leisure and shopping. There should be efforts to minimize the restrictiveness to flow of people inherent to the boundary so that customs inspection and immigration clearance is made convenient for travellers. First, allowing unrestricted passage for Shenzhen residents within a specified time after they have obtained a visa could be piloted, eventually developing into automated clearance using smart cards. Then, those having formal residence in Shenzhen, with a stable income, and reaching a specific annual income tax threshold could apply in Shenzhen for smart cards with limited validity. In addition, the governments of Hong Kong and Shenzhen should jointly facilitate a flexible cross-boundary flow of foreign business people. At the same time, various measures could be introduced including special convenience measures for business people, visa-free multiple-entry permits for corporate managers, VIP passageways at crossing points, shortened time for processing business visit endorsements within the Shenzhen area. For the high-end service and technology enterprises whose development is given priority by Shenzhen, the amount of assets and tax payable required for multiple-entry visas should be lowered. For technical and management personnel, government officials and scholars, customs inspection and immigration clearance and visa arrangements should be made simpler and more convenient.

Also, entry and exit management could be improved, such as putting into place convenient transport facilities for a direct connection between Shenzhen and Hong Kong without the need for interchange at crossing points, so as to create a convenient and comfortable boundary crossing environment; promotion of “co-location” arrangements for customs inspection and immigration clearance and fingerprint automated passenger clearance arrangements for Mainland people at multiple levels to enhance crossing efficiency. At the same time, the pace of upgrading the technological level of the clearance systems of the two cities should be accelerated, and the boundary crossing procedures and arrangements for people and goods should be sped up, so as to effectively solve the problem of traffic congestion in the boundary area. Reforms should be carried out to address the concerns of businesses over the problems of vehicle licences in the two cities,
and a green channel should be introduced to facilitate research and development related to “small logistics” in Hong Kong and Shenzhen.

On the issue of information exchange, Hong Kong and Shenzhen should collaborate on establishing an association for the industry of the two cities so as to facilitate information exchange and interaction within the industry, and strengthen and support industry exchanges between the two cities, in particular short-term work exchanges and visits. Other measures include optimising an inter-city cross-boundary service system; developing inter-city cross-boundary services with the residents of the two cities as the main targets, so as to provide a highly efficient and high quality living environment for the people of the two cities while creating a service function that facilitates cross-boundary activities and accelerating the pace of building an inter-city cross-boundary service system for the two cities; building a “Hong Kong-Shenzhen Website”; and developing a series of Hong Kong-Shenzhen publications to improve information exchange between the various professional sectors of Hong Kong and Shenzhen.

2. Study rail connection between airports to jointly establish a Hong Kong-Shenzhen super air hub

In recent years, the negotiations over equity cooperation between the airports in Hong Kong and Shenzhen have been in the state of stalemate. The level of trust between the two airports has not been high, so much so that the cooperation between them has in practice come to a standstill. However, the trend of economic development in this region dictates that the two airports need to cooperate. They need to reach a consensus on a strategic level and promote in-depth cooperation on more practical issues in order to establish a Hong Kong-Shenzhen super air hub.

Strategically, the two cities should set about studying the feasibility of a rail connection between the airports of Hong Kong and Shenzhen. Guangzhou-Dongguan-Shenzhen inter-city line is an inter-city railway running along the eastern coast of Pearl River. Due to be completed in 2009, this railway is to be connected to routes 1, 2 and 4 of the Shenzhen railway in the future. This inter-city line runs from
Guangzhou through Dongguan to Shenzhen airport and is planned to be extended to Futian Central District and Hong Kong International Airport in two directions from the Qianhai area. At present, the pre-feasibility study of the Guangzhou-Shenzhen Airport Section Project has been completed and the proposal has been submitted to the higher authority. Since the Guangdong province is responsible for the investment and construction of the Guangzhou-Shenzhen Airport Section, Shenzhen will work together with Hong Kong in order to study the related proposals regarding the Hong Kong Spur Line. There is some excess capacity in the utilisation of the Hong Kong International Airport Tung Chung Line. Therefore, some people in Hong Kong believe that the inter-city line should be connected to Hong Kong International Airport and enter the urban area through the Airport Express. The designated speed of the inter-city line is 140 km/h while that of the Hong Kong Airport Express is 130 km/h. If a through-train railway can be constructed between Hong Kong and Shenzhen Airports, the entire travelling time is preliminarily estimated at 20 minutes, allowing the time for the flow of people between the two airports to be greatly reduced. The inter-city line is mainly for passenger transport and since there are passenger line connections in the eastern part (Lo Wu) and central part (Futian), there is a need for passenger line connection in the western part as well. Aside from passenger transport, the inter-city line can also carry light cargoes.

The above cannot fully realise the strategic considerations of the connection of Hong Kong and Shenzhen Airports. In practice, a rail connection between Hong Kong and Shenzhen airports is important for the safeguarding of Hong Kong’s airport: Hong Kong airport is the heart of Hong Kong and at present there is only one land transport connection through to Hong Kong Island. If the Tsing Ma Bridge were to be affected by factors such as a natural disaster, Hong Kong airport would be paralysed, and its overall safety would be threatened, which in turn would affect the safety of South China region. In addition, by establishing a rail connection between the airports of Hong Kong and Shenzhen, the flow of people between the two cities would be effectively promoted, creating a Hong

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101 On this issue, one expert holds a different view: Given that such a Hong Kong-Shenzhen airport railway is not linked to the urban area, its function is not significant in soothing the traffic from the Hong Kong airport to the urban area in the event of an accident at the Tsing Ma Bridge. Hence, the argument is insufficient for the role of such a Hong Kong-Shenzhen airport railway in safeguarding the operational safety of the airport transportation system. To improve the current situation where there is only one external access from the Hong Kong airport, the Hong Kong government mentioned in its “Northwest New Territories Traffic and Infrastructure Review” that the construction of the highway connecting roads from the airport to Northwest New Territories should be considered, and expected that such project would be more effective in enhancing the operational safety of the transportation network of the airport. Hence, the strategic security of the railway connection between the Hong Kong and Shenzhen airports should not be a major consideration.
Kong-Shenzhen super air hub that would be the focus of global attention. Moreover, this railway should be connected to the national high-speed railway currently under planning to strengthen the strategic position of a Hong Kong-Shenzhen Metropolis as the South China region’s high-speed railway terminal.

Therefore, Hong Kong and Shenzhen should, as soon as possible, set about analysing the financial and technical feasibility of a rail connection between the airports of the two cities, in order to complement each other with respect to airport functions. Both airports are concerned that a direct rail connection between the two airports would dilute their respective volumes of passengers and goods. Sufficient communication is therefore necessary for the two cities to reach a consensus regarding their overall strategic future development. In addition, it is also necessary for the airports of Hong Kong and Shenzhen to achieve in-depth cooperation with respect to airport operations: reaching consensus on the shared responsibilities and cooperation with regard to air passengers and cargo, establishing a collaborative and complementary relationship throughout the air cargo industry chain. Trust can be established through concrete cooperation and functional complementarity of the two airports can be achieved through cross-holding of a minority stake in the airports on the basis of equal footing and a win-win situation. For the convenience of travellers, the Hong Kong Government should study the implementation of clearance “co-location” arrangements at Hong Kong airport such that passenger clearance for both places would take place in Hong Kong airport only, without the need for passengers to go through clearance procedures again in the Mainland.
A railway connecting Hong Kong and Shenzhen’s airports

