



Hong Kong – Springboard for GBA Opportunities

1. The Greater Bay Area (GBA) comprises the two Special Administration Regions of Hong Kong and Macao and nine municipalities in the Province of Guangdong adjacent to Hong Kong and Macao, namely, Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing. GBA has an area of 56,000 square kilometres, a total population of around 86 million and a GDP in 2021 of USD 1.9 trillion, exceeding that of Spain, South Korea or Australia.
2. Under the GBA Outline Development Plan, promulgated by the Central Government of China on 18 February 2019, the GBA is to be driven by innovation and led by reform. It is positioned to leverage the advantages of Hong Kong and Macao as free and open economies and of Guangdong as the pioneer of reform and opening up.
3. The Outline Development Plan has five strategic goals for the GBA:
 1. A vibrant world-class city cluster
 2. A globally influential international innovation and technology hub
 3. An important support pillar for the Belt and Road Initiative
 4. A showcase for in-depth cooperation between the Mainland and Hong Kong and Macao
 5. A quality living circle for living, working and travelling
4. Hong Kong is identified as one of the four core cities in the GBA.
5. Hong Kong has evolved itself into:
 1. An international financial centre
 2. An international transportation centre
 3. An international trade centre
 4. An international legal and dispute resolution services centre
 5. An international innovation and technology hub
 6. An international aviation hub

7. An international cultural exchange centre
8. A regional intellectual property trading centre

Advantages and strengths of Hong Kong:

6. The advantages and strengths of Hong Kong include: (1) a low and simple tax regime; (2) a robust legal system based on common law; and (3) business-friendly and supportive government policies.

Taxation:

7. In Hong Kong, the first HKD2 million of assessable profits are subject to a reduced Profits Tax rate of 8.25%, while any profits above this threshold are subject to the standard rate of 16.5%. These rates are significantly lower compared to China's Corporate Income Tax (CIT) rate of 25%. Additionally, capital gains are not subject to tax in Hong Kong. It is possible, with careful structuring, to arrange the affairs of a Hong Kong company conducting business in Hong Kong in such a way that no tax is payable.
8. Hong Kong has an extensive network of double taxation agreements (DTAs) and does not impose withholding taxes (WHT) on dividends or interest payments. As of 4 July 2023, Hong Kong had established 46 tax treaties with various jurisdictions, facilitating cross-border trade, investment, and knowledge exchange between Hong Kong and the rest of the world. On the other hand, Mainland China imposes a 10% withholding tax on various types of income for Non-Tax Resident Enterprises without establishments or places of business in China, unless reduced under a tax treaty. Hong Kong has a DTA with Mainland China that provides a preferential rate of 5% on dividends, which enables efficient repatriation of profits back to Hong Kong while minimizing withholding tax leakage.

Robust legal system:

9. Hong Kong benefits from a robust legal system as a Special Administrative Region of the People's Republic of China which is based on common law.
10. Hong Kong is the only common law jurisdiction within China. The common law system is maintained under Article 8 of the Basic Law.
11. The importance of Hong Kong's common law is underpinned by President Xi Jinping in his celebratory address on 1 July 2022 at the 25th anniversary of Hong Kong's return to the motherland when he noted that "[t]he central government fully supports Hong Kong in its effort to maintain its distinctive status and edges ... and to maintain the common law ..."
12. Common law has been characterized not only as a set of local laws rooted in common customs and practices, but, with its readiness to cite precedents from other common law

jurisdictions, it is a globalised system of law that operates as a well-tested set of legal know-how.

