
Policy Suggestions on the Development of the Guangdong-Hong Kong-Macao Greater Bay Area

Swire Group

Executive Summary

Following on its debut in the Government Work Report and being officially uplifted onto a national strategy in March 2017, the construction of Greater Bay Area has just made another key stride. On 18th February 2019, the much anticipated Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (“The Plan”) was released by the Central Committee of the Communist Party of China and the State Council. The Plan outlines the overall design for the future development of the Greater Bay Area, defines the five strategic positionings of the region, and sets a clear short-term development objective from now till 2022 and a long-term outlook till 2035.

The Swire Group has been in China for over 150 years and has for more than a century been deeply engaged in the Greater Bay Area. It opened its Hong Kong office as early as 1870, and its earliest investment in Guangdong province was in 1882 when its Shantou office opened. We have faith in the great potential of the Greater Bay Area and believe that Hong Kong will fully seize the opportunities and strive for integrating into the overall development of the nation.

Based on the Outline Development Plan, this paper is to set out some of our

thoughts and suggestions from a business point of view, which we hope would help authorities concerned with the policymaking.

1. Engage Business Stakeholders

Under the current Leading Group structure, we recommend to set up sector-specific working groups, such as finance working group, aviation working group and tourism working group etc. These working groups would be able to coordinate the cross-boundary development opportunities and possible challenges faced by key industry sectors and to optimize the resources and distinct strengths of each city.

Most importantly, relevant business sector stakeholders should be engaged in these working groups to provide the indispensable practical market insights from the private sector and ensure policy effectiveness.

2. Improve the Greater Bay Area's Air Connectivity

Infrastructure planning should be optimized to create the proliferated and convenient multi-modal connectivity between cities and airports, as well as among airports.

In due course, to facilitate the efficient flow of passengers, it is necessary to extend the co-location arrangement for customs, immigration and quarantine procedures to Hong Kong International Airport. Leveraging on its global air transport network, Hong Kong should continue to play the important role as a key aviation hub in the grand landscape of China's opening-up.

Airlines in the Greater Bay Area should also be encouraged to enhance their cooperation and raise their global competitiveness as a whole. To enable innovative cooperation among airlines in the region, pilot measures should be taken to lift the current foreign ownership cap (at 25%) applicable to Hong Kong SAR investors to invest in the Greater Bay Area airlines.

We suggest expanding Guangdong's current 144-hour visa-free policy for foreign transit visitors to cover all ports of entry and exit in the Greater Bay Area, including those in Hong Kong.

We also suggest the creation of a Greater Bay Area Travel Card for overseas visitors that allows multiple visits across the region using express e-channels.

3. Facilitate Flow of People

Guangdong provincial government issued a notice outlining new policy measures that high-level talents working in the Greater Bay Area who are originated from Hong Kong, Macao, and foreign countries can expect to receive income tax benefits, so as to offset tax difference between the Mainland and overseas. To develop the Greater Bay Area into a talent magnet, we look forward to the introduction of implementation details in earliest convenience.

Human resource authorities in Guangdong, Hong Kong and Macao should proactively collaborate on regional manpower planning and quantifying shortages and mismatches of human resources. Such collaboration should enable early identification of skill shortages in particular sectors in each city.

Initiatives such as cooperating in the supply of relevant vocational training could then be proposed and carried forward to jointly address workforce issues. Flow of labour should be promoted within, and if necessary, from outside into the Greater Bay Area. Taking Hong Kong as an example, we suggest expansion of Hong Kong's Supplement Labour Scheme to simplify and speed up the approval process.

To address labour shortage in certain sectors, we suggest considering a daily cross-border commuting labour scheme.

4. Facilitate Flow of Goods

We suggest simplifying inspection and quarantine procedures for qualified food producers. A "trusted producers list" practice could be considered to reduce unnecessary and over-elaborate formalities.

5. Facilitate Flow of Capital

We suggest introducing early and pilot measures to further open up capital market, promote free flow of capital within the Greater Bay Area, and to reduce unnecessary withholding taxes and formalities on cross-boundary capital flows.