Another important issue to be considered is that the two airports should propose to establish a Pan-Pearl River Delta airport development advisory committee to solve the problem of airspace coordination in the Pearl River Delta. With the increasing air traffic from the five large airports in Hong Kong, Guangzhou, Shenzhen, Zhuhai and Macau, the issue of airspace congestion in the Pearl River Delta has become more serious. Airspace integration should be promoted in order to achieve unified management. The General Administration of Civil Aviation of China has paid due attention to this and drafted a relevant proposal. However, the implementation schedule is far from satisfactory and the problem will not be solved until 2020. At present, HK$1,000,000 worth of air flight time is wasted every day because aeroplanes need to hover in the sky above the Pearl River Delta. The airports in the Greater Pearl River Delta should join hands to communicate with the General Administration of Civil Aviation to change this situation. The promotion of the rational planning and utilisation of airspace can increase the capacity of different airports and increase their efficiency. The airports of Hong Kong and Shenzhen should, together with other airports in the Pearl River Delta, carry out sufficient communication and negotiation in respect of airspace collaboration, and establish a mechanism for regular exchanges, in order to promote uniform management and rational use of the Pearl River
Delta airspace. In particular, the Hong Kong-Shenzhen Metropolis needs to secure a new civilian channel to the Mainland as soon as possible.

3. Conduct planning for Hong Kong’s frontier closed area with the Hong Kong-Shenzhen Metropolis concept

Starting from the mid-1980s, there have been many suggestions regarding the joint development of the frontier area between Hong Kong and Shenzhen, however, there has not been any substantial breakthrough even to this day. On the Hong Kong side of the Hong Kong-Shenzhen boundary, there is a large closed area. In 2006, the Hong Kong SAR government announced that it would reduce the Hong Kong-Shenzhen frontier closed area from 2800 to 800 hectares. This is a signal of the development of frontier closed area. With the economic development in Mainland China, the number of “illegal immigrants” to Hong Kong has been greatly reduced and the barrier function of a large frontier closed area has weakened. However, this does not mean that the development of frontier closed area has been put on the agenda. In the foreseeable future, the development of the large frontier closed area is not possible in practice.

On a more positive note, the large frontier closed area between Hong Kong and Shenzhen can serve two main functions. Firstly, the frontier closed area has been sealed for 50 years for the purpose of ecological and environmental protection. Its original ecological state and large area of wetland make it the “green lung” of the city. It is beneficial to both Hong Kong and Shenzhen. Some experts in Shenzhen believe that in the building of a Hong Kong-Shenzhen Metropolis, the frontier closed area represents the biggest problem”. However, more people are of the view that the ecological and environmental functions of the frontier closed area actually bring more benefits to Hong Kong and Shenzhen. This is true at least in a certain period of time. The viewpoints of Hong Kong and Shenzhen converge as time goes by. For example, a lot of places in the closed areas are mountainous regions. They are difficult to develop and should be kept for “country parks”. The opened up frontier area should be developed as a green belt for Hong Kong and Shenzhen to share.

102 In our topic unit’s interview of Professor Wei Dazhi of Shenzhen University, he said, “(To build a Hong Kong-Shenzhen Metropolis,) the most pressing issue is to achieve the opening-up, development and cooperation of the boundary area. Once the boundary area is opened up, the actual interface of Hong Kong and Shenzhen will be achieved.”
Secondly, the frontier area also has another function of being the “psychological barrier” of
Hong Kong people. Owing to the existence of a certain frontier area, Hong Kong people
can psychologically have a sense of relative independence. Therefore, the frontier closed
area encompasses the political meaning of “One Country, Two Systems”. This function
will not be eliminated in the short term. Therefore, the development of the frontier closed
area will take time.

Hong Kong’s frontier closed area, a land area closest to the Mainland, is undoubtedly
an important resource for Hong Kong. It is a large vacant area with enormous potential for
development rarely found in the Greater Pearl River Delta. Although there are many vacant
land areas in this region, the important value of this particular vacant area lies in its being
part of Hong Kong, which means it can be developed in accordance with Hong Kong’s
planning and institutional framework. Its value is also manifested through the important
role of its development in the regional cooperation of the Greater Pearl River Delta. Along
with regional economic development, the progress of the economic integration of Greater
Pearl River Delta and Pan-Pearl River Delta will significantly speed up. During this
process, Hong Kong’s role will gradually become clearer and more important. As such,
planning for the liberalisation and development of the frontier closed area must focus on
this aspect, as it is an important guarantee for enhancing and maintaining Hong Kong’s
strength, competitiveness and influence in regional economic cooperation.

Building a Hong Kong-Shenzhen Metropolis is based on this background, as must be
the planning for the liberalisation and development of the frontier closed area in Hong
Kong. Building a Hong Kong-Shenzhen Metropolis also constitutes the concrete
background for the development of the frontier closed area. In 10 to 20 years time, there
will undoubtedly be a relatively greater improvement in the flow of key resources such as
people, goods, capital, information and services, etc between Hong Kong and Shenzhen.
People from Shenzhen (even people from other parts of the Mainland) will be able to move
more freely into and out of Hong Kong; and if there are corresponding commercial and
retail facilities in the frontier area, their business and leisure activities and spending would
not need to be restricted to Hong Kong Island. The frontier area will provide an important
substitute for living in Hong Kong or Shenzhen, and will also become an important area
that connects Hong Kong with even larger regions of the Mainland.
As such, it is necessary for Hong Kong to start planning immediately for its frontier closed area, and determine the principles for development based on the premises of ecological and environmental protection: from the perspectives of national strategy and regional economic integration, accurately identify the development target of the frontier closed area and its requisite functions, and strive to determine the corresponding schedule and road map as far as possible. Although the development of the frontier closed area is led by Hong Kong, owing to the fact that the area is adjacent to Shenzhen, it is necessary for the two cities to communicate and coordinate, to create conditions for reaching a consensus, to complement each other and to advance together.

Viewed either strategically or pragmatically, with regard to the planning and development of frontier closed area, the joint development of Hong Kong-Shenzhen Hetao area (river loop) can be seen as a pilot study. If the Hetao area can be developed successfully, it can become a lesson for the development of the frontier closed area. In this sense, the development of the Hetao region is an important component of the development of the Hong Kong-Shenzhen frontier closed area.

4. Establish a “Hetao Development Management Authority” to actively promote development of the Hetao area

The joint development of the Hetao area has a long history. In the last 20 years, there have been countless plans and proposals regarding the development of the Hetao area. Different ideas have covered almost every aspect and most of them focus on which industries should be developed in the Hetao area. In summary, the proposals include; cross-boundary industrial area, financial development area, cultural industry park area, business, residential and tourist area, convention and exhibition centre area, university city area, etc. At present, the governments in the two cities and most people in the business sector agree that the development in the Hetao area should be geared towards hi-tech industries focusing on research and development and modern service industry focusing on education, conventions and exhibitions.

