

**HONG KONG BROADENING ITS
ECONOMIC LINKAGES
WITH GUANGDONG**

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Executive Summary

1. Hong Kong's economy has become increasingly integrated with that of Mainland China since 1997, especially in bilateral trade. Hong Kong's trade with Mainland China amounted to HK\$3,128 billion (around US\$400 billion) in 2010 while Mainland China's share in Hong Kong's total trade increased to 48.9% in 2010 from 13.4% in 1980.
2. With the spread of the Severe Acute Respiratory Syndrome epidemic in 2003, Beijing attempted to revive HK's sagging economy through the Closer Economic Partnership Arrangement (CEPA) stimulus package signed in June 2003 and the five CEPA supplements thereafter.
3. As a result of CEPA, Guangdong and HK's trade linkage and economic cooperation have deepened. HK is Guangdong's most important trading partner, while Guangdong is the key destination for HK's outward foreign investment. The share of HK's investment in Guangdong's total foreign investment inflow was around 60% between 1979 and 2009.
4. The Guangdong government has also initiated the 'Pan-Pearl River Delta' ("9+2"), an effort to forge close economic cooperation among China's nine provinces, HK and Macau and to further integrate HK's economy with that of Mainland China.
5. The current initiative—the state-backed Framework Agreement on HK-Guangdong Cooperation (2010-2020) and China's 12th Five-year Programme (FYP) for National Socio-economic Development (2011-2015)—could mark a new wave of HK/Guangdong economic cooperation. It is the first time the Chinese central government has endorsed a region-level cooperation agreement between HK and Guangdong.
6. For the first time too, China's 12th FYP released at the annual plenary session of the 11th National People's Congress on 5 March 2011 had provided a

chapter dedicated to HK and Macau (the HK Chapter). The Chapter represents a major opportunity for HK to contribute to the national FYP.

7. The incentive for the HK-Guangdong cooperation is mainly political. Because of the implementation of the 12th FYP, both Guangdong and HK are seeking to “get in on the act” to attract more central attention and more financial and other economic benefits from Beijing.
8. Nevertheless, the new HK-Guangdong deal on Hong Kong’s economy is not expected to have many positive effects in the short term; rather, it is viewed as a very long-term initiative. Any short-term impact is likely to be political than economic.
9. These measures are projected to have very little effect on resolving HK’s problems such as rising income inequality. Addressing issues of its expensive cost structure, further diversifying its high-end industrial and service sectors and achieving overall development of its economy will be real and pressing challenges for HK in the future.