13. It is of great interest that the Supreme People's Court proclaimed on 22 January 2022 its opinion on "Supporting and Protecting the Comprehensive Deepening of the Reform and Opening of the Qianhai Shengang Modern Service Industry Cooperative District (保障全面深化前海深港现代服务業合作區改革開放的意見)". It led to the creation of a pilot project in Qianhai of allowing companies established in the GBA with capital from Hong Kong to choose in their contracts Hong Kong law as the applicable law for the resolution of disputes, irrespective of whether the disputes have a Hong Kong element.
14. It follows the international trend to afford contracting parties the freedom to choose the applicable law in their contracts.
15. If the pilot project proves successful, this practice will be applied in the GBA. It will enhance the confidence of foreign investors and entrepreneurs in doing business in the GBA.
16. The GBA is to be an important support pillar for the Belt and Road Initiative.
17. Being the only common law jurisdiction in China, Hong Kong has also a unique role to play in the Belt and Road Initiative. Under the National 14th Five-Year Plan, Hong Kong shall maintain its status as an international legal and dispute resolution services centre.
18. As stated by Secretary for Justice Paul Lam, "Hong Kong's common law system can contribute to the Belt and Road Initiative in the role as a 'super connector' or 'super facilitator' by linking the Mainland, a civil law jurisdiction, with the global community by various means. In cross-boundary civil and commercial matters, foreign companies wishing to establish a joint venture with Mainland companies and enterprises may establish their offices in Hong Kong and be governed by Hong Kong's legal and regulatory regime, which is compatible with international standards and practice. Contracting parties may choose Hong Kong law to be the applicable law and the place where the disputes are to be resolved. The use of Hong Kong law and its legal and regulatory regime would no doubt increase the attractiveness and acceptability to foreign entities who may be more familiar with the legal principles rooted in the common law."
19. This rationale applies to the Regional Comprehensive Economic Partnership (RCEP) which is a free trade agreement among the Asia-Pacific nations of Australia, Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The 15 member countries account for about 30% of the world's population (2.2 billion people) and 30% of global GDP (\$29.7 trillion), making it the largest trade bloc in history. Hong Kong has applied to become a member of RCEP. As the nine municipalities in the GBA are already in the ambit of RCEP, once Hong Kong joins, Hong Kong will maximise GBA's unique edge as a business platform and tap into the array of opportunities RCEP offers.

Business-friendly and supportive government policies

20. There is a basket of government policies which are business-friendly and supportive of Hong Kong companies investing and doing business in the GBA. Just to name a few: (1) The Closer Economic Partnership Arrangement (CEPA); (2) The Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD); (3) Innovation and Technology Venture Fund (ITVF); and (4) funding schemes to recruit young Hong Kong talent for the GBA.

CEPA

21. The Closer Economic Partnership Arrangement (CEPA) provides preferential access to mainland China's market for Hong Kong's products and firms. CEPA goes beyond China's WTO commitments by eliminating tariffs and granting earlier or preferential access to certain service sectors.
22. In trade of goods, foreign investors can establish production lines in Hong Kong that meet CEPA's rules of origin requirements. In trade of services, foreign-invested companies incorporated in Hong Kong can utilize CEPA by satisfying eligibility criteria as a "Hong Kong Service Supplier" or by partnering with or acquiring a CEPA-qualified company.

BUD

23. The Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD) has been established to provide funding support for individual Hong Kong enterprises to undertake projects to develop brands, upgrade and restructure their business operations and promote sales in the Mainland, so as to enhance their competitiveness and to facilitate their business development.

ITVF

24. The Hong Kong Government established a HK\$2 billion Innovation and Technology Venture Fund (ITVF) in 2017 to co-invest with venture capital funds on a matching basis at 1:2 ratio between ITVF and Co-Investment Partners in local innovation and technology start-ups.

Funding schemes to recruit young Hong Kong talent for the GBA

25. The Labour Department and Home Affairs Bureau have launched various funding schemes to encourage companies to recruit young Hong Kong talents to work in the GBA and to provide entrepreneurial support and incubation services to young people to start their own businesses in the GBA.
26. When talking about youth, I shall be remiss if I do not mention that Hong Kong houses a number of world class educational institutions, and their graduates are a source of immediate human resource talent, not just for Hong Kong but also for the GBA.

27. Many of our universities even have campuses in the GBA outside of Hong Kong. I am sure we have all heard of the famously successful University of Hong Kong- Shenzhen Hospital in Shenzhen.
28. We must realise that education is an important ingredient in the Chinese mental diet. A common Chinese trait, ingrained through centuries of Confucian teaching, is a thirst and respect for education. Hong Kong must capitalise on this and become an educational mecca for the GBA.
29. In summary, Hong Kong's business-friendly environment, favorable tax policies, extensive network of double taxation agreements, connectivity with Mainland China, robust legal system, and advantages as an offshore financial hub make it an ideal choice for establishing a holding company to conduct business in the GBA.
30. I take the liberty of sharing with you a news article appearing in South China Morning Post on 4 July 2023 under the title of "Hong Kong to help Saudi Arabia build innovation bridge to China". I shall underline the more salient passages to highlight the role and prospects of Hong Kong in, what I shall call, "the GBA Family".

HK TO HELP SAUDI ARABIA BUILD INNOVATION BRIDGE TO CHINA

Partnership includes fintech, cloud computing and AI, kingdom's digital infrastructure chief reveals

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Saudi Arabia planned to deepen its collaboration with Hong Kong, using the city as a bridge to the mainland to spur its transformation under the Vision 2030 economic plan, the minister in charge of the kingdom's digital infrastructure said.

