

**Logistics and Trade Facilitation in  
Guangdong-Hong Kong-Macau Bay Area:  
Stakeholders Concerns,  
Comments from Central Government, and  
Policy Recommendations**

**粵港澳大灣區物流與貿易便利化：  
持份者關注點、中央部委意見及政策建議**

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## Executive Summary

This policy paper examines logistics and trade facilitation issues in the Guangdong-Hong Kong-Macau Greater Bay Area (hereafter referred to as Big Bay Area). It has been widely reported that the Central Government plans to transform the Bay Area into a major innovation and technology hub. This study concentrates on the facilitation issues of integrating different aspects of trading and logistics services within the Bay Area. We organize such services into three categories: aviation, marine, and ground; and within four cities: Guangzhou, Shenzhen, Hong Kong and Macau. Stakeholders of respective categories and regions are interviewed, seeking their views on the integration issues and development prospects. Five principal areas of concern emerged. First, clarity on the approach of integration, especially within the context of “One Country Two Systems”. Second, dynamics between market economy and policy driven economy. Third, given such dynamics, is there a division of services in the region? Fourth, will custom practices in the region be reformed? Fifth, single window (SW) is a critical facilitating feature in trade and logistics. During a recent visit to the Central Government by a group of Hong Kong transport sector delegates, a set of questions regarding these five concerns was given to four relevant Bureaus. In this paper, we first discuss these five categories of concerns in detail, followed by responses given by the respective Bureaus. In general, the Central Government is leaning towards a two-phase approach to integrate the Bay Area: integrate 9 cities in the first phase and then 9 cities + 2 Special Administrative Regions (SAR) in the second. Both industrial stakeholders and the Bureaus see merits in division of services in the Bay Area and that market force should be recognized as the basis for such divisions. Moreover, it was expressed that there exists uniqueness and advantages (e.g. geographical, functional) which should not be overlooked. Between the 9 cities and 2 SARs, there are a variety of concerns on the alignments of systems and policies. Lastly, we provide policy recommendations with the intention to provoke thoughts and discussion, as well as further research, to ensure that decision makers would plan and develop logistics and trade facilitation in Big Bay Area in a holistic manner.

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# 粵港澳大灣區物流與貿易便利化： 持份者關注點,中央部委意見及政策建議

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## 研究摘要

此份政策研究報告對粵港澳大灣區（以下簡稱大灣區）物流與貿易便利化的問題進行了探討。在傳媒的廣泛報道中，中央政府是希望把大灣區打造成國際科技創新中心，而此研究則集中討論大灣區內物流與貿易便利化的各項問題。此報告的研究對象包括貿易與物流服務的三大領域（空運、海運、陸運），研究範圍則涵蓋區內四大城市（廣州、深圳、香港、澳門）。此研究通過訪問不同領域和地區的持份者代表，了解他們對於大灣區一體化及其發展前景的看法。持份者的關注點主要體現在五個方面。第一，一體化進程的清晰化，尤其是在“一國兩制”的框架下如何實現大灣區一體化。第二，如何處理好市場驅動和政策推動的相互作用。第三，在市場驅動和政策推動的相互作用下，大灣區內是否會有明確的分工。第四，大灣區內的海關會否進行改革。第五，持份者表示單一視窗是促進貿易與物流的一個關鍵要素。針對以上五大關注點，在最近一次對中央政府的拜訪中，香港航運交通界代表團向四個相關部委提出了一系列問題。此報告先具體討論上述五大關注點，並帶出相關部委代表對這些關注點的回應。總體來說，中央政府傾向於分兩階段推行大灣區的一體化：第一階段為內地九個城市先行融合，第二階段則為內地九個城市與兩個特別行政區的協調發展以達致最終一體化。無論是行業持份者還是中央部委都認同大灣區進行分工的好處，並認為市場驅動應成為大灣區分工的主要推動力量。同時，持份者和部委代表也表示城市間目前所存在的獨特性（如城市地理位置，城市功能）不應被忽視。在內地九個城市與兩個特別行政區的融合上，也有不少的關注點集中在系統和政策的統一上。報告的最後提出相關的政策建議，研究團隊希望達到拋磚引玉的效果，以引起進一步的思考、討論和研究，並期望政策制定者能從整體出發，制定促進大灣區物流與貿易便利化的政策。