As long as risks remain controllable, we suggest easing the restriction on foreign debt registration, simplifying and speeding up approval process to offer Hong Kong and Macao originated enterprises with more flexible sources of funding. This is to raise the level of economic integration of Guangdong, Hong Kong and Macao, and to promote the integration of

Hong Kong and Macao into the overall development of the nation.

6. Cooperation on Circular Economy

We suggest introducing pilot measures to consolidate resources in the Greater Bay Area, break the restrictions of single market, and to develop circular economy.

Detailed elaboration of the above suggestions will be made in the following main paper.

Following on its debut in the Government Work Report and being officially uplifted onto a national strategy in March 2017, the construction of Greater Bay Area has just made another key stride. The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (the “Plan”) was released by the Central Committee of the Communist Party of China and the State Council on 18th February 2019. The Plan outlines the overall design for the future development of the Greater Bay Area, defines the five strategic positionings of the region, and sets a clear short-term development objective from now till 2022 and a long-term outlook till 2035. To guide the next steps of policy implementation, The Plan covers various aspects of Greater Bay Area in principle including the spatial layout, technology innovation, infrastructural connectivity, modern industrial system, ecological conservation, quality living circle ideal for living, working and traveling, cooperation and participation in the Belt and Road Initiative, and joint development of Guangdong-Hong Kong-Macao cooperation platforms.

Meanwhile, the positionings of the 11 cities in the Greater Bay Area have been further clarified. The four core cities, namely Hong Kong, Macao, Guangzhou and Shenzhen, will serve as core engines for regional development. Leveraging on their respective comparative advantages, these four cities will lead the advancement of neighbouring region. By cooperating with the core cities, other key cities in the region should leverage on their own competitiveness and drive the development of towns nearby with distinct characteristics, so as to promote a balanced development of urban and rural areas, and the comprehensive development

of the Pan-Pearl River Delta Region. Also worth-mentioning is the clarified positioning of Hong Kong and its reaffirmed pivotal role in finance, transportation, trade, aviation, and technology innovation.

The Swire Group has been in China for over 150 years and has for more than a century been deeply engaged in the Greater Bay Area. It opened its Hong Kong office as early as 1870 and its earliest investment in Guangdong province was in 1882 when its Shantou office opened. The Group's business in the region ranges from property, aviation, beverages and food chain, marine services, and trading and industrial. With the great potential of the Greater Bay Area to unleash, we see great opportunities in the region. The Swire Group will proactively support governments of Guangdong, Hong Kong and Macao, and contribute in areas our businesses are involved. We are committed to contributing to the development of Hong Kong and the Greater Bay Area as a whole.

Based on The Plan, this paper is to set out our thoughts and suggestions from a business point of view, which we hope could help authorities concerned with the policymaking.

1 . Engage Business Stakeholders

To bring The Plan onto practical level, proper organizing and planning should be strengthened, major tasks should be prioritized, and civic participation should be encouraged. The Plan also promotes cooperation of think tanks from the Mainland, Hong Kong, and Macao to provide intellectual supports for the development of the Greater Bay Area. Different

market players are called for taking part into the development of the Greater Bay Area.

Chaired by Vice Premier Han Zheng, a Central Leading Group for the Development of the Greater Bay Area has been set up, showing the strong leadership of the Central Government and the great importance attached to the development of the Greater Bay Area. It is also the first time for the Chief Executives of the Special Administrative Regions Governments to become members of one of China's core decision-making groups, reaffirming the key role of Hong Kong and Macao in the development of the Greater Bay Area.

Under the current Leading Group structure, we recommend setting up sector-specific working groups, such as finance working group, aviation working group and tourism working group etc. These working groups would be able to coordinate the cross-boundary development opportunities and possible challenges faced by key industry sectors, and to optimize the resources and distinct strengths of each city.

The Greater Bay Area is to be developed under the conditions of “one country, two systems” and three customs territories. Different business sectors will face various challenges in day-to-day operations. Apart from the participation of governments of different levels and civic organizations including think tanks, most importantly, relevant business sector stakeholders should be engaged in these working groups to provide the indispensable practical market insights from the private sector and ensure policy effectiveness.

Given its deep and long-standing roots in the region, the Swire Group could make significant contributions if engaged in these working groups together with other business delegates.