103 The relevant department of the HKSAR government stated that a land use study and plan have been initiated for the frontier closed area. The final proposal on the use of land will be based on various factors, such as the long term development interests of Hong Kong and the region, the cross-boundary demand, regional characteristics and the opinions of citizens/interest groups.
In practice, if there are too many arguments over which industries should be developed in the Hetao area, it is not beneficial to the early development of the Hetao area. Too many arguments and a lack of decision regarding the Hetao region has led to negative psychological impacts on people’s expectations for Hong Kong-Shenzhen cooperation. Therefore, an acceleration of the development of the Hetao area has the role of bringing about a breakthrough. 104

This research recommends that the overall idea for development cooperation for the Hetao development is to fully capitalise on the unique geographical advantages and functions of the Hetao area, establish a “special region within special regions”, thus making Hetao a model area for a Hong Kong-Shenzhen Metropolis. Experimenting with a free flow of people between the two cities, the main development focus will be related to the flow of people rather than the flow of goods. People from Shenzhen (and other parts of the Mainland) will be able to pass freely or “go through simple procedures” to pass into and out of Hetao, thereby facilitating business activities. At the same time, the area will be managed under Hong Kong laws and systems. Considering the fact that ownership (belonging to Shenzhen) and management (vested in Hong Kong) of Hetao are separate, a “Hetao Development Management Authority” has been proposed to be established in Hong Kong, with shares and board of directors split 50/50 between Shenzhen and Hong Kong. To a certain extent, the “Authority” assumes the management role and is responsible for coordinating the development and day-to-day management of the Hetao area. The Hetao area will be developed according to the principles of “high value added, low pollution, and a high land utilisation rate”, fully realising the multiple functions of industries. However, the type of industries to be developed in Hetao should be determined by the market in accordance with the above-mentioned principles.

The importance of this concept is to allow, through Hetao’s function as a “special region within special regions” and a “model area for a Hong Kong-Shenzhen Metropolis”, convenient movement into and out of the Hetao area for people from Shenzhen and other 104

There is also the environment issue that has to be considered for the development of the Hetao region. In conducting clean-up work for the Shenzhen River, a lot of mud has been created. In the Hetao region, there is 4.5 million cubic metres of mud, of which 1 million cubic metres has been polluted. Besides, Mai Po, a natural environment with a high ecological value, is in the vicinity of the Hetao region, and a detailed assessment has to be conducted to determine if the development of the Hetao region will affect Mai Po.
parts of the Mainland. Of all variable factors of production in people’s life, human resources are the most important. If we want to drive and promote the flow of key resources such as goods, capital, information and services, we need to realise the free flow or relatively free flow of people. The Hetao area possesses unique advantages in realising the relatively free flow of people between Hong Kong and Shenzhen. From Shenzhen to Hetao is only about a 15-minute walk (from Hong Kong Central to Hetao requires 50 minutes travelling time). According to this concept, the entry point to Hetao from Shenzhen is merely a passageway and not a boundary crossing point, and people from the Mainland would only require identification documents. Hong Kong people and foreigners wishing to enter Shenzhen through Hetao would need to go through the boundary crossing. Vehicles from Shenzhen and other parts of the Mainland would be able to enter Hetao freely to pick up and drop off VIPs, carry out business activities and purchase high quality business services. According to the capacity and space available in the Hetao area, a standard fare can be drafted for fare charging vehicles. An open and transparent pricing mechanism can also be devised for inbound vehicles.

As for the types of industries in the Hetao area, the governments of Hong Kong and Shenzhen can set out guiding principles without determining the types of industries. Premised on the assurance that the environment and ecology of the area would not be damaged and that the economic and social exchanges between the two cities would not be materially affected, the choice of industries should be determined by market principles. It is more crucial to determine which industries should not be allowed. The governments of the two cities can, through setting environmental standards and using mechanisms such as land rent, guide the development of industries in Hetao. This would be more beneficial to the development of the Hetao area. Once high value added industries are developed in Hetao, it will play an important role in deepening integration between Hong Kong and Shenzhen. People working in Hetao can live and reside in Hong Kong and Shenzhen. This will be the epitome of the future Hong Kong-Shenzhen Metropolis.

The “Hetao Development Management Authority” would assume some government administrative functions. However, it is not purely a government department. It is de facto a semi-governmental organisation which carries out development and management on behalf of the governments. The existence of the board of directors assures the respective interests of Hong Kong and Shenzhen in the Hetao area, and provides a platform for
cooperation, collaboration, communication and exchange between the two cities. Through this type of cooperation and adaptation, the development of a Hong Kong-Shenzhen Metropolis and future cooperation and collaboration with larger regions will be explored and useful experience gained. Viewed in this light, accelerating the pace of development of the Hetao area is not just an issue of how to make the best use of this area of one square kilometre. Its real meaning and value lie in the two cities exploring and innovating a new mode of planning and cooperation, paving the way for building a Hong Kong-Shenzhen Metropolis.

The planning and development of the Shenzhen river are also related to the development of Hetao area. The Shenzhen river is the boundary river of Hong Kong and Shenzhen and its joint development has significant meaning. It is an important zone joining Hong Kong and Shenzhen. Based on the joint harness of the Shenzhen river, the two cities should join hands to build the Shenzhen river landscape corridor. In addition to the flood control function of the Shenzhen river, the river can be turned into a landscape river and a corridor joining Honghu Park, People’s Park and the mangroves in the Hong Kong-Shenzhen boundary river. Hong Kong and Shenzhen people (as well as people from other parts of the Mainland) can have access to the Shenzhen river. They can have a view of Hong Kong and Shenzhen from a walk along the Shenzhen river or a pleasure boat cruise on the river. The Shenzhen river can thus fully utilise its unique role as a boundary river of Hong Kong and Shenzhen and can become a scenic spot with political, economic and social importance which realises the great value of “One Country, Two Systems”.

5. **Build China’s first top international metropolis through national level planning for Hong Kong and Shenzhen**

Hong Kong and Shenzhen need to jointly plan the future development of a Hong Kong-Shenzhen Metropolis from a national perspective, and incorporate its future development into the country’s comprehensive planning, so as to make Hong Kong-Shenzhen a truly international metropolis and China’s first top international metropolis which fully reflects the successful implementation of “One Country, Two Systems”. To achieve this, Hong Kong and Shenzhen need to formulate and issue a mission statement for “Building a Hong Kong-Shenzhen Metropolis”, and at the same time create an operating mechanism for a new style of planning and cooperation, so as to enable the two cities to move from “functional cooperation” to “institutional cooperation”.
Turning Hong Kong-Shenzhen into a truly international metropolis which fully reflects the successful implementation of “One Country, Two Systems” has both economic and political benefits. It represents an implementation and demonstration of the “One Country, Two Systems” political institutional innovation. It is also a lesson and model for appropriately solving the Taiwan Problem. Turning Hong Kong-Shenzhen Metropolis into a first-class international metropolis is both necessary and feasible. Considering China’s economic power and influence, it can support two to three “international cities”. Hong Kong-Shenzhen Metropolis is just a forerunner. It will become an important impetus to the nation’s economic development and have a tremendous impact on China’s economic development and enhancement.

Therefore, it is necessary for Hong Kong and Shenzhen to formulate a “Building a Hong Kong-Shenzhen Metropolis” mission statement and establish, under this framework, relevant organisations and an operating mechanism. The governments of the two cities should jointly determine the overall concept, definition and vision of the Hong Kong-Shenzhen Metropolis and from there extend the cooperation to different levels and scopes. At present, cooperation between the two governments exists only in certain areas demanded by society, e.g. cross boundary arrangements, food safety and environmental protection. They each have their respective objectives and targets, but there is no common vision or mission statement. Such a mission statement must, based on high-level principles and strategic considerations, set out the macro positioning and development direction of the Hong Kong-Shenzhen Metropolis.