致謝：此研究部分經費由粵港澳大灣區經貿協會捐助支持。



## 1. Introduction

The plan for having a co-ordinated development for the city cluster within Big Bay Area<sup>1</sup> has recently been suggested at the national level. It is an essential part of China's 13<sup>th</sup> Five-Year Plan (2016-2020) and Belt and Road Initiative. On 1<sup>st</sup> July 2017, National Development and Reform Commission, People's Government of Guangdong Province, HK SAR Government, and Macau SAR Government signed "Framework Agreement on Deepening Guangdong-Hong Kong-Macau Cooperation in the Development of the Bay Area". The Framework Agreement outlines various cooperation goals for the regions. Chiefly, the goals are to develop Guangdong as a technology and industrial innovation centre, as well as an advanced manufacturing and modern service industries base; to enhance HK's status as an international financial, transportation and trade centre; and to further develop Macau's development as a global tourism and leisure centre<sup>2</sup>.

Logistics and trade facilitation is a critical aspect of the Big Bay Area Initiative. Stakeholders in Guangzhou, Shenzhen, HK, and Macau need to share their concerns regarding both the opportunities and challenges, and jointly develop policies to enhance cooperation and healthy competition. This study seeks to provoke thoughts and discussions among decision makers, both industrial and governmental, regarding logistics and trading facilitation in Big Bay Area. It represents both cross-regional and holistic views of integration issues and development prospects. Our goal is to strengthen cooperation of major stakeholders in the trading and logistics sector in Big Bay Area and to achieve its long-term sustainable growth.

Specifically, the objectives of this study are to:

- Identify key issues and concerns of major stakeholders, industrial and governmental, in logistics and trading facilitation in Big Bay Area.
- Propose recommendations and/or policies to address the key issues and concerns.

This study is based on interviews with different stakeholders, both industrial and governmental. First, after interviews with industrial stakeholders, we examine and organize their major concerns into five specific areas. Background information for these five areas are then explored. Second, a set of questions for the respective concern areas is developed and is given to Government Bureau representatives during a visit to Beijing by a HK transport sector delegates. Detail responses to the respective questions are given during the meetings. In this paper, we provide the concerns of industrial stakeholders, comments from Central Government, and policy recommendations addressing these concerns.

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<sup>1</sup> The city cluster includes Hong Kong and Macau as well as nine Guangdong cities (Shenzhen, Guangzhou, Zhuhai, Zhaoqing, Dongguan, Huizhou, Foshan, Zhongshan, Jiangmen) under the State Council's "9+2" strategy.

<sup>2</sup> [http://gia.info.gov.hk/general/201707/01/P2017070100409\\_262244\\_1\\_1498888409704.pdf](http://gia.info.gov.hk/general/201707/01/P2017070100409_262244_1_1498888409704.pdf)

## 2. Concerns of Industrial Stakeholders & Meeting with Central Government

### 2.1 Interviewing Industrial Stakeholders

The first part of this study is based on interviews with major industrial stakeholders. The framework of this study is as follows:

- **Regions:** we limit our project to cover only the stakeholders of maritime, aviation and ground logistics and trading services in Guangzhou, Shenzhen, HK and Macau.
- **Stakeholders:** for each region, identify decision makers from airlines, ocean liners, air and ocean terminal operators, logistics companies, professional bodies, industrial representatives in Guangzhou, Shenzhen, HK and Macau.
- **Interviews:** for each stakeholder, an interview is conducted based on a set of pre-determined questions.
- **Questions:** based on SWOT analysis: we ask stakeholders to identify the current strengths (S) and weaknesses (W) of the Big Bay Area and the opportunities (O) and threats (T) when the Area is integrated. Often times, stakeholders may identify elements of SWOT with respect to a particular city (instead of with respect to the whole Bay Area). Those will also be recorded and be labelled as such.
- **Summary:** summarize and identify key issues and concerns of major stakeholders for closer cooperation in trading and logistics sector.