Key areas of collaboration would include fintech, technological entrepreneurship and strategies to attract the funding of venture capitalists, said Abdullah Al-Swaha, minister of communications and information technology.

Health sciences and biotechnology, the environment, cloud computing, artificial intelligence (AI) – specifically generative AI – and smart cities were other areas that the kingdom was keen to strike partnerships on, he said.

"[Hong Kong and Saudi Arabia] are going through very promising transformations, where both economies are financial hubs in their own regions," Al-Swaha said during an exclusive interview with the Post.

"We have an opportunity to build an innovation bridge, to leapfrog into the future with an innovation-based economy."

Al-Swaha picked Hong Kong as the starting point of his whirlwind tour through China, where the digital transformation and

proliferation of information and communications technology (ICT) have impressed him.

The "world class" transformation of information and communications technology on the mainland and Hong Kong "is a success story" that Saudi Arabia was keen to "replicate and explore partnerships with", he said.

"That is what we're trying to achieve during this visit."

At an event yesterday to mark the launch of a Hong Kong chapter of the Saudi Arabia-China Entrepreneurs Association and to welcome the delegation, 11 hi-tech firms in Hong Kong signed deals with the venture

capital firm eWTP Arabia Capital to explore opportunities in the Middle East.

At a gala dinner at the Hong Kong Science and Technology Park, Chief Executive John Lee Ka-chiu said: "The current term of the Hong Kong government has put a priority on revitalising our relations with Saudi Arabia – and the Middle East in general."

Lee highlighted his visit to Saudi Arabia and the United Arab Emirates in February. "Since then, a number of Hong Kong companies have followed up with Saudi businesses, exploring opportunities in sectors such as banking, investment and architecture."

The city's Information and Technology (I&T) Development Blueprint, unveiled six months ago, outlines Hong Kong's commitment to new industrialisation and its ambition as a global I&T centre, Lee said.

Part of that blueprint includes consolidating Hong Kong's role as a bridge connecting China with the world, in what Lee terms a "value-added super connector".

Lee also said Hong Kong would host the Belt and Road Summit in September, which will have a dedicated Middle East session for the first time.

He also announced that the head office of the Saudi Arabia-China Entrepreneurs Association would be set up in Hong Kong, confirming an earlier Post report.

Private-sector entrepreneurs are seizing the moment to tap the opportunities offered by warming China-Middle East ties, after the visit last December to Saudi capital Riyadh by President Xi Jinping, and Lee's trip.

Biotechnology, where Hong Kong is carving out a niche as the world's largest funding hub for pharmaceutical start-ups after the Nasdaq, is another area of potential collaboration.

"There are similar challenges in healthcare, where we look to [our] partners to tackle such [diseases] as Type II diabetes, chronic diseases, the prevention and prediction of cancer," Al-Swaha said.

An electrical engineer by training, the minister is also in charge of building Saudi Arabia's digital workforce and talent infrastructure. China was a "key partner" in "skilling and upskilling" the kingdom's 340,000-strong technology workforce, helping to double the tech-savvy population in five years, Al-Swaha said.

Cooperation in technology and digital talent was "a cornerstone" for helping China and Saudi Arabia achieve their development strategies, he added.

ICT development requires a robust digital infrastructure, such as a 5G network, which Saudi Arabia has been keen to source from Chinese companies, even if Huawei Technologies and ZTE are targets of sanctions imposed by the United States amid deteriorating relations with China.

Saudi Arabia was "pro-partnership and pro-openness", willing to do business with "any partner that can comply with our security and regulatory requirements", said the minister, former CEO of Cisco Saudi Arabia before joining the public sector.

He is expected to visit Huawei in Shenzhen after Hong Kong.

As Chinese companies work to expand their footprint in the Middle East, Saudi Arabia has been returning the favour via investments in Chinese stocks listed on the Nasdaq and in Hong Kong, including Pinduoduo, the AI giant SenseTime, and Alibaba Group Holding, owner of the Post.

Additional reporting by Ng Kang-chung



Abdullah Al-Swaha and Chief Executive John Lee share warm greetings at the Hong Kong Science and Technology Park yesterday.

31. Hong Kong is not only a springboard for GBA opportunities. Hong Kong is also a bridge.

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(Speech at the Forum on “Doing Business in Hong Kong in a Rapidly Changing World” held at Hong Kong Convention and Exhibition Centre on 11 July 2023)