The core content of the mission statement is to plan the future development of Hong Kong-Shenzhen from a national level strategy. “Building a Hong Kong-Shenzhen Metropolis” and the “Hong Kong and Shenzhen strategic partnership” can be incorporated into the official documents of the two cities, with clear explanations which explicitly state the positioning and functions of a Hong Kong-Shenzhen Metropolis as well as its future development objectives. There should be a thorough analysis of major issues such as the advantages and disadvantages, obstacles and problems of building a Hong Kong-Shenzhen Metropolis, as well as suggestions of ways and methods to solve the problems and overcome the obstacles. There should also be views on issues such as the planning and functional linkage of the two cities, the economic integration and industry chain
cooperation, enhancement of ease of living and the relative free flow of the key resources of the two cities. In short, the mission statement for “Building a Hong Kong-Shenzhen Metropolis” should cover all aspects of cooperation between Hong Kong and Shenzhen and become a guidance document for the cooperation between Hong Kong and Shenzhen.

What cannot be evaded in the building of a Hong Kong-Shenzhen Metropolis is the “One Country, Two Systems” arrangement. In the last 30 years of Hong Kong-Shenzhen cooperation, under the basic framework of “One Country, Two Systems”, the overall competitiveness of Hong Kong, Shenzhen and the Pearl River Delta region has increased, the foundation for cooperation has been strengthened, the degree of internationalisation has risen and the scope of influence and the space for external connections have been further extended. On the other hand, the “One Country, Two Systems” arrangement has created some unfavourable conditions for Hong Kong-Shenzhen cooperation. Firstly, the historical inertia of the barriers of economic interaction and trade between cities has not improved. The economic connections and regional division of labour of Hong Kong have a closer relationship with the international economic entities. However, Shenzhen adopts an internal economic division of labour and it is correlated with the economic development in the province and the cities and villages in Mainland China. In the short term, it is difficult to see a fundamental change in this situation taking place and in the long term, this will affect the cooperation between Hong Kong and Shenzhen. Secondly, the procedures for domestic economic interactions and trade are relatively cumbersome. Under the framework of “One Country, Two Systems”, Hong Kong and Shenzhen belong to different regions in a country and possess different political and social systems as well as economic and trade systems. The flow of key economic resources needs to adopt the means of external trade. Instead of free economic flow between two cities, due to cumbersome procedures, there are constraints under the framework of “One Country, Two Systems”. Thirdly, because of the restriction of the immigration management system, there is no free flow of people, goods, capital and information between Hong Kong and Shenzhen under the framework of “One Country, Two Systems”. The flow of people between Hong Kong and Shenzhen needs to follow relevant immigration management requirements. The immigration management has brought inconvenience to the interflow of business, people and culture. To a certain extent, this has hampered economic development.

On the other hand, the “One Country, Two Systems” arrangement would not form any
practical obstacles to building a Hong Kong-Shenzhen Metropolis. The “Two Systems” mainly apply to the basic legal system, ideology and the basic monetary and taxation systems etc. These would not affect the functional complementarity, industry cooperation and the flow of key market elements between the two cities. What should be understood is that “One Country” is the core of “One Country, Two Systems”; and putting too much emphasis on “Two Systems” while neglecting the fundamental spirit of “One Country” would not be beneficial to the future development of Hong Kong and Shenzhen. According to the requests of President Hu Jintao, we need to fully and accurately understand and thoroughly practise the guiding principle of “One Country, Two Systems”. Hong Kong and Shenzhen need to construct a new operating mechanism for cooperation and change from functional cooperation to institutional cooperation. On the basis of the existing cooperation mechanism and in accordance with the principles of resource sharing, mutual benefit creation and risk sharing, the city internal policies should be extended to inter-city public policies. Hong Kong and Shenzhen should jointly explore and construct a new operating mechanism for cooperation with the emphasis being placed on the development of an inter-city communication and coordination mechanism, public service standards and cross border inter-city management and synergy. For example, for constructing an inter-city communication and coordination mechanism, a multi-level and multi-form inter-city communication and exchange mechanism combining formal and informal channels and coordinated by government and non-governmental sectors should be formed under the guidance of CEPA and the framework of Hong Kong/Guangdong Cooperation Joint Conference. For constructing public service standards in Hong Kong and Shenzhen, regional bilateral service standards applicable to Hong Kong and Shenzhen which can meet the objective needs of economic and social development and cooperation should be designed, e.g. a city management standard, a city service standard, etc. For constructing an inter-city public service synergy mechanism, an inter-city public affair synergy mechanism focused on benefit compensation and conflict resolution should be explored and established based on the successful experience of the cooperation mechanism synergy of the tourism industry between Hong Kong and Shenzhen and under the cooperation framework of CEPA and “1+8” Agreement.

For Shenzhen, the key to and breakthrough point of building a Hong Kong-Shenzhen Metropolis is to achieve a connection and integration with Hong Kong in respect of certain economic and social administrative systems. The most fundamental breakthrough should
be institutional. This certainly calls for caution and requires arduous and meticulous study and research. It is difficult for Shenzhen to make a breakthrough under the current overall policy environment of the country. However, it is necessary to be prepared and, according to practical situations, put forward to the central government special reports and requests on various issues including areas of cooperation, industry development and industry trends, with the aim of gaining policy support from central government.

For Hong Kong, it needs to play a leading role in the process of striving for central government support. For many issues involving cooperation between Hong Kong and Shenzhen, better results are achieved if they are proposed by Hong Kong rather than Shenzhen. The two cities can increase joint proposals and requests to the central government. Hong Kong needs to adjust its way of thinking as appropriate, and properly handle and interpret the limits between “maintaining the integrity of laws and regulations” and the “flexible operation of laws and regulations”. “The integrity of laws and regulations” needs to be maintained, but not insisted on rigidly and in a non-negotiable manner. What most deserves preservation in Hong Kong is Hong Kong’s adaptability. This is very important for building a Hong Kong-Shenzhen Metropolis.

The common challenge faced by both cities and the adjustment required is effective collaboration of Shenzhen’s “big government” and Hong Kong’s “small government” in the aspect of guiding the market. The phenomenon of “Shenzhen being enthusiastic, Hong Kong being indifferent” that occurred in past cooperation between the two cities was, to a large extent, caused by differences in functions and positioning of the governments in economic and social affairs. This problem will continue to exist for some time to come. The two cities need to make their respective adjustments: Shenzhen needs to strengthen private sector participation; and Hong Kong should still be able to make certain adjustments while upholding government’s positive non-intervention principle.

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105 Micheal J. Enright, Edith E. Scott and David Dodwell pointed out in their book “The Hong Kong Advantage” (Oxford University Press: Hong Kong, 1997) that: the Basic Law and the Joint Declaration call for the preservation of Hong Kong’s capitalist system and way of life for at least 50 years, but preservation should not mean stagnation. Among the most valuable aspects to preserve is Hong Kong’s ability to adapt to changing circumstances. This ability is predicated on access to information from anywhere in the world, on the knowledge that the law will protect individuals and companies, and on the ability to evolve regulatory systems to keep up to date. What Hong Kong needs is a mixture of preservation that allows change and change which allows for the preservation of prosperity. It is another Hong Kong irony that the aspects of Hong Kong most worth preserving are those that facilitate change.
6. Create a Hong Kong-Shenzhen Metropolis brand name to increase its attractiveness as a base for regional headquarters and branch companies of multinational and domestic enterprises

The uniqueness of a Hong Kong-Shenzhen Metropolis lies in the fact that this is where the “One Country, Two Systems” arrangement is directly implemented. Hong Kong is an international cosmopolitan city, while Shenzhen is an internationalised city in China. If the two cities join hands to create a favourable business environment, it would be attractive to many enterprises. Hong Kong and Shenzhen should jointly create a Hong Kong-Shenzhen Metropolis brand name, and jointly carry out business promotion and publicity work on image building, leveraging the unique advantages of Hong Kong and Shenzhen to attract more international and domestic enterprises to the Hong Kong-Shenzhen Metropolis. The focus of Hong Kong and Shenzhen in developing a headquarters economy is to attract enterprises to set up regional headquarters and branches.