Over a period of four weeks, members of this team (researchers from Hang Seng Management College, Chinese University of Hong Kong, and Sun Yat-sen University<sup>3</sup> in Guangzhou) went to the four cities and interviewed the following stakeholders (Table 2.1 show their respective affiliations).

Typically, a team of two interviewers was dispatched to the venues of the interviewees. A considerable amount of travel was involved (e.g. visiting Guangzhou and Macau) and overnight stay was required in some cases. Also, our interviewees are high-ranking decision-makers of their respective companies and required scheduling flexibility to fit into their tight windows.

Each interview time varied from one hour to as long as two hours. Most interviews were conducted in the offices of the interviewees. In special circumstances, we could only catch the interviewees in hotel cafes. Some interviewees allowed our conversation to be taped while others politely declined. In fact, we had encountered situations where the interviewees later requested that their names be deleted and that their views not be used for this paper – that is, after the conversation was taped.

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<sup>3</sup> We thank Dr Gary Chen of Sun Yat-sen University for his help in coordinating some of the interviews.

**Table 2.1 List of Stakeholders by Cities**

City	Organization
<b>Guangzhou</b>	China Southern Cargo (The cargo subsidiary of China Southern Airlines)
	Guangzhou Nansha International Logistics Park Development Co., Ltd.
	Guangzhou Port Group Co., Ltd.
	Guangzhou South China Oceangate Container Terminal Co., Ltd.
	Sinotrans Guangdong Co., Ltd.
<b>Shenzhen</b>	MBE International Logistics Ltd. (A freight forwarder based at Shenzhen International Airport)
	SF Express
<b>HK</b>	PowerHub Ltd. (A third-party logistics provider)
	Hong Kong Container Terminal Operators Association (HKCTOA)
	Airlink Asia Aviation Group Ltd.
	Orient Overseas Container Line (OOCL)
	Hong Kong Airport Authority
	A member of the Legislative Council of Hong Kong for the Transport constituency
	Modern Terminals Limited
<b>Macau</b>	Civil Engineering Laboratory of Macau
	Macau Society for Ocean and Hydraulics
	Golden Warehouse Logistics Ltd.

## 2.2 Concerns of Stakeholders

Based on the results of interviews, we are able to organize the concerns of stakeholders into five categories:

- **Integration** - approach of integration within Big Bay Area needs to be examined.
- **Market and policy driven dynamics** - interplay between market forces and policy driven initiatives.
- **Division of services** - a division of services (location and allocation) in different parts of the region.
- **Custom policy** - diverse regional custom practices have mixed impact on trading and logistics services.
- **Single window** - a single window facilitates trading and logistics services.

## 2.3 Meeting with Governmental Stakeholders

A set of questions for the aforementioned five concerns was developed and was given to Government Bureau representatives prior to the visit to Beijing by the HK transport sector delegates. On September 18<sup>th</sup> and 19<sup>th</sup>, a delegation of HK transport sector paid visits to four Bureaus of the Central Government in Beijing (HK and Macau Affairs Office of the State Council, General Administration of Customs, Ministry of Transport and Communications, and National Development and Reform Commission).



Figure 2.1 HK Transport Sector Delegation

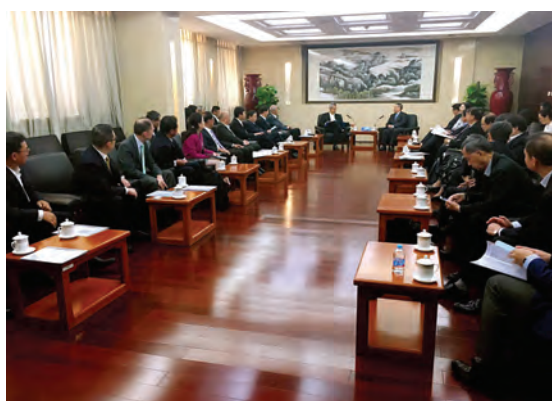


Figure 2.2 Meeting Bureaus by HK Delegation

There were more than thirty delegates in the visiting group and members include leaders from various HK and Macau industry sectors, representatives of different chambers of commerce, and members from the HK Legislative Council. Dr Collin Wong, a representative from this research team, was selected to raise the questions regarding the five concerns during the separate visits to the four bureaus. Details of the discussed topics regarding Bay Area in meetings with the four Bureaus are listed in Table

2.2 (Appendix A, in Chinese).

