CENTRAL POLICY UNIT
THE GOVERNMENT OF THE HONG KONG
SPECIAL ADMINISTRATIVE REGION

PROMOTING HONG KONG’S MODERN SERVICE
INDUSTRY IN THE ECONOMIC COOPERATION
BETWEEN FUJIAN AND HONG KONG

THE HONG KONG POLYTECHNIC UNIVERSITY

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Executive Summary

The Economic Relationship between Fujian and Hong Kong

1. Hong Kong and Fujian have been enjoying very close social-economic interactions dated back to the early colonial days. Ever since the Mainland’s open-door reform, the Fujian-Hong Kong economic co-operation, in the form of trade and investment interactions, is primarily driven by two ethnic groups - Hong Kong-based Fujian countrymen and Taiwan citizens. This co-operation is largely shaped by the factors of Fujian countrymen, the Southern-Min culture and Taiwan development, and clustered in the southern coastal areas of the Fujian Province.

2. The economic co-operation between Fujian and Hong Kong covers four major areas, namely trading, intermediary (international and cross-strait), investment and professional services. The co-operation in professional services was initiated around 2000, while knowledge-based co-operation such as joint research and educational activities is emerged as a new co-operation sector between two places in the recent years.

3. Since the Mainland’s opening up, the Fujian-Hong Kong co-operation can be divided into three stages. During the period of 1978-1995, Hong Kong enterprises had taken a driving role in the Fujian-Hong Kong co-operation by investing in Fujian, carrying out processing trades, as well as playing an intermediary role between Fujian and international/Taiwan investors. During the period of 1996-2006, this co-operation tie was weakened as the result of various economic and political factors. Starting from 2008, while the Fujian-Hong Kong trade interaction remains at a steady pace, Hong Kong’s investment in Fujian sees the revival sign. For more than a century of economic interaction, the intermediary role performed by Hong Kong is the most prominent co-operation mode, and with the function of financial intermediary being the most persistent approach. In terms of investment co-operation, Hong Kong enterprises had gradually shifted investment focus from the earlier manufacturing sector to service sector in the last decade, and the increasing bilateral investments in last 5 years give rise to the development of investment platform in Hong Kong,
serving Fujian’s outbound investments expanding business operations into the international market.

4. The social interaction between Fujian and Hong Kong is shaped by the demographic structure of Hong Kong-based Fujian countrymen, and the cross-strait relationship. Starting from the new millennium, the aging of Hong Kong-based Fujian countrymen casts some shadows over the co-operation tie between Fujian and Hong Kong, and the development of the Three Links between the Mainland and Taiwan substantially reduces Hong Kong’s intermediary role in the cross-strait interaction. All these affect the nature and context of societal relationship between Fujian and Hong Kong to quite a large extent.

**The Recent Economic Development in Fujian**

5. Fujian’s relatively smaller economic scale is not favour to its attractiveness when carrying out external economic co-operation. Added by the fact that Fujian’s declining share in relations to Hong Kong/Taiwan’s investment and trading volume with the entire Mainland economy, Fujian is less often perceived to be the topmost prioritized regional co-operation by both Taiwan and Hong Kong.

6. In 2006, the Mainland Government launched the initiative of the Economic Zone on the West Coast of the Taiwan Strait (‘the West Coast Economic Zone’). This development scheme has greatly accelerated the construction of Fujian’s inter-provincial transportation networks, and enhanced Fujian’s development potentials. Under the development concept of the West Coast Economic Zone, the Pingtan Comprehensive Experimental Zone (平潭綜合實驗區) and the Xiamen Cross-straits Regional Financial Centre (廈門兩岸區域性金融服務中心) are prioritized by the Fujian Government as key projects, and being listed into the National 12th Five Year Plan as well. The development of the West Coast Economic Zone is expected to transform Fujian’s regional development layout at large, and propel Fujian’s financial development.