Hong Kong and Shenzhen should jointly develop a headquarters economy, which fully exploits the advantages of Hong Kong’s connection with international markets and its free port system, and the advantages of Shenzhen’s connection with the domestic market and its advantages in industries and innovation; establishing Hong Kong-Shenzhen as a base for innovation centres and industry integration centres; comprising an industry chain with a focus on international financial centres, Asia-Pacific service centres, modern technology know-how and information integration and transformation centres, global supply chain management centres, etc; attracting more multinational companies to consider Hong Kong-Shenzhen as their base, setting up operating centres, regional offices or regional headquarters. Striving to transform the Hong Kong-Shenzhen Metropolis into an Asia-Pacific operating centre, Asia-Pacific research and development centre and distribution and allocation centre for multinational companies. Simultaneously Hong Kong and Shenzhen should explore appropriate benefit sharing mechanisms and avoid internal competition arising from separately developing headquarters economies.

Another reason for Hong Kong-Shenzhen to develop a headquarters economy is to attract the entry of domestic enterprises. Domestic enterprises can leverage on Hong Kong’s perfect market economy system and market regulation to reform and enhance their own operations and management. Hong Kong can, through the headquarters of domestic
enterprises, extend the reach of the service industry to the Mainland. Shenzhen can become the place of choice for hosting part of the businesses and auxiliary processes of domestic enterprises which have moved their regional headquarters to Hong Kong. The rational division of work between Hong Kong and Shenzhen and joint development of a headquarters economy will benefit both cities and will be crucial for the two cities to function as a control and command centre in the Asia-Pacific regional economy.

Hong Kong and Shenzhen’s joint development of a headquarters economy requires the two cities to cooperate and integrate in respect of high-end (modern) service industry. Shenzhen’s high-end service industry is still in an initial stage of development. In the No. 1 Document “Certain Opinions On Accelerating Shenzhen’s High-end Service Industry Development” issued by Shenzhen municipal government in 2007, the development of a headquarters economy is one of the four major strategies for Shenzhen to develop its high-end service industry; and “fully utilise and make good use of Hong Kong factors” is one of the “four principles”. From a macro perspective, CEPA provides the policy basis for collaboration between Hong Kong and Shenzhen on the high-end service industry, and looking at the practical situation of the two cities, Shenzhen’s emphasis is on complementary functions in the process of cooperation, not on constituting competition and threat to Hong Kong. In fact, Hong Kong can only enhance its competitiveness in the modern service industry by shifting its high cost, low value-added industries and processes

106 In “Certain Opinions Regarding Accelerating the Development of Our City’s High-end Service Industries (關於加快我市高端服務業發展的若干意見)”, the Shenzhen side expressly stated that they will “fully capitalise on the city’s comparative advantages in geographic position, market system and investment environment to actively solicit a new round of relocation of international high-end service industries to Shenzhen and attract well-known and established domestic and overseas business groups to establish their headquarters, regional headquarters, research centres, sourcing centres, marketing centres etc. in Shenzhen; actively import advanced technology, management philosophies and organisation structures of international high-end service industries so as to drive the progress of the city’s high-end service industries in all aspects, and to exploit its leading role as a headquarters economy in technology innovation and market expansion; further develop its competitive industry chain and optimise the ancillary environment for its industries in order to increase the degree of integration between the businesses of the entities headquartered in Shenzhen and its local industries, thereby strengthening the roots of the headquarters economy.”

107 Mr. Chen Biao, head of the Shenzhen Municipal Development and Reform Bureau, pointed out in an interview with the Shenzhen media on 8 January 2007, that Shenzhen is developing the high-end service industries “in order to gain a vantage point in the market of high-end service industries in pursuit of Shenzhen-Hong Kong cooperation. Strengthening Shenzhen-Hong Kong cooperation in all aspects is a natural choice for learning from Hong Kong, serving Hong Kong, and supporting the stability and prosperity of Hong Kong. It is also based on the needs for the continued rapid economic and social development of Shenzhen. To achieve leap-frog development in the high-end service industries, Shenzhen must pursue optimal allocation and take full advantage of the Hong Kong factor to drive the progress of Shenzhen-Hong Kong cooperation from an external division of labour basis to an internal exploitation of complementary functions in order to join hands with Hong Kong to lead as the locomotives for the development of the high-end service industries of the Pearl River Delta, the Mainland and the Asia-Pacific region.”

108 “Supplement IV to CEPA”, which will become effective on 1 January 2008, was signed in Hong Kong on 29 June 2007, pursuant to which 11 additional service sectors on the Mainland will be opened up to Hong Kong.
to other places. As such, there is enormous room for cooperation between the two cities in the high-end service industry. This is also a necessary path for the two cities to take to jointly develop a headquarters economy. The two cities thus need to reach a consensus as soon as possible and move into the stage of concrete implementation.

7. **Deepen financial cooperation and strengthen Hong Kong’s role as an international financial centre**

With respect to financial cooperation, Hong Kong and Shenzhen should facilitate cooperation and infiltration between commercial banks in the two cities, strive for the operation of an inter-bank borrowing market between the banks of the two cities, accelerate the pace of establishing a mechanism for coordinating the cooperation between banks in Hong Kong and Shenzhen, promote exchanges of people and information between banks in Hong Kong and Shenzhen, facilitate Hong Kong banks to establish branches in Shenzhen, promote cooperation between the stock exchanges of the two cities, thereby providing the people of the two cities with more convenient financial investment services.

With respect to cooperation and infiltration between banks in Hong Kong and Shenzhen, first is equity cooperation. For instance, Shenzhen banks and large enterprises may acquire and invest in the equity of small and medium-sized banks of Hong Kong; Chinese and Hong Kong banks jointly invest in the establishment of new organisations, etc. Second is business product cooperation. Businesses involving bill acceptance discount facilities, accounts receivable financing, international factoring, equipment mortgages, credit investigation, etc between Hong Kong and Shenzhen require cooperation between the two cities. Third is QDII implementation cooperation. With the implementation of QDII, the scope of wealth management and investment services offered by banks to their clients extends to overseas products. At present, Hong Kong is the major market for investment by many banks. In the light of the advantage of Shenzhen’s proximity to Hong Kong and the close exchanges between the financial institutions of the two cities, Shenzhen banks possess a natural advantage in implementing QDII. Fourth is cooperation on operational network and capital. Retail business is usually the business development focus of Hong Kong banks, however, owing to a small institutional network, Hong Kong
banks usually leverage on the network of Shenzhen banks to expand their businesses. Shenzhen banks can capitalise on this opportunity to increase income from intermediary business. When Hong Kong banks launch their Renminbi business, they usually face the problem of short supply of Renminbi and have to borrow Renminbi from Shenzhen banks. Banks in Hong Kong and Shenzhen can also collaborate on establishing bank consortium loans to provide financial support for cross-boundary infrastructure construction. Fifth is the interconnectivity and interoperability of “Shenzhen Tong” and Hong Kong’s “Octopus”. The interconnectivity and utilisation of electronic money in the two cities can on one hand reduce the proportion of cash payment and the circulation of counterfeit banknotes and on the other hand indirectly promote and realise the concurrent circulation of the two currencies in Hong Kong and Shenzhen.