2. Improve the Greater Bay Area's Air Connectivity

Aviation is a key industry of strategic importance to a nation's economic and social development. Aspiring to be a vibrant world-class city cluster, the Greater Bay Area demands an aviation industry that is globally competitive.

The Plan underscores the development of a world-class airport cluster and clarifies the different positionings of airports in the region. It reaffirms Hong Kong's status as an international aviation hub as well as a centre of aviation management training. The Plan also calls for raising the competitiveness of Guangzhou's and Shenzhen's airports as international hubs, strengthening the airports in other cities such as Macao and Zhuhai, and pursuing differential and complementary development of airports in the Greater Bay Area as a whole. The Plan also proposes further expansion of the domestic and international aviation networks of the region. Efforts are called for proactively propelling the inter-modal code sharing service, strengthening airspace coordination, and for enhancing the efficiency of airspace utilization.

We are glad to see that the positionings of airports in the Greater Bay Area are clarified, so that each airport in the region could play at its full strength. We are also glad that Hong Kong International Airport (HKIA)'s role as an international aviation hub has been reinforced. Leveraging on its

international hub status and joining hands with other airports in the region, we believe HKIA will play a key role in elevating the Greater Bay Area into a world-class airport cluster.

In terms of implementation, infrastructure planning should be optimized to create the proliferated and convenient multi-modal connectivity. In due course, to facilitate the flow of passengers, it is necessary to extend the co-location arrangement for customs, immigration and quarantine procedures to HKIA. Leveraging on its global air transport network, Hong Kong should continue to play its important role as a key aviation hub in the grand landscape of China's opening-up.

Airlines in the Greater Bay Area should also be encouraged to enhance their cooperation and raise their global competitiveness as a whole. To enable innovative cooperation among airlines in the Greater Bay Area, government policy support is needed. We suggest introducing pilot measures in the Greater Bay Area to lift the current foreign ownership cap (at 25%) for Hong Kong investors to invest in the Greater Bay Area airlines.

Each of the 11 cities in the Greater Bay Area has its own uniqueness, with Hong Kong and Macao being world famous tourist destinations. We see great potential in building the Greater Bay Area into a highly attractive tourism market. As mentioned in The Plan, the "144-hour Facilitation Visa" policy in the Pearl River Delta region should be optimized to facilitate sightseeing in the Greater Bay Area for foreigners. We suggest expanding Guangdong's current "144-hour Facilitation Visa" policy for foreign transit visitors to cover all ports of entry and exit in the Greater Bay Area,

including those in Hong Kong.

To further promote the Greater Bay Area as an integrated world-class tourist destination, we also suggest the creation of a Greater Bay Area Travel Card for overseas visitors that allows multiple visits across the region including Hong Kong and Macao. These measures would encourage multiple-stop travel within the Greater Bay Area. For example, tourists can enjoy the two major infrastructures in the region, namely the high-speed rail link and the Hong Kong-Zhuhai-Macao Bridge, within a single trip to the Greater Bay Area. This would help promote the Greater Bay Area as a competitive and attractive tourism market.

3 . Facilitate Flow of People

According to The Plan, building a high-quality living circle ideal for living, working and travelling is one of the five strategic positionings of the Greater Bay Area. Detailed directions on talent policy have been set out as well, proposing to support the nine PRD municipalities for drawing experience from and modelling on the practices of Hong Kong and Macao with respect to attracting high-end international talents. Measures such as the development of a Guangdong-Hong Kong-Macao Demonstrative Zone for Talent Cooperation are encouraged to create a more attractive environment for bringing in talents to the Greater Bay Area. At the beginning of this year, Guangdong provincial government issued a notice outlining new policy initiatives to further facilitate technological innovation in the Greater Bay Area, under which high-level talents from Hong Kong, Macao and foreign countries who are working in the Greater Bay Area can

expect to receive income tax benefits, so as to offset the tax difference between Mainland and overseas. To develop the Greater Bay Area into a talent magnet, we look forward to the introduction of implementation details in earliest convenience.

