

## Comparative Advantages of Shenzhen Hong Kong Modern Cooperation Zone Analysis and Impact on Hong Kong

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### Abstract

The set-up of Qianhai Shenzhen-Hong Kong Modern Service Industry Zone is to promote the partnership between Hong Kong and mainland China in the area of modern service industry and playing a leading role in the upgrade of the nation's modern service industry. Through the Qianhai comparative advantages analysis, tries to find out new ways to further explore the cooperation with Hong Kong within the framework of "One Country, Two Systems", while give suggestions on Hong Kong's development under the "New Normal".

**Key words:** Qianhai; Hong Kong; Free trade zone

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### INTRODUCTION

Shenzhen, established in 1979 as China's first Special Economic Zone, is a fast-growing metropolis with the permanent population of nearly 11 million and has been on a steady rise. Nowadays, Shenzhen has become a commercial hub and market leader in China with new energy industries and innovative companies rooted in. Such as Tencent, Huawei, BYD, all set up headquarters here. As an innovative and pioneer city, Shenzhen launched a revolutionary project of Qianhai Shenzhen-Hong Kong Modern Service Industry Zone (hereinafter

referred to as Qianhai), together with Zhuhai's Hengqin and Guangzhou's Nansha, to consist Guangdong's Free Trade Zone (Wang & Fan, 2015). Qianhai will become China's another global financial service hub after Shanghai Pilot Free Trade Zone.

Situated at the shore of Nanhai and adjacent to Hong Kong and Macau, Qianhai is located at the west of Shekou Peninsula in Shenzhen and the east estuary of the Pearl River, adjacent to Hong Kong and Macau. Encircled by Shuangjie River, Moon Bay Avenue, Mawan Avenue and Qianhai Bay, it covers an area of 15 km<sup>2</sup> and all comes from reclamation. Qianhai is connected to the South China Sea and the Pacific Ocean and enjoys unique geographical advantages with enormous potential development (Qianhai Official Website, 2016).



**Figure 1**  
Qianhai Strategic Geographic Location

Note. Adapted from Qianhai Official Website

[http://www.szqh.com.cn/Why\\_Qianhai/Strategic\\_geographic\\_location/](http://www.szqh.com.cn/Why_Qianhai/Strategic_geographic_location/)

As a modern demonstration area of Guangdong-Hong Kong cooperation in service industry innovation, Qianhai undertakes the following four functions:

- an innovation area for modern service industry system and mechanism

- a cluster area in the development of modern service
- a pilot area for close co-operation between the mainland and Hong Kong
- an industry upgrade leading area in the Pearl River delta

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## 1. COMPARATIVE ADVANTAGES OF QIANHAI

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### 1.1 Geographic Advantage of Close Proximity in Hong Kong

Using the geographical advantage of close proximity with Hong Kong, Qianhai will play an important role in strengthening the partnership between Shenzhen and Hong Kong. By following the international business practices that are already in place in Hong Kong, Qianhai will create a fairly honest, efficient and transparent business environment. Hong Kong will play a unique role in the opening-up process of Qianhai. Within the framework of partnership between the Guangdong Province and Hong Kong, Qianhai will help industries from both Guangdong and Hong Kong to complement each other and create an environment that is conducive to economic development.

### 1.2 Outstanding Overall Transportation Advantage

Situated at the major development axis of the Pearl River Delta region and the coastal functional expansion zone intersection, Qianhai is closed to the two airports in Shenzhen and Hong Kong respectively. (As shown in Chart 1) The Shenzhen-Zhongshan cross-river corridor, Shenzhen Western Port Area, Shenzhen North Train Station and Guangzhou-Shenzhen Yanjiang highway all go through Qianhai. The Guangzhou Shenzhen Coastal Expressway will go through Qianhai. Qianhai is within one-hour radius of the Pearl River Delta and half-hour commuting radius of Hong Kong. All the infrastructure will provide Qianhai with excellent means of transportation and logistical advantage; that should prove to be strategically important in the region of Guangdong, Hong Kong and Macau.

### 1.3 Innovative Institutional and Mechanism Advantage

Relying on the innovative spirit of Shenzhen, Qianhai will seek innovation in its institutional and mechanism. With the most innovative mechanism, the most potential for industrial development and the most preferential supporting policies, it has become one of the most developed zones in China.