On striving for the operation of an inter-bank borrowing market between the banks of the two cities, the cross-boundary flow of Renminbi and Hong Kong dollars provides a monetary foundation for banks in Hong Kong and Shenzhen to engage in inter-bank borrowing business. The inter-bank borrowing business between the two cities has to be carried out in stages according to both market and technical conditions. The first step is to launch Hong Kong dollar inter-bank borrowing business between banks in Hong Kong and Shenzhen. With the fine-tuning of the joint clearing system for bills of Hong Kong and Shenzhen, the two cities have to support and encourage the commercial banks of Shenzhen to launch Hong Kong dollar bill acceptance, discounting businesses, thereby nurturing the market for Hong Kong dollar bills. The second step is to expand the scope of Renminbi convertibility in Hong Kong, fine-tune the channel through which cash flows into Hong Kong and re-enters Shenzhen, gradually allow Hong Kong banks to operate offshore Renminbi business, and launch Renminbi inter-bank borrowing business between banks in Hong Kong and Shenzhen at an appropriate time. The third step, under the condition that capital projects can be basically converted, to establish a Hong Kong-Shenzhen inter-bank foreign exchange borrowing market, carrying out inter-bank borrowing business that covers the world’s major currencies, and to connect the inter-bank borrowing markets between Hong Kong and Shenzhen with a network.

Regarding the establishment of mechanisms for coordinating the cooperation between banks in Hong Kong and Shenzhen, first comes the government-to-government mechanism, and second is the inter-bank mechanism. The governments of the two cities should carry
out comprehensive planning for the cooperation between the banks in Hong Kong and Shenzhen, study the problems that exist in the current cooperation and solutions to these problems, incorporate banks cooperation into the cooperation framework of the two governments as soon as possible, establish a cooperation mechanism, jointly formulate the detailed procedures and policies for cooperation, and regarding those matters of cooperation that require State support make timely reports to the central government for coordination and handling. With respect to inter-bank business, the bank associations of the two cities can make regular and institutional exchanges in relation to problems that arise from the exchanges between the banks in Hong Kong and Shenzhen.

In promoting the exchange of banking personnel and information between Hong Kong and Shenzhen, the banks in Hong Kong and Shenzhen both have their own distinctive features. If the two parties want to develop full-scale business cooperation, the exchange of information and personnel has to be strengthened. The core competitiveness of banks is their talent. If the banks in Shenzhen are to raise their service standard, the importation of banking personnel from Hong Kong should not be limited to just one type, particularly the medium and high-level banking management personnel. Shenzhen should recognise the work experience of the medium and high-level banking management personnel gained in Hong Kong and actively select key managers to go to Hong Kong for exchange and training. Outstanding banking talent should be encouraged to participate in Hong Kong’s “Admission Scheme for Mainland Talents and Professionals”. Hong Kong and Shenzhen should cooperate to establish training centres for banking professionals, hire the experts in the two cities to give lectures and learn from the management experience of the banking industry in Hong Kong. This is a more focused way to train medium and high-level banking talent familiar with the banking systems in Hong Kong and Shenzhen. If the banks in Hong Kong and Shenzhen can implement the personnel exchange schemes, the discrepancy in institutions, culture and ideas between the banks in the two cities can be more quickly eliminated and the cooperation of the banks in Hong Kong and Shenzhen can be accelerated.

With regard to the establishment of business outlets and networks in Shenzhen by the banks with Hong Kong capital, at present the banks with Hong Kong capital in Shenzhen all want to open more business outlets. Shenzhen should allow these banks to gradually increase the number of business outlets. The many banks in Hong Kong targeted at
offering services to small and medium enterprises (SMEs) should be introduced to Shenzhen. These banks understand the business activities of SMEs, are able to charge high interest and have a high resistance to risk. Shenzhen needs to support the banks in Hong Kong in extending their business to the enterprises with Hong Kong capital in Shenzhen and the local enterprises in Shenzhen.

With regard to promoting the cooperation between the capital markets of Hong Kong and Shenzhen, cooperation between Hong Kong and Shenzhen in the international arena attracts companies to list on the stock exchanges of Hong Kong and Shenzhen. On the one hand, such cooperation can consolidate and enhance Hong Kong’s position as an international financial centre, and on the other hand, can find a way for the current enormous amount of foreign reserves of China. In addition, cooperation in the following aspects can also be strengthened: information exchange; personnel training: people of Shenzhen will receive training provided by the Hong Kong side; qualification examinations: those employed in Hong Kong will, through passing examinations, obtain professional qualifications to work in Mainland China; establishing organisations in both cities: the organisations are mainly professional organisations such as securities, futures and funds institutions; business cooperation, for instance, investment banking: professional organisations from the two cities joining hands to assist a company in seeking an overseas listing; innovation and development of certain products: either the two cities work together with respect to design and operation or Shenzhen provides assistance to Hong Kong. Lastly, it also requires taking into account the question of the division of work between Shenzhen Stock Exchange and Hong Kong GEM Board.

8. Promote effective cooperation on “Shenzhen/Hong Kong Innovation Circle” through implementation of concrete projects

From many perspectives, the “Shenzhen/Hong Kong Innovation Circle Cooperation Agreement” has significant meaning. The “Shenzhen/Hong Kong Innovation Circle” is not simply a technical cooperation between Hong Kong and Shenzhen, nor is it merely a cooperation based on the establishment of a regional innovative body. Within a greater scope and on a higher strategic level, it is a “pilot project for promoting the establishment
of a Hong Kong-Shenzhen Metropolitan Circle”. The crux of the problem is how to effectively determine the cooperation of “Shenzhen/Hong Kong Innovation Circle” as quickly as possible.

The cooperation on the “Shenzhen/Hong Kong Innovation Circle” is a long-term and arduous project. There are many practical problems waiting to be solved and many institutional barriers that need to be overcome. The prerequisite to “One Country, Two Systems” is the social, political and economic institutions in Hong Kong and Shenzhen, the different tariff zones, etc. These issues need to be fully considered and effectively tackled. The differences and limitations in the flow of people, goods, capital, technology and information need to be fully dealt with. Although Hong Kong is adjacent to Shenzhen, there is a large cultural difference, especially in the mode of thinking, social understanding, language and education. These differences in social and cultural aspects as well as the development environment need to be fully complemented.

It is precisely due to the above problems that the implementation of the “Shenzhen/Hong Kong Innovation Circle” has become very important. With regard to the Hong Kong-Shenzhen cooperation, there is already consensus in the two cities and the key is its practical operation. If the operating process is not dealt with properly, all the targets of the cooperation become empty talks, without any substantial meaning. Effectively facilitating the cooperation on the “Shenzhen/Hong Kong Innovation Circle” requires sufficient communication, seeking common ground while reserving differences, taking into account the overall situation, and a win-win game between the two cities in respect of operating processes. Only by achieving the above-mentioned cooperation on the “Shenzhen/Hong Kong Innovation Circle” can practical results be achieved, and be upgraded gradually to become a national strategy.

