

Promote Development of Hong Kong Service Industries in the Pearl River Delta

21 February 2012

Study Background

- As an international centre for finance, trade, logistics and professional services, HK is well placed to contribute to the liberalisation, promotion and development of Mainland service industries as promulgated in the National 12th Five-Year Plan (FYP)
- Vice Premier Li Keqiang clearly indicated during his visit to HK last year that the Mainland market would be further opened up to HK, with a target to achieve liberalisation of trade in services between Mainland and HK through CEPA by the end of the FYP period (i.e. 2015)
- The continued liberalisation of Mainland service industries will create more opportunities for HK enterprises
- Targeting the strategic opportunities which arise from the emergence of new cooperation platforms between Guangdong and HK service industries in the Pearl River Delta (PRD), Bauhinia Foundation Research Centre commissioned TeamOne Economist Limited (the Consultant) to conduct this study

Study Objective

- To explore and recommend for implementation early and pilot measures aimed at attracting HK service industries to set up business in the PRD region (particularly in Qianhai, Nansha and Hengqin which are areas designated to adopt early and pilot measures for HK service industries)
 - Representatives of various HK service industries who are familiar with Mainland businesses were interviewed to understand the challenges they face in doing business in the PRD region, and their expectations for improving the business environment in the region

Study Methodology

- In-depth interviews

Interviews with 24 representatives from the following nine service industries were conducted in August and September 2011:

- | | |
|------------------------------|------------------------------|
| 1. Finance and insurance | 2. Modern logistics |
| 3. Research and development | 4. Cultural and creative |
| 5. Information technology | 6. Testing and certification |
| 7. Legal | 8. Accounting |
| 9. Convention and exhibition | |

- Focus group discussions

- Peer review by Mainland specialists

Three Main Barriers Faced by HK Service Industries

Hong Kong Service Industries

Gates Open but
Doors Remain Closed

Barriers to
Free Flow

Tax Burden,
Qualification
Barriers



Nine Key Recommendations

First Barrier

Hong Kong Service Industries

Gates Open but
Doors Remain Closed

1. Provide 'One-stop' Business Registration and Establish Dedicated 'Liaison Group'

Current Situation

- Although entry thresholds into the Mainland market have already been lowered for HK service providers under CEPA, HK enterprises still find the Mainland business registration process, which involves many different departments, complicated and time-consuming
- Because of differences in cultural background, government structure and mode of market operation, as well as limited availability of relevant information, HK enterprises have difficulty understanding the approval process and standards for Mainland business registration, affecting their pace of setting up businesses in the Mainland

1. Provide 'One-stop' Business Registration and Establish Dedicated 'Liaison Group'

Recommendations

- Guangdong Government to set up, on an early and pilot implementation basis, market-driven and self-sufficient institutional units in Qianhai, Hengqin and Nansha to **provide 'one-stop' business registration services for HK enterprises**, and keep the enterprises informed of developments throughout the application process, so as to boost HK enterprises' confidence in investing in these areas
- HK Government to set up a dedicated '**liaison group**' based in the Mainland, to coordinate closely with the authorities of Qianhai, Hengqin and Nansha, and to follow closely details of their development plans, with the aim of keeping HK enterprises abreast of the latest developments to help them make appropriate investment decisions

2. Relax Stake Limitations on HK Enterprises

Current Situation

- Since the implementation of CEPA, 47 service segments have been opened up to HK enterprises, some of them on a wholly-owned basis, such as:
 - Banking, insurance agency/brokerage (except life insurance), cargo agency, courier, research and development, advertising, design, software implementation, data processing
- However there remain service segments which require HK enterprises to partner with Mainland enterprises, with ownership restricted to not more than 50%, such as:
 - Securities and futures, publishing, internet online service business premises

2. Relax Stake Limitations on HK Enterprises

Recommendations

- To allow, on an early and pilot implementation basis, HK enterprises in Qianhai, Hengqin and Nansha to own controlling stakes (i.e. at least 51%) in businesses which pose no threat to national security, e.g. securities investment consultancy, internet content providers of information for consumers. This would enable HK enterprises to react more flexibly and promptly in the highly competitive and volatile business environment
- The ultimate goal is to allow, on an early and pilot implementation basis, HK investors in the PRD region to operate wholly-owned enterprises in all service industries which pose no threat to national security