In addition, human resource authorities in Guangdong, Hong Kong, and Macao should proactively collaborate on regional manpower planning and quantifying shortages and mismatches of human resources. Such collaboration would enable early identification of skill shortages in particular sectors in each city. Initiatives such as cooperating in the supply of relevant vocational training could then be proposed and carried forward to jointly address workforce issues. Flow of labour should be promoted within and, if necessary, from outside into the Greater Bay Area. In the context of Hong Kong, labour shortage is one of the most pressing challenges the city is facing. We therefore suggest expansion of Hong Kong's Supplement Labour Scheme to simplify and speed up the approval process and to meet the significant manual labour demands, more specifically, increasing importation of property management front-line staff, manufacturing and airport workers.

To address labour shortage on certain sectors, a daily cross-border commuting labour scheme could be considered. The labours, under this suggested scheme, will be based outside of Hong Kong and their Hong Kong employers will provide cross-border bus services to Hong Kong for them to work and return to their home after work every day. Employers would be responsible for ensuring no transgression of immigration law on

the part of the contracted commuting labours.

4 . Facilitate Flow of Goods

Specialty goods from Guangdong, Hong Kong and Macao are highly complementary and the three regions are especially dependent on each other in terms of the supply of daily necessities. Hong Kong relies heavily on imported food from the Mainland. Generally, the inspection and quarantine requirements for food are strict, and the procedures are complicated and time consuming. For example, shipments of food products to Hong Kong require three-day advanced notice, which has caused unnecessary hassles for the production and marketing.

For vegetables supplied to Hong Kong, the inspection and quarantine procedures are proved to be simple and efficient. We suggest simplifying inspection and quarantine procedures for qualified food producers. Similar to the vegetable arrangement, we suggest allowing pre-clearance procedures for a wider range of food products such as beverages, packaged and frozen food for which manufacturing processes are standardized and can be easily traced. A “trusted producers list” practice could also be considered to reduce unnecessary and over-elaborate formalities.

5 . Facilitate Flow of Capital

The Greater Bay Area is developed under the conditions of three separate customs territories and three currencies, which to an extent hinders the cross-boundary investments and flow of capital, including capital injection

and repatriation.

To develop the Greater Bay Area into a more integrated market with globally competitive business environment, pilot measures should be implemented to further open up the capital market to facilitate the free flow of capital within the Greater Bay Area by reducing unnecessary withholding taxes, easing restrictions and simplifying formalities on cross-boundary capital flows. For example, debt financing, a common funding channel for multi-national corporations, is subject to registration with the State Administration of Foreign Exchange (“SAFE”), and there is a negative list for cross-boundary debt financing. As long as risks remain controllable, we suggest further easing the restriction on foreign debt registration, simplifying and expediting approval process to offer Hong Kong and Macao originated enterprises with more flexible sources of funding. This is to raise the level of economic integration of Guangdong, Hong Kong and Macao, and promote the integration of Hong Kong and Macao into the overall development of the nation.

6 . Cooperation on Circular Economy

Eco-civilization is one of the top national priorities. The authorities of Guangdong, Hong Kong and Macao have been taking serious actions on promoting circular economy and sustainability development.

Given the limited market scale of a population of only 7 million, it would be difficult for Hong Kong to carry out its own circular economy effectively. Meanwhile, the separate setup of the three customs territories in the Greater

Bay Area constrains the free flow of recycled materials within the region.

If pilot measures could be implemented to promote collaborations across the region, economy of scale realized by a collective market of over 70 million people could ensure a sustainable circular economy. Greater impact on the regional economy development and environmental protection would then be able to be achieved in the Greater Bay Area.

Conclusion

To optimise the comprehensive integration of the Greater Bay Area, we need to adopt an open mindset and draw lessons from previous experience. Coordinated strategic planning and leveraging on the unique and differentiated strengths of each city should be promoted, and cross-boundary connectivity should be enhanced. Deepening the communication and cooperation across different governments and between governments and business sectors would be imperative to the success of the Greater Bay Area.

The Swire Group has been devoting to the China market for over 150 years, and has got major business presence in both Hong Kong and all key regions of the Mainland. The national strategy will provide Hong Kong and the Swire Group with extensive hinterland and unprecedented opportunities for further development.

The Swire Group will celebrate its 150th anniversary of doing business in Hong Kong in 2020. We have great confidence in the long-term prosperity

of Hong Kong and the Mainland. We are committed to taking an active part in the process of Hong Kong's integration into the overall development of the nation, and will proactively contribute on the Greater Bay Area development in years to come.