It should be noted that the meetings with the representatives of the Central Government were conducted in Chinese. While we provide English translations of the questions and the corresponding responses from the Bureau representatives, the official language remains Chinese. Hence, the original questions and responses in Chinese are also included as appendix for completeness.

**Table 2.2 Meeting Bureaus of the Central Government by HK Delegation**

Date	Time	Bureaus Visited	Topics Discussed
September 18 <sup>th</sup>	09:00- 10:00	HK and Macau Affairs Office of the State Council	Co-operation Arrangement on co-location for Express Rail Link Development plans of city group in the Big Bay Area Integration of tourism industry in the Big Bay Area Comprehensive development of airports in the South of China HongKong-Zhuhai-Macau Bridge and Shenzhen-Zhongshan Tunnel Transport arrangement of the HongKong-Zhuhai-Macau Bridge Ancillary facility of the Liantang/Heung Yuen Wai Boundary Control Point Facilitating cross-border transport Free trade agreement
	10:50- 11:50	General Administration of Customs	Facilitating air transport service Development of the regional Single Window Green channel of the HongKong-Zhuhai-Macau Bridge Ancillary facility of the Liantang/Heung Yuen Wai Boundary Control Point Towards to the high-end shipping port center
	15:00- 16:00	Ministry of transport and communications	Air traffic flow enhancement in Beijing and East China HongKong-Zhuhai-Macau Bridge and Shenzhen-Zhongshan Tunnel Transport arrangement of the HongKong-Zhuhai-Macau Bridge Facilitating cross-border transport
September 19 <sup>th</sup>	8:30- 9:30	National development and reform commission	Development plans of city group in the Big Bay Area Integration of tourism industry in the Big Bay Area Comprehensive development of airports in the South of China

In the ensuing sections, for each of the five concerns raised by industrial stakeholders, we provide a brief description of its background (facts and secondary data); the results of interviews with the industrial stakeholders are also included. Again, for each concern, we provide the questions posed to representatives of the Central Government, followed by the comments received during the visits.

### 3. Approach of Big Bay Integration

In general, industrial stakeholders express lack of clarity regarding the approach of integration, especially within the context of One-Country-Two-System framework. For instance, is it an integration of all 9+2 cities or integration of 9 Mainland cities plus coordinated development with HK and Macau? In this section, we first provide a brief overview, followed by stakeholders concerns and comments from representatives of Central Government Bureaus.

#### 3.1 Overview of the Big Bay Area

The Big Bay Area refers to the city cluster formed by nine cities in the Pearl River Delta, including Guangzhou, Shenzhen, Foshan, Dongguan, Zhuhai, Huizhou, Zhongshan, Jiangmen and Zhaoqing, and the two Special Administrative Regions - HK and Macau. Figure 3.1 provides an overview of demographics of the various cities (data of 2016). The current development initiative could be traced back to a decade ago as Guangdong, HK and Macau started exploring this initiative back in 2006.<sup>4</sup> In 2009, *Research report on the Cooperative Outline of the city cluster in Big Pearl River Delta* was released and it listed out various goals and strategies.<sup>5</sup> Development concepts, including “9+2”, “three districts in one bay”, “three core concepts with four action plans” and “multiple centres across three districts”, were addressed in detail.