3. Relax Restrictions on HK Enterprises' Scope of Operation

Current Situation

- Although HK service providers may operate wholly- or partly-owned businesses in the Mainland, there are restrictions on their scope of operation such that they cannot provide a full range of services as their Mainland counterparts, e.g.:
 - securities companies cannot provide A-share related brokerage and asset management services
 - testing & certification companies cannot undertake certification for products listed in the China Compulsory Certification (CCC) catalog other than those processed in HK
 - logistics companies cannot operate courier services for delivery of documents within the Mainland
- Applications to set up new Mainland branches of HK banks often take months to process, and are limited to one new branch at a time

3. Relax Restrictions on HK Enterprises' Scope of Operation

Recommendations

- To allow, on an early and pilot implementation basis, HK service providers in Qianhai, Hengqin and Nansha to participate in currently restricted business areas so as to attract more HK enterprises to the Mainland, e.g.:
 - asset management services involving A-shares
 - courier services for delivery of documents within the Mainland
 - certification for CCC items other than those processed in HK
 - Mainland non-litigation legal services
 - Mainland audit services
- To allow, on an early and pilot implementation basis, HK banks in Qianhai, Hengqin and Nansha to apply for simultaneous registration of more than one branch office so as to help HK banks increase their pace of expansion in the Mainland



4. Promote Specifying Place for Arbitration/Judicial Proceedings and Ensure Enforcement of Verdicts

Current Situation

- Reciprocal recognition and enforcement of HK and Mainland court verdicts have been established since 1 August 2008, i.e. litigations won in Hong Kong can be enforced in the Mainland and vice versa
- However, there are still instances where local authorities, in handling commercial disputes involving HK enterprises, rigidly stick to local practices and adopt different interpretations of clauses commonly included in commercial contracts used by HK enterprises. Even after dispute resolution through commercial arbitration, there is still concern that the verdict would not be recognised and enforced by the local authorities

4. Promote Specifying Place for Arbitration/Judicial Proceedings and Ensure Enforcement of Verdicts

Recommendations

- To introduce, on an early and pilot implementation basis, appropriate policies in Qianhai, Hengqin and Nansha to encourage inclusion of a clause, in commercial contracts involving HK and Mainland companies, which clearly specifies either Mainland or HK as the designated place for arbitration/judicial proceedings to resolve any contract-related disputes
- To formulate detailed and clear guidelines which can provide effective help in ensuring, once an enforceable final verdict is reached in HK court (i.e. there is no appeal after the first instance or after final verdict is passed), that it would be enforced by the Qianhai/Hengqin/Nansha authority, to safeguard the rights of HK enterprises

5. Provide Coordinated and Convenient Cross-boundary Travel and Clearance

Current Situation

- Most HK residents who work or do business in PRD cross the boundary via the land crossings at Shenzhen
- Of the six land crossings on the HK-Shenzhen boundary, Lok Ma Chau (Huanggang) is the only one operating round the clock, while Shenzhen Bay is the only crossing which adopts the co-location arrangement for immigration clearance. Cross-boundary travellers using other crossings do not enjoy these conveniences

5. Provide Coordinated and Convenient Cross-boundary Travel and Clearance

Recommendations

- To implement 24-hour operation at more land boundary crossings, especially at Lo Wu where passenger volume is currently highest. If this is constrained by the need for daily railway maintenance, consideration can be given to operating limited rail service between Lo Wu and Sheung Shui stations during specific periods, or constructing an additional short railway line between the two stations
- To streamline clearance procedures for HK residents who need to travel frequently to Qianhai, Hengqin or Nansha for work or business by issuing them with ‘special permits’ for immigration clearance at designated counters or vehicle kiosks
- To enhance clearance arrangements, e.g. to adopt a single queue system, instead of the current practice of having multiple queues at individual immigration counters, to achieve a ‘first-come-first served’ arrangement
- The long-term goal is to adopt electronic immigration clearance, where the clearance requirements for both HK and Mainland can be processed by one single electronic system, hence providing “one-stop” immigration convenience for cross-boundary travellers

6. Facilitate Customs Clearance of Goods

Current Situation

- Guangdong and HK are two distinct customs jurisdictions. Although electronic customs clearance systems have been introduced in both jurisdictions in recent years, customs clearance of goods still has to be processed twice, once at each jurisdiction, with duplication in declaration and inspection of goods and resulting in lost time, inefficiency and inconvenience to the services sector

