

## **Bauhinia advocates a Hong Kong/Taiwan-led common market across the straits**

(11 May 2009, Hong Kong) Free flow of people through reciprocal visa-free access and ease of work visas' applications, tariff-free movements of commodities, liberalization of aviation markets, synergy of tourism resources as well as expansion of Hong Kong's Renminbi (RMB) businesses will help pave way for the ultimate development of a "common market" amongst the Mainland, Taiwan and Hong Kong over the next three decades.

To be developed in phases, the cross-straits common market will emerge as one of the world's most competitive and vibrant economic zones.

The concept is the crux of the policy recommendations put forward by the Bauhinia Foundation Research Centre (the BFRC) today in its latest study on Hong Kong-Taiwan economic ties after the three direct links to enhance the long-term competitiveness of the cross-straits region.

Amongst others, the report calls on Hong Kong and Taiwan to take the lead in forming an "economic radiation zone" which will encompass 11 southeast coastal Mainland provinces and cities within the reach of 1,000 kilometres, including Guangdong, Guangxi, Hunan, Hubei, Jiangxi, Fujian, Zhejiang, Anhui, Shanghai, Hainan and Jiangsu.

The cross-straits economic and trading relations, according to the study, can be divided into three main stages – the "Three Direct Links" stage (2009 – 2018), the "Free Trade Economic Zone" stage (2019 – 2028) and ultimately the "Common Market" stage (2029 – 2038).

The BFRC Chairman and Study Group Convenor, Mr Anthony Wu Ting-yuk, said, "The implementation of direct flights, trade and mail as well as improvement of the relationships between the Mainland and Taiwan will lead to a significant reduction in the cost of doing business across the straits. And with better people flow, the investment environments will also become much more favourable."

The BFRC report says Hong Kong should leverage on its role as an international financial centre to stimulate people flow, capital flow as well as exchanges among institutions and their products in Hong Kong, the Mainland and Taiwan. Exploiting the new opportunities, Hong Kong can seek to develop itself as a business service centre, a financing centre and a fund management centre for the Mainland and Taiwanese companies.

According to economic projections, the three direct links will benefit the economies of Hong Kong, Taiwan and the Mainland in the long run (Hong Kong's gross domestic product (GDP) up by \$17.9 billion, Taiwan's GDP up by NTD153 billion and the Mainland's GDP up by RMB430.9 billion respectively by 2018). With the formation of the cross-straits economic zone in 2038, it is estimated that Hong Kong's GDP will grow by \$64.3 billion, the Mainland's GDP by RMB 2,222.5 billion and Taiwan by NTD433.2 billion.

But in the short term, Hong Kong's air and sea freights and passenger traffic will be hardest hit as a result of the three direct links. Two-thirds of the existing passenger flights between Hong Kong and Taiwan will be affected. On the air cargo front, Hong Kong will lose 60% of its original air transshipment business and 40% of importing cargo business between Hong Kong and Taiwan. The total volume of freight movement between Hong Kong and Taiwan will drop by about 40%.

Mr Wu said, "Hong Kong's transit role will be inevitably weakened. But from a long-term perspective, our economy will stand to benefit from the cross-straits developments, given Hong Kong's prime location, sound legal system, international business reputation as well as competitive strengths in the areas of financial services, logistics, professional services, technology, creativity and innovation, convention and exhibitions and tourism."

“The three direct links are encouraging and positive developments for all parties concerned. How to promote closer economic ties will be an important policy agenda for Hong Kong. This is supported by a clear consensus amongst the communities of both places,” said Mr Wu.

According to a BFRC poll, the majority of Hong Kong people are optimistic about the improvement of cross-straits relations. About two thirds of those surveyed (66%) believed Hong Kong-Taiwan relations would become closer; over 80% of the local respondents said maintaining cordial relations with Taiwan was ‘important’ or ‘very important’ to Hong Kong.

87% of the Hong Kong residents thought it was important or very important to strengthen Hong Kong-Taiwan economic ties. 64.5% of the Taiwanese respondents also took the view that Taiwan should seek closer economic cooperation with Hong Kong.

The “Three Direct Links” stage will see cross-straits trade normalization, shortening of distances and dramatic improvement in logistics and passenger flow. At the “Free Trade Area” stage, there will be reciprocal cancellation of trade barriers allowing free flow of commodities within the area. A unified trade policy will be adopted at the “Common Market” stage when both sides of the straits and Hong Kong will work together to coordinate city developments as well as socioeconomic issues.

To facilitate better people flow, the BFRC has put forward a series of recommendations, including implementing reciprocal visa-free arrangements between Hong Kong and Taiwan, setting up official or semi-official organizations in both places and establishing a “Hong Kong-Taiwan Economic, Trade and Cultural Exchange Committee” to discuss and coordinate matters concerning Hong Kong and Taiwan.

In tandem with the Mainland’s opening up of its air traffic rights to Hong Kong, efforts should be made to strengthen Hong Kong’s role as an international and regional aviation hub. The opportunity should be seized to consolidate Hong Kong’s international aviation market and the cross-straits aviation markets with a view to making the aviation industries in the Mainland, Hong Kong and Taiwan more competitive.