7. The development of the West Coast Economic Zone may encounter several challenges, including Pingtan’s capacity to attract foreign investments, the financial liberalisation measures granted by the Central Government to Xiamen’s Financial
Promoting Hong Kong’s Modern Service Industry in the Economic Cooperation between Fujian and Hong Kong

Centre, and Taiwan’s concerns on expediting the Fujian-Taiwan co-operation. By witnessing the recent developments, Taiwan apparently inclines to foster the Xiamen-Kinmen (廈門-金門) cooperation, and utilize Kinmen (金門) as the investment pivot connecting to the West Coast Economic Zone. Taiwan’s preference may further strengthen Xiamen’s position as Fujian’s transportation hub.

**Prospects and Challenges of Fujian-Hong Kong Cooperation**

8. In essence, Fujian’s co-operations with Taiwan and Hong Kong are more on complementary basis, instead of substituting relation. Fujian is able to capitalize on synergy benefits by playing Fujian-Taiwan and Fujian-Hong Kong co-operations to their unique strengths. However, the motivation of Taiwan and Hong Kong to foster their Fujian co-operation is largely based on the economic potentials and locational advantages provided by Fujian. Presently, the co-operation between Fujian and Hong Kong is not comparable to that between Guangdong and Hong Kong, in terms of the co-operation scale and the comprehensiveness of co-operation mechanism. Fujian and Hong Kong are yet to establish metropolitan-styled service co-operation and seamless talent exchanges.

9. In the future, the focus of Fujian-Hong Kong co-operations should be placed on developing the off-shore investment projects, promoting regional integration and launching institutional-driven pilot schemes. The potential economic benefits generated by southern Fujian areas and financial co-operation should see them the most and the fastest.

10. Among various commercial co-operation projects, the financial co-operation will provide the most solid returns. It is suggested by Hong Kong banking sector that the Fujian-Hong Kong financial co-operation should firstly aim at expanding the banking network in Fujian, while the development of new financial products will be their next move. The "cross-location" sub-branches arrangement under the CEPA’s Guangdong Pilot-Scheme will work the best in Fujian, in terms of network expansion and cost-saving.

11. Hong Kong’s metropolitan development model, making Hong Kong’s transportation sector enjoying absolute competitive edges over the Mainland
enterprises. Fujian and Hong Kong may explore the co-operation feasibility in the areas of airport, mass-transit railway and inter-city railway management.

12. The Fujian-Hong Kong co-operation faces challenges arising from market transition, the shift of co-operation focus, and the establishment of co-operation mechanism. Specifically, the market focus of Hong Kong enterprises is transiting from export sales to the domestic market; the co-operation focus is shifting from manufacturing sector to service segments, the official co-operation mechanism between two governments is yet to establish. Notwithstanding, the new business opportunities presented to Fujian and Hong Kong is emerging from the transition from export-oriented processing trade, to domestic-oriented service co-operation by tapping Hong Kong enterprises into high growth Mainland market. Besides, Hong Kong enterprises are gradually switching from their earlier cost-driven co-operation, and now seeking for efficiency-driven co-operation.

13. Despite numerous challenges faced by the Fujian-Hong Kong co-operation, both parties remain to be important regional partners to one another. Fujian is the gateway for Hong Kong to pass through Guangdong into the eastern China. Developing diversified regional network is crucial for Hong Kong to maintain its economic dynamics. Whilst the Fujian-Hong Kong cooperation is not only relating to Fujian’s pace of market liberalization, but also its reform initiatives on local regulatory mechanism that ultimately improve Fujian’s business environment and strengthen the competitiveness of Fujian enterprises.

Policy Recommendations

14. To cope with the latest developments, Fujian and Hong Kong should comprehensively review current co-operation initiatives, facilitate the transformation of co-operation focus, and enhance talent exchanges. Both places should make strenuous efforts in expanding the co-operation coverage from the existing investment-driven interactions to talent attraction and knowledge exchange. Besides, Fujian and Hong Kong should upgrade their socio-economic relationship from the countrymen-based co-operation, to institutions based co-operation under the context of modernized regulatory regime.
15. It is suggested to divide the Fujian-Hong Kong co-operation into the near-, medium-, long-term, and routine co-operations. The near-term and routine co-operation should be focused on commercial and service sectors, with a view to continuing and strengthening the existing co-operation. The focus of the medium-term co-operation should be knowledge-oriented in order to enrich the co-operation context between Fujian and Hong Kong, and stepwise adjust the co-operation framework. For the medium- to long-term co-operation, both parties may explore the feasibilities to develop the livelihood-based co-operation for the purposes of shortening the psychological distance between their citizens, and re-structuring the social foundation of the Fujian-Hong Kong co-operation.