6. Facilitate Customs Clearance of Goods

Recommendations

- To standardise the HK and Mainland customs declaration systems so that HK enterprises would not have to prepare two different sets of declarations to meet the different requirements and formats of the two systems, thereby reducing goods delivery times and raising the efficiency of cross-boundary cargo flows
- To expedite the adoption of common standards for the radio frequency identification (RFID) technology of the two customs jurisdictions, so as to shorten the time for customs clearance inspections
- To set up, on an experimental basis in HK, forwarding stations or mobile inspection vehicles where Mainland customs officers or their designated contractors may provide a chargeable service to inspect Mainland-bound goods. Goods which have been sealed by HK customs after meeting the requirements of both HK and Mainland customs may automatically cross the boundary without inspection, thus avoiding possible congestion at boundary crossings, ensuring delivery times for logistics companies and enhancing the service quality of HK's logistics industry

7. Promote 'Barrier-free' Telecommunication Services between Guangdong and HK

Current Situation

- Despite the increasing availability of alternatives to mobile voice/data roaming services (e.g. international calling cards, international direct dialing call backs, international call forwarding and one-card-two-numbers), their charges are still high and some are bundled with monthly service subscription plans provided by telecommunication companies, resulting in considerable costs for high-usage HK people who do business or work in the Mainland
- To reduce such roaming expenses, frequent travellers may have to endure the inconvenience of maintaining several mobile phone numbers and carrying multiple SIM cards or mobile phones

7. Promote 'Barrier-free' Telecommunication Services between Guangdong and HK

Recommendation

- To introduce in PRD, on an early and pilot implementation basis, relevant policies to encourage telecommunication service providers in Guangdong and HK to gradually adopt Mainland domestic charges for roaming voice calls and data usage between Guangdong and HK, similar to the arrangement planned for Qianhai. Exemption from international direct dialing charges would allow barrier-free telecommunication between HK and areas in the PRD designated to adopt early and pilot measures for HK

Third Barrier

Hong Kong Service Industries



Tax Burden,
Qualification
Barriers

8. Introduce ‘Tailor-made Examination’ and ‘Limited Registration’ System

Current Situation

- HK professionals are currently required to pass Mainland examinations before they can obtain relevant professional qualifications to practise in the Mainland, e.g.:
 - HK insurance brokers must pass the National Level Certification Examination
 - HK lawyers are required to pass the National Judicial Examination, obtain the Legal Professional Qualification Certificate, undergo training and pass the training examinations
- According to interviewees, HK professionals’ persistently low passing rates in Mainland professional qualification examinations mainly reflect that they are not accustomed to the scope of the Mainland examinations

8. Introduce ‘Tailor-made Examination’ and ‘Limited Registration’ System

Recommendation

- To introduce, on an early and pilot implementation basis in Qianhai, Hengqin and Nansha, ‘tailor-made examinations’ for Hong Kong professionals (e.g. insurance brokers, lawyers) who meet certain minimum experience and seniority requirements, and allow ‘limited registration’ for those who pass the examinations. The intention is not to lower standards, but to reduce examination contents irrelevant to HK professionals’ permitted scope of practice in the Mainland

9. Regularise Taxation Arrangements

Current Situation

- Under Mainland's tax-sharing system, central and local governments can independently administer various types of taxes and fees within their respective areas of responsibility. An enterprise with operations in different cities would face the complexity of different local tax schemes and rates
- According to the taxation agreement between HK and the Mainland, HK residents working in the Mainland who spend 183 days or more in the Mainland each year are subject to Mainland personal income tax. Under Mainland's progressive taxation arrangement, the personal income tax rate could reach 45%, far higher than HK's 15% standard tax rate

9. Regularise Taxation Arrangements

Recommendations

- To standardise, on an early and pilot implementation basis in Qianhai, Hengqin and Nansha, all the various local taxation items, with the assessment criteria clearly set out and duly implemented; and stipulate the scope and criteria for imposing new taxes and adjusting tax rates, so as to enable HK enterprises to more accurately estimate their total tax liability
- To introduce preferential income tax arrangement, on an early and pilot implementation basis and similar to that being considered for Qianhai, such that all HK residents working in Hengqin and Nansha would enjoy personal income tax rates comparable to those in HK, so as to attract HK talent to these areas

Bauhinia Foundation Research Centre

Thank You