Mr Wu said, “10 years down the road, we believe Hong Kong and Taiwan should take the lead in putting in place a “common market” mechanism, including reciprocal visa-free access, free flow of people, goods and capital as well as other necessary measures to facilitate professionals to work in both places without constraints.”

Other recommendations include relaxing Taiwan’s statutory restrictions concerning relations with Hong Kong and Macao, signing a Hong Kong-Taiwan economic cooperation framework agreement, developing Hong Kong as a RMB clearing centre for overseas and both sides of the straits, assisting Taiwanese businessmen to further integrate into the Pearl River Delta as well as consolidating tourism industries on both sides of the straits, Hong Kong and Macao.

The studies were undertaken by three research teams from Hong Kong, the Mainland and Taiwan between December 2008 and April 2009, namely Hong Kong Polytechnic University’s China Business Centre, China Development Institute and Taiwan’s Tam Kang University.

Over 1,000 residents each from Hong Kong and Taiwan were surveyed, and in-depth interviews were conducted with government officials, industry representatives and academics in the three places to gauge their views on the prospects of Hong Kong-Taiwan economic ties following the three direct links. Their opinions, coupled with economic modeling and projections, have formed the basis of the BFRC’s policy recommendations.

Details of the BFRC’s policy recommendations are annexed.

## **The BFRC's Policy Recommendations on Hong Kong-Taiwan Economic Ties**

### New principles guiding Hong Kong-Taiwan economic ties

Hong Kong to seek endorsement from the Central Government on new directives regarding Hong Kong's and Macao's economic relations with Taiwan on the basis of President Hu Jin Tao's six-point principles, enabling Hong Kong to play a more positive role between the two sides of the straits

### Reciprocal visa-free access to facilitate better people flow

According to the BFRC survey, over 80% of the Hong Kong respondents considered visa-free access between Hong Kong and Taiwan important or very important, while over 50% of the respondents in Taiwan regarded the arrangement as important or very important. The poll shows that visa-free arrangements are viewed with high expectation in both Hong Kong and Taiwan.

For Taiwan visitors holding an iPermit or multiple-entry permit, the BFRC recommends extending their limit of stay in Hong Kong from the current 30 days to two months or even one year. The BFRC further calls on the HKSAR Government to grant them visa-free treatments. In return, Taiwan should relax entry restrictions on Hong Kong's new immigrants and work visa holders from Hong Kong.

### Taiwan to relax statutory restrictions concerning Hong Kong and Macao

To further facilitate the movement of personnel between Hong Kong and Taiwan, the BFRC recommends that Taiwan remove entry restrictions concerning Hong Kong's new immigrants, personnel of Mainland-funded entities and Hong Kong employees holding Chinese passports. Relevant restrictions on Mainland-funded entities should be relaxed to attract more investments from Hong Kong/Macao as well as the Mainland.

### Hong Kong and Taiwan to establish rep offices reciprocally

Some 30% of the Taiwan respondents said "setting up dedicated government bodies" was the best way of strengthening economic cooperation between Hong Kong and Taiwan, while 30% of the respondents from Hong Kong said "direct cooperation between the two governments" was most ideal for economic and trading matters.

Asked about their first contact point when encountering difficulties in Hong Kong, 40% of Taiwan citizens said they would approach travel agencies for assistance, and some 30% of the respondents said they would rely on friends and relatives. As for Hong Kong respondents, more than a quarter (26.4%) said they would rely on friends and relatives in Taiwan. Another 24% said they would approach the Taiwan government for help.

The BFRC calls on Hong Kong and Taiwan to establish official representative bodies in each other's places to deal with exchanges and cooperation matters. At the initial stage, Hong Kong may consider setting up a representative office with official or semi-official status in Taiwan. It is also recommended that the proposed "Hong Kong-Taiwan Economic Cooperation Committee" be upgraded as a "Hong Kong-Taiwan Economic, Trade and Cultural Exchange Committee" to coordinate economic and trade affairs as well as livelihood matters.

### Expanding Hong Kong's RMB Business

The BFRC recommends further strengthening financial cooperation between Hong Kong and Taiwan. Equally important are more official exchanges between the HKMA and the financial regulators and finance departments in Taiwan. As an international financial centre, Hong Kong should provide an effective platform for cross-straits financing, attract Taiwan companies to be listed in Hong Kong and promote second-listing activities in both places. More can be done to promote cross-straits banking

activities in Hong Kong, assist Hong Kong-based Mainland enterprises to enter the Taiwan market, transform Hong Kong into an asset management centre for Taiwan businessmen and encourage Taiwan-funded enterprises in the Mainland to seek listing in Hong Kong and reciprocal listings of Exchange Traded Funds (ETF).

Hong Kong has good potential of becoming a worldwide and cross-straits RMB clearing centre. Financial derivative products for the cross-straits and Hong Kong can be offered. In this regard, it is important to enhance the movements of personnel, capital, financial institutions and instruments amongst Hong Kong, Taiwan and the Mainland. The opportunity should be taken to develop Hong Kong as a business service centre, financing centre and capital operation centre for the Mainland and Taiwan-funded companies.

