

**Commission on Strategic Development
Executive Committee**

**Opportunities and Challenges for Hong Kong
Arising from the Mainland's Development
during the "Eleventh Five-Year" Period**

Purpose

This paper briefs Members on the direction and strategies of China's development under the "Eleventh Five-Year" Programme^{*}, with an analysis of the opportunities and challenges it will bring to Hong Kong, and sets out some related issues for Members' discussion.

China's Way Forward in Early 21st Century

2. "The Proposal of the Eleventh Five-Year Programme on National Economy and Social Development" adopted at the Fifth Plenum of the 16th Central Committee of the Communist Party of China (hereafter, "the Party") is a landmark document. It reveals the Central Government's new thinking on the roadmap of reform and opening up, and points out the way forward for China's development in the next two decades.

3. In terms of reform, the Central Government aims at building a well-off society on all fronts, with particular emphasis on two aspects. The first is development on all fronts. This covers a full range of political, economic, social, cultural and democratic objectives, instead of solely economic indicators. The second is delivering the fruits of development to all people of the country, especially farmers and people living in the

^{*} Main source of reference and citation:

- (1) Hu Angang & Wang Yahua (2005). *"National conditions and development: Dynamic changes in China's five major types of capital (1980-2003) and their long-term development strategy"*, Beijing: Tsinghua University Press.
- (2) Ma Kai (Ed.) (2005). *"Study on the Planning Strategy of the 'Eleventh Five-Year Programme'"*, Beijing: Science & Technology Press.

low-income regions. During the “Eleventh Five-Year” period, the role to be taken by the Party and the Government in the economic development of the country will be further changed from “a planner” to “an advisor” and “a coordinator” of macroeconomy. The Government will focus on gradually improving and building up various social systems of the country, such as those of income and wealth distribution, social security, democratic participation, etc., so as to prevent social polarization between the rich and the poor, and to ensure long-term social stability.

4. As for opening up, the Central Government has come to recognize that an open-door policy offers the most powerful tool in promoting the country’s development. The Mainland has relied on such a policy to meet shortages in resources, capital and technology, and as a result, has achieved rapid growth and aggregation. Looking ahead, the Mainland economy will undergo further optimization and upgrading against the background of active participation in globalization. For instance, it will rely on the international markets to compensate for the shortfalls in domestic raw materials and energy source; import from developed countries high-end equipment, devices and key technologies required for the upgrading of industries; and develop international markets and participate in international division of labour, to find outlets for its many labour-intensive agricultural and manufacturing products. It is therefore evident that the opening up of the Mainland will take a brisker pace and on a scale greater than generally expected. The accession to the World Trade Organization is only China’s first step of a new round of opening up to the world. The Mainland will be more positive and proactive in integrating into the global economy.

5. In short, the Mainland will continue the path of reform and opening up adopted over the past two decades. New reforms will take forward the vision of building social harmony and equity at the institutional level, and the new round of opening up will aim at speeding up the integration of the Mainland economy into the global economy at the institutional level.

China’s Development Strategies during the “Eleventh Five-Year” Period

6. Under the guiding principles of this new round of reform and opening up, the Mainland will implement the following five key

development strategies during the “Eleventh Five-Year” period and the subsequent decade:

(1) Economic Globalization Strategy

The objective is to foster more active participation of China in globalization and the international division of labour based on specialization. Major initiatives may be grouped under four aspects: (i) trade liberalization – abandoning completely the substitution policy and protectionist policy, promoting and enhancing competition at the domestic and international levels, removing various kinds of trade barriers, attracting foreign capital, facilitating the import, transfer and diffusion of technology; (ii) investment liberalization – further relaxing the restrictions on inflow of foreign capital to the Mainland’s commodity and services markets; (iii) speeding up internationalization of the economic system – accelerating the process of aligning domestic rules with international practices, including formulating market competition rules, and improving systems of intellectual property protection, banking supervision, labour protection and exchange rate mechanism in the Mainland; and (iv) speeding up regional economic integration, and using the process for the Mainland’s full participation in the global economy.

(2) Human Resources Development Strategy

The objective is to build a society where everyone is motivated to learn and is healthy, and a strong country with good human resources. Major initiatives may be grouped under four aspects: (i) trying every means to increase employment; (ii) putting in place a comprehensive multi-level vocational training system and providing targeted education services for different groups; (iii) enhancing the Government’s basic functions and obligations in the provision of compulsory education; and (iv) redefining the Government’s role and involvement in the areas of medical and health care, and adjusting the focus of provision in health services; giving priority to supporting the development of a new mode of rural cooperative medical system.

(3) Knowledge Development Strategy

The objective is to build a technological and innovative society. Major initiatives may be grouped under three aspects: (i) providing equally accessible basic education services throughout the country and establishing an education system that provides training and lifelong learning for the entire population; (ii) accelerating efforts to upgrade the capability to exploit knowledge around the world and to promote extensive application of knowledge in the country; (iii) making adjustment to the structure of fiscal expenditure, allocating additional resources to research and development so as to strengthen the overall capability in knowledge building and technological innovation.

(4) Green Development Strategy

The objective is to build an energy-saving and environmental-friendly society. Major initiatives may be grouped under four aspects: (i) bringing structural adjustment to industries by promoting development of modern service industries, labour-intensive industries and environmental-friendly industries; (ii) changing the mode of economic growth by mapping out a “third way” of economic growth in an innovative recycling economy; (iii) introducing pluralistic and diversified schemes in agriculture, animal husbandry and forestry with regard to their respective functions in the ecosystem, and developing high value-added green food and green pharmaceuticals; and (iv) participating in international environmental affairs, opening up the Mainland’s environmental market, promoting green trade, and enhancing the country’s capability in combating pollution.