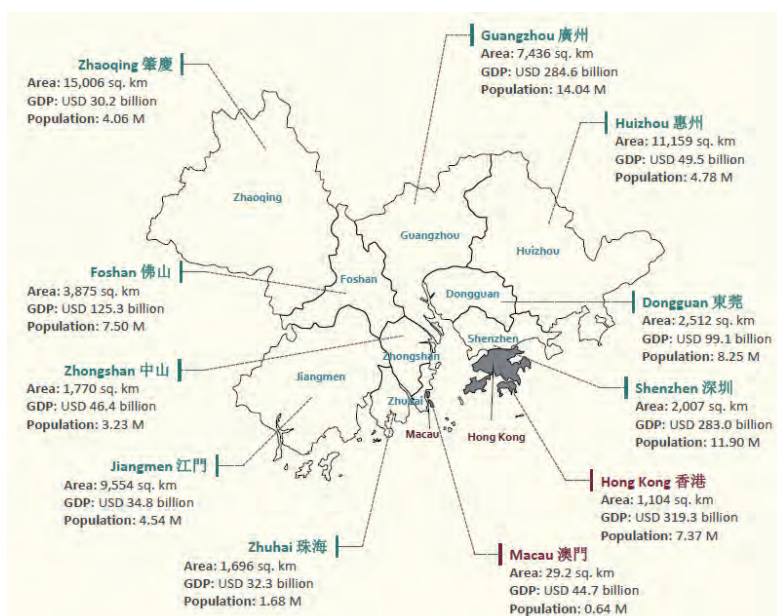


Figure 3.1 Map of the Big Bay Area<sup>6</sup>

In 2015, the National Development and Reform Commission issued an important programmatic document, namely *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, on the One Belt One Road Initiative. The document clearly and deliberately states the ultimate purpose of the

<sup>4</sup> <http://www.dab.org.hk/jm/images/news/1502440779.pdf>

<sup>5</sup> <http://urbanplanning.dssopt.gov.mo/cn/download/zhu01.pdf>

<sup>6</sup> [https://www.fbicgroup.com/sites/default/files/IG\\_12\\_GDP.pdf](https://www.fbicgroup.com/sites/default/files/IG_12_GDP.pdf)



Big Bay Area, which is “giving full scope to the role of Qianhai (Shenzhen), Nansha (Guangzhou), Hengqin (Zhuhai) and Pingtan (Fujian) in opening-up and cooperation, deepening their cooperation with HK, Macau and Taiwan, and building the Guangdong-Hong Kong-Macau Greater Bay Area.”

The Big Bay Area has then become one of the national development strategies, and was officially included in the *Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China (the 13-5 Plan)* approved by the 4th Session of 12th National People's Congress (NPC) of the People's Republic of China hosted on March in 2016. The development of the Big Bay Area was also stated clearly in Premier Li Keqiang's report of government work in 2017 (Appendix B.1).

### **3.2 The Status Quo and Opportunities of the Integration**

Each city in the Big Bay Area has its own unique characteristics in economic development with different focuses in the development model. The integration could achieve a better division of services and mutual benefits, create a more powerful industrial chain, and bring new opportunities. E.g. HK is an international financial centre, and also have advantages in tourism, trade and logistic industries, and professional services. While Shenzhen is the leading force in high-tech and innovation, and Guangzhou has a well-developed heavy and light industry.<sup>7</sup>

With the opening of the Hong Kong-Zhuhai-Macau Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link in the near future, the Big Bay Area will achieve a closed-loop success in transportation and facility-development, which will form a great foundation towards the overall development of the area. The diversified characteristics of 11 cities will also provide enormous opportunities and possibilities for differentiated development.

### **3.3 Challenges for the Integration**

To achieve success of integration of Big Bay Area, a smooth circulation of the flow of goods and services, people circulation, capital flow and information must be guaranteed. Comparing with the Big Bay Area in New York, Tokyo and San Francisco, the four areas of flow and circulation are exactly what the Big Bay Area is lacking, especially among the nine Mainland cities and two Special Administrative Regions.

Given that they are operated under different administrative systems, differences in policy making are huge among the cities and the Special Administrative Regions. Resources allocation and infrastructure in Guangdong, HK and Macau will be significantly affected by the barriers of the Special Administrative Regions.

The concept of the Big Bay Area could be summarised as “one country, two systems, three tariff zones and four core cities”.<sup>8</sup> It poses a series of issues that needed to be

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<sup>7</sup> <http://www.bochk.com/dam/investment/fininsight/EI2017039.pdf>

<sup>8</sup> <http://paper.wenweipo.com/2017/07/29/WW1707290002.htm>

addressed, such as free flow and circulation of people and goods between HK, Macau and other Mainland cities, coordination and integration of social policies (such as environmental policies), coordination of legal systems as well as the integration of different cultures among cities and the Special Administrative Regions (Appendix B.2). Victor Fung, chairman of the Fung Group, outlined four important stages for the integration process in a summit held in 2017<sup>9</sup> (Appendix B.3).