#### Liberalizing air traffic rights

There has been considerable impact on the regular flights between Hong Kong and Taiwan following the weekend chartered flights across the straits, which started in July 2008. With the full implementation of cross-straits direct flights, it is estimated that two-thirds of the existing flights between Hong Kong and Taiwan will be affected.

The BFRC suggests exploring the issue of air rights among the Mainland, Hong Kong and Taiwan to enhance air connectivity between Hong Kong and Taiwan. The Hong Kong International Airport and Taoyuan International Airport can become a 'dual-centre aviation hub' with Taiwan-based airlines flying via Hong Kong to Europe and elsewhere in Asia and the western part of the Mainland. Hong Kong-based airlines may fly via Taiwan to the USA, Northeast Asia, Beijing, Shanghai and other eastern cities in the Mainland.

Riding on the Mainland's opening up of air traffic rights, Hong Kong can seek to integrate its international and domestic aviation markets, speed up the planning and construction of traffic link between Hong Kong and Shenzhen airports and foster closer cooperation amongst airports in the Pearl River Delta. Hong Kong and Taiwan may consider opening up their aviation markets to major Mainland airlines with an aim to establish a cluster of Five Gateway Airports (i.e., Beijing, Shanghai, Guangzhou, Hong Kong and Taiwan).

#### Assisting Taiwan businessmen to integrate into the PRD and the Pan PRD

To counter the current financial crisis, upgrade the value chains of industries and optimize resources allocation, Hong Kong, Taiwan and Guangdong can work together to assist Taiwan businessmen in Hong Kong and southern China. It is important for Hong Kong to participate in the implementation of the "Outline of the Plan for the Reform and Development of the Pearl River" and maintain close contacts with Guangdong and Taiwan.

For Hong Kong, efforts should be made to extend its market reach to other Mainland provinces (e.g. Guangxi and Fujian in the Pan-Pearl River Delta region), to form a convergence centre for Hong Kong and Taiwan industries, and to coordinate infrastructural planning in Guangdong, Hong Kong, Macao and Taiwan.

#### Reaching a Hong Kong-Taiwan economic cooperation agreement

It is recommended that Hong Kong and Taiwan reach an economic cooperation agreement to develop and normalize closer economic ties, to set a roadmap and priorities for economic and trade arrangements, to implement preferential trade policies, to provide reciprocal preferential trade and investment conditions and to put in place effective financial regulatory mechanisms. The agreement can be signed after the conclusion of the Economic Cooperation Framework Agreement (ECFA) currently under discussion between the Mainland and Taiwan.

Comprehensive arrangements for the avoidance of double taxation are beneficial to both Hong Kong and Taiwan. So are the "Comprehensive Common Market Arrangements" which help guarantee barrier-free movements of commodities, capital, professional and technical personnel between the two places. As an interim arrangement, a Common Market between Hong Kong and Taiwan can be formed prior to the cross-straits Common Market arrangement.

#### Consolidation of tourism resources across the straits

The BFRC survey shows that over 85% of Taiwan respondents have not been to Hong Kong over the past three years, and 77% of the Hong Kong people have not paid any visits to Taiwan over the past three years. For Hong Kong and Taiwan, there is obviously a lot of room for tourism development.

The BFRC recommends integrating tourism resources of Hong Kong, Macao, Taiwan and the Pearl River Delta to provide "multi-destination" tourism products, to form an "integrated tourist market" of the four places, to strengthen HK as an international tourism centre and to promote the cruise industry in the extended market of the cross-straits, Hong Kong and Macao.

The BFRC poll shows that Taiwan people are most interested in Hong Kong's travel, shopping and dining, and 74.9% of the respondents have good impression of the people in Hong Kong. As an 'open, free and stable society with good public order', Hong Kong should continue to capitalize on its internationalized image and its reputation as a shopping and tourism centre. Promotional activities should be stepped up, and service standards are to be enhanced to attract and maintain the travel flow.

#### Creating a cross-straits common market

In order to develop a common market encompassing the Mainland, Taiwan, Hong Kong and Macao, Hong Kong should regard the Mainland and Taiwan markets as its domestic markets rather than overseas markets. Attention has to be paid to the latest developments of the Taiwan industries in the Mainland, so that more timely, efficient and high-quality business support services can be provided.

Hong Kong should also take full advantage of its extensive international resources to integrate with those of the Mainland and Taiwan and to enhance Hong Kong's unique service functions. Exchanges and cooperation should be promoted among government departments, industries and trade associations in areas such as science and technology, investment promotion, logistics and transport.

In the long run, the BFRC calls for establishing a platform for cross-straits cooperation in science and technology (transactions of scientific and technological achievements, venture capital, science and technology cooperation and intellectual property protection) in Hong Kong. With its sound legal system, HK may also be developed as an intellectual property (IP) trading centre in the region, which can help promote exchanges and cooperation in science and technological research for the cross-straits and Hong Kong.

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