Establish a working mechanism and put it into effective operation. According to Zhang Keke pointed out in the article “Ten Years to Forge a Sword: Lessons from the “Shenzhen-Hong Kong Innovative Circle (十年磨一劍:‘深港創新圈’給我們的啟示)” in the “Shenzhen University Seminar for the Review of the Ten Years after Hong Kong’s Handover – Keynote Speech, Internal Information, 2007 (深圳大學“香港回歸 10 周年研討會 會議論文, 內部資料, 2007”): As a preliminary project for building a Shenzhen-Hong Kong Metropolis in the future, the Shenzhen-Hong Kong Innovative Circle is an experiment and adventure in respect of the effective interface of the market rules, legal systems and social cultures of the two cities. It will certainly have long-term and in-depth implications for the future development of the two cities and hence it has extraordinary significance.
Clause 1 of “Shenzhen/Hong Kong Innovation Circle Cooperation Agreement” which consists of 17 clauses, it is stated that “The two governments have agreed to set up Shenzhen-Hong Kong Innovation and Technical Cooperation Supervisory Meetings co-chaired by Hong Kong’s Secretary for Commerce, Industry and Technology and Shenzhen’s Executive Vice Mayor. On an annual basis during the two meetings, high-level government officials in the two cities engage in negotiation and communication in order to coordinate and supervise the Shenzhen-Hong Kong cooperation arrangements of the relevant organisations in the two cities.” The “Shenzhen-Hong Kong Innovation and Technical Cooperation Supervisory Meeting” mentioned in the “Shenzhen/Hong Kong Innovation Circle Cooperation Agreement” is in fact an institutional arrangement. From the perspective of the cooperation on the “Shenzhen/Hong Kong Innovation Circle”, the establishment and effective operation of institutional and working mechanisms are very important. Despite their importance, there is no cooperation on the governmental level but cooperation initiatives can also be carried out from the private sector. For the government’s role, through the establishment of a working mechanism, it carries out planning, makes decisions, conducts strategic research and promulgates concrete policy, and can therefore accelerate the pace of cooperation as well as affect the depth and magnitude of the cooperation. Besides, the two cities have to fully utilise the “Supervisory Meeting”, and determine the schedule and quality requirement with regard to matters of cooperation and concrete projects, and with results-orientation facilitate stable development of the “Shenzhen/Hong Kong Innovation Circle”.

Use concrete projects to stimulate cooperation on the “Shenzhen/Hong Kong Innovation Circle”. To identify and determine the concrete projects, as well as put them into operation as soon as possible is the key step in facilitating cooperation on the “Shenzhen/Hong Kong Innovation Circle”. ¹¹⁰ For the “Shenzhen/Hong Kong Innovation Circle Construction Planning” document, drafted and completed, the cooperation on the specific projects is based on the following visions: First is the selection of projects in which Hong Kong and Shenzhen have a linking advantage; second is to rationalise and integrate the existing Hong Kong-Shenzhen projects and focus on their development; third

¹¹⁰ Mr. Wilson Fung, Executive Director of the Hong Kong Productivity Council, in an interview with Shenzhen Special Zone News on 24 May 2007, pointed out that: the current cooperation between Shenzhen and Hong Kong is multi-layered, multi-perspective and multi-angled. The next step of building a “Shenzhen-Hong Kong Innovative Circle” should be concerned with the finalisation of cooperation projects between Shenzhen and Hong Kong to achieve success as soon as possible.
is to establish the projects in which Hong Kong and Shenzhen face challenges and prepare for their development in advance. These visions are undoubtedly correct. The concrete projects are an important step towards cooperation on the “Shenzhen/Hong Kong Innovation Circle”. The principles of small tasks first and big tasks later, easy first and hard ones to follow, and advantages take priority when carrying out project cooperation. Attention should be paid to project efficiency, as well as the efficiency of the “external benefits” of the projects. Some projects may not have desirable direct benefits but through the cooperation on these projects, a relatively satisfactory status for key resources flow, institutional linkage and inter-city integration between Hong Kong and Shenzhen can be achieved. In fact, these projects have significant meaning.

Create a favourable environment for technology innovation and business operations. The positioning of the “Shenzhen/Hong Kong Innovation Circle” is one “led by the government, based on the non-governmental sector and using the market as a yardstick” (“以政府為主導、民間為基礎、市場為準則”). Therefore, one of the key responsibilities of the two governments is to create a sound environment for technological innovations and business operations and to stimulate the non-governmental and market forces. With cooperation on the “Shenzhen/Hong Kong Innovation Circle” taking a leading role, cooperation between Hong Kong and Shenzhen will undoubtedly expand from single-area cooperation to an institutional arrangement covering various industries and areas. For this reason, it is necessary to make early preparations and plans. As such, apart from achieving innovation and breakthroughs via project cooperation, the two cities should carry out comprehensive planning for issues relating to the creation of a favourable environment for technology innovation and business operations from a macro perspective.

9. Strengthen education and cultural cooperation by commencing with the “Hong Kong-Shenzhen talent nurturing programme”

Hong Kong and Shenzhen can carry out deeper cooperation with respect to education by commencing with the “Hong Kong-Shenzhen talent nurturing programme”. The main part of this programme is that Hong Kong opens up its educational resources to Shenzhen, enabling more Shenzhen students easier access to study in the tertiary institutes of Hong Kong, which is similar to the “studying aboard” concept for Shenzhen students studying in
Hong Kong. The universities in Hong Kong have cooperated with the relevant institutions in Shenzhen and set up branches in Shenzhen. However, with regard to student nurturing, if the Shenzhen students can receive education in Hong Kong directly, they can have first-hand experience of Hong Kong’s life socially, politically and economically, etc and build interpersonal networks. This will be of significant importance to the cooperation between the two cities in the future. Hong Kong universities should accept more Shenzhen students based on the same academic entrance requirements. The governments of the two cities can include those Shenzhen students admitted to Hong Kong universities each year in the “Hong Kong-Shenzhen talent nurturing programme”. Sponsored by the Shenzhen government, it will enhance Shenzhen students’ interest in studying in Hong Kong. At present the programme can be carried out under the “Shenzhen/Hong Kong Innovation Circle” framework and subsequently operated independently at an appropriate time in the future. In addition, the two cities can start exploring cooperation possibilities for primary and secondary schools.

The education cooperation between Hong Kong and Shenzhen should explore the possibility of allowing a flexible mechanism for educational cooperation between Hong Kong and Shenzhen under the CEPA framework. At present all of Hong Kong’s educational institutions are regarded as overseas educational institutions and cannot directly run a school in Shenzhen. Hong Kong and Shenzhen should join hands to strive for the relevant policy from the central government calling for a differentiation of the nature of the educational institutions in Hong Kong and other overseas institutions. The fact is that Hong Kong has reunified with China. Although Hong Kong and Shenzhen practise different systems, they belong to the same country. Therefore, the educational institutions in Hong Kong should enjoy different treatment. Hong Kong and Shenzhen should jointly strive for the State’s approval of Hong Kong’s educational institutions flexibly running schools in Shenzhen, with less restrictions and restraints on running a school. Under this framework, the two cities can also thoroughly examine the feasibility of moving some of the applied universities of Hong Kong to the frontier area. If part of the campus of these universities can be moved to the frontier area, it will become an important factor for promoting deeper cooperation between Hong Kong and Shenzhen, deeper understanding of the two cities, and smooth progress of the cooperation on the “Shenzhen/Hong Kong Innovation Circle”.

163
From the perspective of people’s livelihood, it is necessary to establish schools in Shenzhen for the children of Hong Kong people as soon as possible. At present, there are 4,000 Hong Kong children residing in Shenzhen coming to Hong Kong for school every day. They spend a lot of time commuting between Hong Kong and Shenzhen every day. This affects their learning efficiency and opportunities. In three years time, the number of cross-boundary school children may be more than 10,000 and this will exert great pressure on the crossing points. Therefore, it is recommended that schools should be established in Shenzhen exclusively for the children of Hong Kong people. Educational services can be provided by voluntary groups from Hong Kong. At the same time, the policies on “non-portability of welfare” and public money cannot be spent outside Hong Kong have to be addressed, and it is also necessary for the Shenzhen government to provide land and allow the Hong Kong government to supervise these facilities.