(5) Regional Development Strategy

The objective is to maximize the comparative advantages of different regions and to coordinate their development strategies in order to reduce regional disparity. Major initiatives may be grouped under two aspects: (i) at the regional level, implementing a regional coordination strategy to “develop the west, revitalise the northeast, promote the rise of the central and speed up the development of the east”; and (ii) in specific areas, supporting development strategies for the Binhai New Area of Tianjin, Pudong of Shanghai and the Shenzhen Special Economic

Zone, to form an integrated system of regional development strategy.

Opportunities and Challenges for Hong Kong Arising from the Future Development of China

7. Among the cities across the country, Hong Kong has a unique status. Hong Kong is truly an international city in China. It is the most developed service centre in China and a bridge linking the Mainland and the world. While the Mainland is striving to move toward modernization, Hong Kong is the first city in China that has completed the modernization process.

8. According to “The Proposal” of the Fifth Plenum, Hong Kong is positioned as an international financial, trade and shipping centre of China. The strengths of Hong Kong in these three areas are self-evident. In future, the Mainland’s furthering its reform and open-door policy will allow Hong Kong to give full play to its strengths, benefit from a more extensive hinterland and more diverse opportunities. Naturally, the rapid development of the Mainland will also bring some challenges to Hong Kong.

9. The foreseeable opportunities include:

- The implementation of the Mainland’s economic globalization strategy will further enhance the importance of Hong Kong in the course of China’s development. With rich experience and robust systems, Hong Kong could help the Mainland achieve liberalization of trade and investment, speed up the establishment of various economic and financial systems, and familiarize with international practices. Hong Kong can also help by taking part in the formulation of new rules.
- Though small in size, Hong Kong has a vast pool of talent and different types of educational institutions. Ever since the commencement of reform and the opening up of the Mainland, Hong Kong has helped train numerous business, professional and administrative personnel for the Mainland. In future, in the Mainland’s strategy to vigorously develop human resources and knowledge, Hong Kong can still play a very important role in nurturing and training more professionals and senior management

personnel for major cities in the Mainland. Hong Kong is also well-positioned to help neighbouring cities develop various modes to run schools, share with them experiences in private school operation, and act as an intermediary in joint ventures between the Mainland and international institutions.

- The green development strategy is to adopt new thinking to accelerate the development of modern service industries to transform effectively of the mode of economic growth. This will give more room for cooperation for the services sector and the techno-science research and development sector of Hong Kong. Capitalizing on its strengths such as the free flow of information and extensive international ties, Hong Kong can seize the opportunities arising from the Mainland's industrial upgrading to develop new high value-added industries, thereby enhancing its competitiveness and achieving structural transformation.
- The focus of the new regional strategies will not be on preferential policy but rather on the use of system design and market forces to create flows of people, goods, capital and information that are essential to development. The more the Mainland opens up, the more it relies on market forces, and the more Hong Kong will be able to give full play to its strengths. At the same time, the central position of Hong Kong in the Pearl River Delta region will also be more accentuated.

10. Possible challenges include:

- The differences between Hong Kong's and the Mainland's economic systems and traditions will to a certain extent affect Hong Kong's ability to take advantage of the opportunities arising from the Mainland's development and will also limit further cooperation between the two places. The implementation of the regional coordination strategy is the most typical example. In the Mainland, regional coordination is to a certain extent still government-led, whereas Hong Kong upholds the policy of positive non-intervention and the principle of "big market, small government". With "one country, two systems" factoring in, Hong Kong may not be able to find an appropriate niche in the fast changing regional landscape. The coordination of development with the neighbouring cities may not be as smooth as expected.

- As the Mainland continues to open up and learn new things, Hong Kong's advantages can be undermined in the long run. Should Hong Kong fail to position itself properly, it could lose its intermediary role and be marginalized by other major Mainland cities.
- Rapid development of neighbouring cities and cities in the region has highlighted the various problems faced by Hong Kong, such as persistently high operating costs and the relative decline in competitiveness. Similarly, failure in achieving smooth flow of talent and people will also adversely affect Hong Kong's competitiveness in its future development.

11. The following issues are worth consideration and discussion:

- How can Hong Kong maintain its advantages as China's international financial, trade and shipping centre under the "Eleventh Five-Year" Programme, and strengthen its functions as an intermediary for the Mainland? Given the rapid opening up and development of China, is it necessary for Hong Kong to reposition itself in the long run?
- In the course of further economic integration with the Mainland, how can Hong Kong's institutional setup be flexible and proactive enough to grasp the arising opportunities, while maintaining its existing advantages?
- What measures should be taken by the HKSAR Government and the professional services sector of Hong Kong to facilitate the Mainland's integration into the global economy, thereby enabling Hong Kong to become a professional services hub for China to go global? Should we prioritize the various development options (such as becoming an international financial centre, a professional services hub, a home to international headquarters, a wealth management centre, or an education hub)?
- What measures should Hong Kong take, in consultation with the neighbouring cities, to facilitate the flow of human resources between Hong Kong and the Mainland at various levels, with a

view to consolidating Hong Kong's position as a business network centre and a business platform of the world?

- At the regional level, what should be done by Hong Kong to expand business, explore new modes of collaboration and consolidate its leading position in the region under a new mind-set, having regard to the repositioning of Shenzhen and the industrial upgrading and transformation of Guangdong and the neighbouring provinces?
- How should Hong Kong assist the Mainland to enhance the latter's participation in international economic and technological cooperation and competition on a broader scale, in more areas, and on a higher level through which Hong Kong can upgrade its own competitiveness and technology as well?

Advice Sought

12. Members are invited to discuss and comment on the analysis and related issues set out in this paper.

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