### 1.4 Robust Industrial Support Advantage

Shenzhen city, where Qianhai is based in, is one of the regions that enjoy the most active economic development in the Pearl River Delta and mainland China. The GDP

of first three quarters of 2015 is about 1,238 billion RMB, ranks fourth amongst cities nationwide, making Shenzhen one of the most growth potential cities in China. Especially the new strategic industries have become the engine of Shenzhen economic development. Among which, seven strategic new industries of Information technology, cultural creativity, Internet, New energy resources, energy conservation and environmental protection, new materials and Biology make up nearly quarter of the GDP (Shenzhen Statistical Official Website, 2016).

### 1.5 Special Policy Environment Advantage

#### 1.5.1 The Overall Development Plan

According to the overall development plan of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, for insurance companies that are registered in Shenzhen, the income that they receive from providing international shipping insurance service to corporations registered in Qianhai is exempt from paying business tax; for corporations that provide offshore and outsourcing service, their income is exempt from paying business tax; for modern logistics corporations that are registered in Qianhai and meet the specific conditions, they can receive differential benefit in business tax; and corporations that have passed the evaluation can enjoy corporate income tax rate of 15% (Qianhai Financial Policies, 2014, p.27).

#### 1.5.2 Special Policies Supporting the Development and Opening-Up of Qianhai Service Industry Cooperation Zone

In 2012, the State Council approved the relevant policies in the development and opening up of Shenzhen Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Shenzhen Qianhai shall be supported to adopt pilot polices even more special than those of special economic zone. The policy consists of 6 articles and 22 sections covering finance, tax, legal affairs, human resource, education and medical care, and telecommunications (Qianhai Financial Policies, 2014).

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## 2. LEADING INDUSTRIES

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Qian Hai will commit to the development of the following four industries.

### 2.1 Finance

Promote innovation and partnership within the financial industry such as the cross-border RMB business, which should enable the development of Hong Kong as an offshore RMB settlement center. Help for Shenzhen's capital market to open up gradually in an orderly pattern, expanding and strengthening the partnership between the securities markets in Shenzhen and Hong Kong. The two markets should provide mutual benefits to each other and create a win-win situation. Create a pilot area

to promote innovation within the insurance industry vigorously, supporting innovative insurance projects to be launched in Qianhai.

Under the guidance of national financial regulatory institutions and following the national strategy of opening-up the financial industry, Qianhai will strive to become an excellent of innovation in the financial industry and for the opening-up process.

## 2.2 Modern Logistics

It is well-known that Shenzhen has two harbor district-east and west, which including 9 important ports (Shenzhen Government Official Website, 2016). Guided by the goal of building logistics center by Shenzhen and Hong Kong, Qianhai will encourage close partnership between Shenzhen and Hong Kong in modern logistics industry and will form a cluster for high-end logistics industry, this should in turn create a regional manufacturing organization hub and international supply chain management center.

With Hong Kong as the international shipping center, Qianhai should focus on the development of its port shipping center. While build an important supply chain management center for Asia Pacific and a shipping-related service base, strengthen the production service ability of the manufacturing industries in the Pearl River Delta.

## 2.3 Information Services

Qianhai will build information infrastructure and promote development in software, information technology service as well as information content center. Promote development of high-level information transmission service industry and strengthen the partnership between domestic telecom operators with their counterparts in Hong Kong. In developing software and information technology service industry, Qianhai will build a logistics information exchange in Southern China and in international e-commerce center.

Speed up the integrated development of the network economy and the physical economy, using the proliferation of information technology to help drive the industry upgraded of our manufacturing industry.

## 2.4 Technology Services and Other Professional Services

Qianhai will give priority to the development of technological innovative service, creative design service, as well as professional services such as planning, certification, management and business development strategy. Strive to become a regional innovative technology service and manufacturing professional service base, providing strong support to the industrial upgrade and self-innovation in the Pearl River Delta Region.

## 3. THE SIGNIFICANCE OF QIANHAI DEVELOPMENT TO HONG KONG

### 3.1 Hong Kong's Current Economy Situation

With a central location in East Asia, Hong Kong Special Administrative Region is an international business, trade and financial hub. Building on its traditional free market economic policy, Hong Kong has developed into a modern, vibrant and cosmopolitan services economy, underpinning the role of the city as a global business platform.