16. The emphasis of commercial co-operation should be put on producer services (e.g. financial and logistic services), tourism, and the management of infrastructure and related facilities. Knowledge-based co-operation will be focused on professional services, research and education activities, creative industries, and intellectual property related issues. The livelihood-based co-operation will involve agricultural products, organic foods, ecological and environmental services.

17. To establish the Fujian-Hong Kong cooperation-framework, the recommended measures include: to promote market liberalization, encourage bilateral investment via formalizing economic regulatory framework (e.g. CEPA arrangement); to strengthen science/research-based, professional service co-operation through the establishment of knowledge co-operation mechanism; to encourage governmental units, public institutions and business entities jointly propelling the Fujian-Hong Kong co-operation. The government departments will be responsible for setting up the regulatory framework, managing the public platform. The business chambers/industrial players and related quasi-public institutions will be responsible for the corresponding communications, negotiations and project executions.

18. CEPA will be the key regulatory framework governing the Fujian-Hong Kong economic co-operation. It is suggested to develop the **CEPA’s Fujian Pilot Scheme** based on Fujian’s economic characteristics and made reference to CEPA’s “Guangdong early and pilot implementation”. The concerned arrangements will be aimed at facilitating the market entry of Hong Kong investments, enlarging their permitted business scope, providing them with more flexible equity arrangement, and
streamlining the examining and approval procedures of the concerned business establishments in Fujian. Besides, the qualification recognition, registration and business operations of Hong Kong professionals can also be covered by this Fujian Pilot Scheme.

19. The CEPA’s Fujian Pilot Scheme may include the “cross-location” sub-branches arrangement for the banking sector, and extending the scope of certification and accreditation services to the food sector. With regards to region-specific measures, it is suggested to make reference to the liberalisation measures offered to Qinhai and Hengqin Special Zones under Supplement IX to CEPA, and devise the appropriate CEPA measures by keeping track of the latest development plans of national-level/provincial-level service parks located in Fujian.

20. The knowledge-based co-operations, such as research and educational activities and intellectual property arrangement, are highly regulatory sensitive, Fujian and Hong Kong may need to establish a new co-operation framework serving this specific yet emerging co-operation. Measures include: establishing the joint Fujian-Hong Kong research funds to coordinate industrial-oriented research projects, and fostering joint and platform projects that bearing public and mutual benefits.

21. To propel the livelihood-based co-operations in the areas of agricultural and forestry products (organic food), ecological and environmental services. The co-operation objectives are to promote the Fujian agricultural products into the international market, enhance Hong Kong’s international influence in relations to food certification and accreditation, as well as to build a respectful social image for Fujian-Hong Kong co-operation.

22. Xiamen and Fuzhou will the preferred location for the near-term of the Fujian-Hong Kong co-operation. Both parties may extend locational coverage to Xiamen-Zhangzhou-Quanzhou City Cluster and the Great Fujian City Cluster along the coastal expressed railway route in the medium-term, and in the form of city-based service co-operation. Upon the completion of Fujian’s comprehensive transportation network in the long run, the Fujian-Hong Kong co-operation may penetrate into Fujian’s north-western mountainous regions via the vehicle of agricultural co-operation.
23. Three issues to be carefully handled when implementing the Fujian-Hong Kong co-operations: 1) Market liberalization, regulatory/standard harmonization should be prioritized as the primary objective, followed by talent exchange and institutional co-operation, whilst the establishment of one-stop Hong Kong service centre should be handled with cautions. 2). The HKSAR Government may need to review the regulatory restrictions when funding the cross-border research co-operations, and make efforts to optimize the current funding schemes and resources allocation approach as to facilitate the Fujian-Hong Kong research/educational co-operation. 3) Both governments may need to step up dialogues, clarify own development needs, jointly devise the co-operation roadmap and solicit supports from the Central Government with regards to the market liberalisation measures, such as the CEPA’s Fujian Pilot Scheme.