### **3.4 Views from Interviews with Industrial Stakeholders**

For the approach of Big Bay Area integration, instead of asking the stakeholders using an SWOT framework, our question is based on what the stakeholder perceive as issues in the 9+2 integration. The following sections list concerns of the industrial stakeholders.

#### **3.4.1 Approach of Integration**

- How does integration work within the One-Country-Two-System framework?
- Could it mean integration of 9 Mainland cities “in conjunction with” development in HK and Macau? It is unclear how this will be done.
- If integration is between the 9 cities, could all ports in Bay area be merged and owned by the same company? If this is so, this could pose a huge threat to ports in HK.

#### **3.4.2 Infrastructure Integration**

- Big Bay Area could be considered as an extension of Free Trade Zone (FTZ). Big Bay Area could consider how to strengthen the multimodal transportation to utilize airports in HK, Zhuhai, Shenzhen and Guangzhou as well as ports and land transport in these areas.
- For airports, it is foreseen that HKG and Zhuhai will have more cooperation as the Hong Kong-Zhuhai-Macau Bridge will link and facilitate the cargo flow between HK and Zhuhai. For Guangzhou airport, competition relationship will likely be continued.
- For land transport, the launching of HZM Bridge and highways will assist the road connectivity. It is believed that further development of land transport will assist the e-commerce cross-border logistics.

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<sup>9</sup> <http://hk.crntt.com/crn-webapp/touch/detail.jsp?coluid=7&kindid=0&docid=104815450>



### **3.4.3 Integration Barrier**

- The three regions have different institutional systems that are difficult to merge, such as the legal system and financial system. For logistics industry, it is easier.
- Barriers should be removed to facilitate manpower movement including salary level reconciliation.
- Free flow is the main problem for Big Bay Area, especially in information.
- While HK firms may be unfamiliar with Mainland rules and regulations, they are familiar with overseas customers' working pattern and their norm of practices.
- The only chance that HK firms can survive is to collaborate with China firms who have resources while HK firms have relationship and knowledge of customers.

### **3.5 Question and Comments from Central Government (Appendix B.4, in Chinese)**

#### **3.5.1 Question**

The following question is posed to representatives of the four bureaus:

“As for the integration of the Big Bay Area, would the central government plan to integrate the nine cities in Mainland then further integrate with HK and Macau at a later stage, or integrate these 9+2 cities as a whole? Any specific measures for the integration?”

#### **3.5.2 Comments from Bureaus**

Comments from Bureaus regarding this question are listed as follows. However, as some of the comments are more related to other concerns in section 5 (division of services) and section 6 (custom policy), we place them in the relevant sections respectively instead of in this section.

#### **National Development and Reform Commission:**

- The development of the Big Bay Area should be bottom up model (see also section 4).
- Cities in the Big Bay Area should integrate and cooperate to further development.
- We do not have any pre-set plan for the development of the Big Bay Area, and we welcome suggestions and recommendations from all walks of life (see also section 4).

- A working team has been set up for the Big Bay Area to coordinate development and deepen reform.
- We need breakthroughs in the new planning of the Big Bay Area.
- The Big Bay Area should be an international Bay Area and should be a great place to live, travel and work.
- Hope to establish an integrated and comprehensive statistical mechanism in the Big Bay Area.
- We should respect the governance of the HK SAR Government and be determined to uphold the one country two systems during the development of the Big Bay Area.

**Hong Kong and Macau Affairs Office of the State Council:**

- On 9+2, the Central Government is aiming to integrate the nine Mainland cities first. HK and Macau will then join the process at a later stage in order to achieve the overall integration and development in the Big Bay Area model.
- We hope to achieve synergy development among cities in the Big Bay Area, although there are separate customs territories and legal systems in this area which may cause difficulties during integration, we still have a lot to do.
- Guangzhou is one of the important cities in the Big Bay Area, but it also needs the help from HK and Macau to go global and look for more opportunities, in the meantime, HK and Macau can also find valuable opportunities during the development of Guangzhou.
- Our ultimate objective of the Big Bay Area is to achieve free movement of materials, capitals, and services.
- In future, we will set up a panel committee formed by the representatives of the eleven cities, as well as the representative from the central government, and the representative of the central government would play a role as co-ordinator and liaison