According to the Economic report published by Hong Kong Trade Development Council, Hong Kong's economy expanded by 0.8% year-on-year in real terms in the first quarter of 2016, after growing by 2.4% in 2015. For 2016, the economy is forecast to grow by 1%-2%. The value of retail sales dropped by 11.4% year-on-year for January-April 2016 dragged by the visible decline in tourist arrivals, after the decline of 3.7% for 2015. The four pillar economic sectors of Hong Kong are: trading and logistics (23.4% of GDP in terms of value-added in 2014), tourism (5.1%), financial services (16.6%), and professional services and other producer services (12.4%). As the world's 7<sup>th</sup> largest exporter of merchandize trade, Hong Kong's merchandise exports fell 5.6% year-on-year in January—April 2016, after dropping by 1.8% in 2015. And China mainland is one of the major export markets which made up 53% of its total exports (Hong Kong Trade Development Council, 2016).

### 3.2 Hong Kong's Economic Relations with Chinese Mainland

Hong Kong's trade performance is affected by outward processing activities in Pearl River delta. And the majority of Hong Kong companies extended their manufacturing base to Guangdong. According to the HKSAR government statistics, 61% of re-exports were of China origin in 2015. Based on China's Customs statistics, Hong Kong accounts for 8.7% of its total trade in 2015, which is the second largest partner of China mainland (Ibid.).

On the other hand, China mainland is a leading investor in Hong Kong. HKSAR Census and Statistics Department report show at the end of 2014, the stock of Hong Kong's inward investment from China mainland amounted to 448 billion US dollars.

As of January 2016, there were 11 licensed banks and 6 representative offices from China mainland, now operating in Hong Kong (Ibid.). The Shanghai-Hong Kong Stock Connect launched in November 2014, is a mutual market program allowing investors from Hong Kong and international to trade shares listed on the other side's stock exchange through securities firms in their own market. It is a cross-border investment channel that connects the Shanghai Stock Exchange and Hong Kong Stock Exchange (Zheng & Yang, 2015). The development

is a significant breakthrough in the opening of China's capital markets and a landmark in the effective process of RMB internationalization.

### 3.3 Qianhai's Impact on Hong Kong

Since the return of Hong Kong, the link of its economy with the mainland is closing, especially after the launch of CEPA and the internationalization of RMB strategy which put mainland as the main engine of Hong Kong's economic development. Nowadays, Hong Kong desires investment and enterprises from mainland to strengthen the dynamism of its economic growth as well as the consumers from mainland to increase the revenue of tourism and service industry. "New Normal" of the mainland economy will bring important influence on Hong Kong's economy.

With Shenzhen and Hong Kong closing the gap, Hong Kong's economy is facing challenges.

(a) Entrepot trade, which is the most important part in Hong Kong's economy. Relying on the international transit hub and the offshore financial center for RMB, the Hong Kong entrepot trade always maintains a remarkable rapid growth. However, this trend is facing a challenge under the circumstance of "New Normal". The establishment and expanding of Qianhai and Shanghai, Tianjin free trade areas will share the quantity of Hong Kong entrepot trade. Especially Shenzhen as mentioned, is one of the world's four biggest ports owns four harbor districts.

(b) Tourism. Since the multiple entry permit policy issued in 2009, Shenzhen citizens enjoyed the convenience of travelling and shopping in Hong Kong, which highly promoted the development of tourism and retail industry. And now, Qianhai free trade area offers quality imported goods with competitive prices, consumers are no longer needed to travel to Hong Kong for the worldwide products. And with the policy adjusted to single entry permit a week, Hong Kong's tourism suffers a lot unavoidably.

(c) Banking industry. Hong Kong is always the pioneer in finance industry, the launch of Shanghai-Hong Kong Stock Connect opens a new window for the opening of capital market. With the internationalization of RMB and further liberalization of mainland capital market, the status of Hong Kong's offshore financial center is threatened.

### 3.4 Hong Kong's Opportunities Under the "New Normal"

(a) Accelerating the industrial transformation. The development will more rely on the regional synergy by Pearl River Delta and area of Guangdong-Hong Kong-

Macau. From the national policy level, the relevant supporting policies and resources distribution will face to the whole region instead of Hong Kong. From the Hong Kong enterprises level, some of the AEO are still equipped with core competitiveness, what's important in the future operation is to cooperate with the enterprises in the region to seek complementary development.

(b) Hong Kong enterprises will face intensive competition. The service industry and innovation industry will gain strong support, which means a large number of mainland companies with great competitiveness will rise and compete with Hong Kong companies. This kind of competition reflects in three aspects of talents, technology and policy.

(c) The third party professional service industry will obtain considerable development. Hong Kong has professional advantages in law, accounting, finance, construction and engineer service benefited from years of accumulation. On one side, Hong Kong could assist mainland government in corporation management, system improvement etc., on the other side, Hong Kong offers high level service for mainland companies competing globally.

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