Also, Hong Kong and Shenzhen have to actively enhance cultural exchanges between the two cities. After building the Hong Kong-Shenzhen Metropolis, more exchanges can be made to increase the two cities’ understanding of each other’s culture and values. The Hong Kong and Shenzhen governments need to simplify the procedures, by organising more cultural exchanges and performing tours. The Hong Kong performing arts market is relatively small, making it not economically viable for world-famous performing arts groups to perform in Hong Kong. If, however, the performing arts market is perceived to include Hong Kong and Shenzhen, and appropriate arrangements are made regarding ticketing and the issue of visas to performers for entering the Mainland, this will certainly support large-scale performing arts with positive impact on the development of arts in the two cities.

10. Focus on sustainable development by jointly addressing environmental protection issues

The “Shenzhen 2030 City Development Strategy” proposes that in the future Shenzhen will become a “world-class city with emphasis on Shenzhen-Hong Kong cooperation and joint development”, and includes the “international metropolis to be jointly developed with Hong Kong” on the list of Shenzhen’s targets. It can be said that the joint establishment of a metropolis between Hong Kong and Shenzhen is a common need and an inevitable trend.
for the development of Hong Kong and Shenzhen. However, the premise of building a Hong Kong-Shenzhen Metropolis has to be a healthy environment, because a healthy environment is a prerequisite for an international metropolis, is a manifestation of competitiveness, is the common goal of the development of Hong Kong and Shenzhen, and is the foundation for sustainable development.

At present, both Shenzhen and Hong Kong face the acute problems of insufficient space for development and difficulties in making the economic growth sustainable. There are four major “bottleneck” constraints of tangible resources: population, land space, natural resources and energy resources, and the carrying capacity of the environment. First is the rapid growth in total population. Shenzhen has exceeded the planned population authorised by the State 10 years ahead of target. This has affected the comfort level of the urban dwellers. Second is the limited land supply. Hong Kong and Shenzhen together only have about 3000 km$^2$ of land, less than 1/5 of Beijing, 1/3 of Tianjin and 1/2 of Guangzhou. The land available for development in the two cities is less than 1200 km$^2$, which is 1/5 of Shanghai. Third is a lack of natural resources and energy resources. Hong Kong and Shenzhen are cities in dire shortage of water. The water resource per capita in Shenzhen is 1/6 of that in Guangdong province and 1/5 of that in the nation as a whole. There is a co-existence of resource-type water shortage, allocation-type water shortage and pollution-type water shortage. There is also a lack of energy resources. Almost all conventional primary energy resources rely on exportation from other areas. Fourth is insufficient environmental capacity. The water environment, air environment and ecological environment are all far from satisfactory. The concentration of air pollutants shows a growing trend every year and the smog issue has become quite serious. The environmental quality has become an important component in the business environments of Hong Kong and Shenzhen. When multinational corporations choose a location for their regional headquarters, the environmental quality is one of their top considerations.

In general, the environmental problems have become one of the important constraining factors to the building of a Hong Kong-Shenzhen Metropolis. Building a Hong Kong-Shenzhen Metropolis should be carried out under the premise of ensuring ecological sustainability, and continued improvements to the environment should be made.

Establish a mechanism for coordinating the work of environmental protection between
Hong Kong and Shenzhen. Although on the aspect of environmental protection and objectives, Hong Kong and Shenzhen are very similar in substance, owing to the differences in political and legal systems and the level of economic development, there are still differences in the specific aspects of environmental laws and regulations, standards, planning as well as operations between the two cities. As such, to ensure effective and highly-efficient environmental protection, it is necessary to establish a mechanism for coordinating the work of environmental protection between Hong Kong and Shenzhen, and to coordinate solutions to the above-mentioned problems, with the aim of ensuring implementation of environmental protection.

Set up an ecological and environmental resources account. Coordinate the commencement of the examination and assessment of the ecological and environmental resources of Hong Kong and Shenzhen; set up an ecological and environmental resources account which will serve as an important basis for deciding on planning, regional layout and construction projects, so as to enhance the efficient and effective use of ecological and environmental resources.

Optimise planning according to environmental capacity. Strictly control the scale and magnitude of land development, restrict industrial development that does not meet environmental standards, carry out comprehensive development, enhance ecological and economic effectiveness as well as implement a total capacity control system.

Ensure and strengthen public participation. The establishment of a Hong Kong-Shenzhen Metropolis involves immediate benefits for tens of millions of people in the two cities. The public has a right to participate and express their opinions. The public’s right to know, right to participate and right to monitor the environment have to be safeguarded. For planning, construction projects and major decisions involving public’s environmental interest, public opinions have to be obtained through various means such as hearings, appraisal meetings or public notification, etc. Shenzhen also needs to encourage the development of non-governmental environmental protection organisations and enhance the people’s self-organisational power in environmental protection.

Conclusion
This research was carried out over eight months with interviews involving more than 100 government officials, experts, academics and industry representatives in Hong Kong and Shenzhen, nearly 50 Hong Kong enterprises, 100 Shenzhen enterprises and 1000 Shenzhen citizens. The objective is to reflect the mainstream opinions of the residents, enterprises and government officials of the two cities on accelerating the pace of economic integration between Hong Kong and Shenzhen and building a Hong Kong-Shenzhen Metropolis. The findings reveal that government officials, enterprises and citizens in Shenzhen hold very positive views on building a Hong Kong-Shenzhen Metropolis. For Hong Kong, while the views are basically positive, some enterprises and interviewees are not optimistic. On the whole, interviewees generally agree that Hong Kong and Shenzhen both have their own advantages. Hong Kong is an international city, and Shenzhen is the most liberated and diverse city in the Mainland. Cooperation between Hong Kong and Shenzhen can radiate Hong Kong’s influence to other parts of the Mainland, and Shenzhen can “go international” via Hong Kong. How to bring out the advantages of the two cities through the Hong Kong-Shenzhen Metropolis concept is the focus of the society’s concern.

In proposing the various policy recommendations for building a Hong Kong-Shenzhen Metropolis, the study recognises that it is not easy to implement these recommendations. There are many obstacles on governmental and social levels that need to be addressed. A big gap currently exists between Hong Kong and Shenzhen in respect of administration, policy-making and legal and social systems. The way of thinking and objectives also vary greatly between the two cities. Adding to these are the difficulties arising from the “One Country, Two Systems” concept. Furthermore, not all matters of cooperation between Hong Kong and Shenzhen can be decided by the governments of Hong Kong and Shenzhen on their own, but require the participation and support from the central government and Guangdong provincial government.

Current trends indicate that a Hong Kong-Shenzhen Metropolis is only the first step to building a metropolitan region in the Greater Pearl River Delta. With economic integration of Hong Kong and Shenzhen, this metropolitan area can be expanded to Macau and Zhuhai.

111 The fact that no specific questionnaire survey of Hong Kong residents has been carried out for the purpose of this study is due to the following reasons: Firstly, Hong Kong residents have already enjoyed convenient access to Shenzhen, and there is no need for additional arrangements at the institutional level, while Shenzhen residents have a lot of comments on how to improve the customs clearance systems; secondly, some institutions have already conducted relevant surveys on the consumption, way of life and work life of Hong Kong residents in Shenzhen.
situated on the other side of the Pearl River Estuary. Taking this further, the Pearl River Estuary metropolitan region including Hong Kong, Shenzhen, Macau and Zhuhai will also integrate with the entire Greater Pearl River Delta metropolitan region including Guangzhou, Foshan and Dongguan, leading the globalisation of the economies of the Pan-Pearl River Delta and China as a whole in a healthy manner.