## 4. Policy-driven vs Market-driven Economy

### 4.1 Hong Kong's Market Economy

HK's economy is characterised by free trade, low taxation and minimum government intervention.<sup>10</sup> Over the years, the HK SAR Government policymaking has been in favour of “minimum intervention and maximum support”, facilitating businesses to operate on a level-playing field and grow in a free market. The government’s “steadfast commitment in safeguarding the free market principles”<sup>11</sup> has made HK to be the world’s freest economy for the 23<sup>rd</sup> consecutive years, according to the Heritage Foundation’s Index of Economic Freedom.<sup>12</sup> Such a status of world’s freest economy has also been affirmed by the Fraser Institute, according to its 2015 Economic Freedom of the World Index.<sup>13</sup>

HK's economy is a great example of laissez-faire capitalism, according to Milton Friedman.<sup>14</sup> The government’s policy position of positive non-interventionism has underpinned the economic growth of HK since the 1970s.<sup>15</sup> Yet the government’s “big market, small government” economic approach does not imply that it does nothing or takes a passive role.<sup>16</sup> Leung Chun-ying, HK’s Chief Executive during 2012 to 2017, promoted an “appropriately proactive” policymaking approach by highlighting maritime industries as potential new driving forces for HK’s economic growth (Appendix C.1). The development of cross-border transportation infrastructure including the Hong Kong-Zhuhai-Macau Bridge, Guangzhou-Shenzhen-Hong Kong Express Rail Link, and Three-Runway System, clearly shows the HK SAR Government’s support to the logistics industry.

### 4.2 Mainland's Economy and Government Policy

Different from the HK SAR Government’s facilitating approach, the central government of Mainland China has been playing a strong and leading role in setting the directions and policies of national economic development. The socialist market economy was a concept introduced by Deng Xiaoping in the 1980s to incorporate the market into the planned economy in Mainland China. In 2013, a reform decision was made by the Community Party that it was China’s aim for the market to play a “decisive” role (instead of a basic one) in allocating resources.<sup>17</sup>

Before the Big Bay Area Initiative, the signing of Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in 2003 has opened huge markets for qualified HK products, companies and residents to enjoy preferential treatment

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<sup>10</sup> <https://www.gov.hk/en/about/abouthk/facts.htm>

<sup>11</sup> <http://www.info.gov.hk/gia/general/201702/16/P2017021600208.htm>

<sup>12</sup> <http://www.heritage.org/index/country/hongkong>

<sup>13</sup> <https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2017-annual-report>

<sup>14</sup> Friedman, M., & Friedman, R. (1979). *Free to choose: A personal statement*. Orlando, FL: Harcourt.

<sup>15</sup> <http://wangyujian.hku.hk/?p=6365&lang=en>

<sup>16</sup> <http://archive.news.gov.hk/isd/ebulletin/en/category/ontherecord/060919/html/060919en11001.htm>

<sup>17</sup> [http://www.chinadaily.com.cn/bizchina/2017-09/29/content\\_32632586.htm](http://www.chinadaily.com.cn/bizchina/2017-09/29/content_32632586.htm)

accessing the Mainland market.<sup>18</sup> This represents an important step of trade facilitation of selected sectors in Mainland China for HK.

Developing the Big Bay Area is a government-led initiative, established at the national level and spearheaded by Chinese Premier Li Keqiang. In 2016, the Big Bay Area concept was introduced in 13<sup>th</sup> Five-Year Plan, the blueprint guiding the country’s economic growth during 2016-2020. In March 2017, this concept was further highlighted by Premier Li Keqiang in the annual government work report during the Two Sessions.

In July 2017, the objectives, goals, principles, mechanism and areas of cooperation were set forth in the “Framework Agreement on Deepening Guangdong-Hong Kong-Macau Cooperation in the Development of the Bay Area”. Such framework provides that the objective of cooperation is to implement the principle of "one country, two systems" fully and accurately, improve and innovate the cooperation mechanism, establish a mutually complementary cooperation relationship, and jointly take forward the development of the Big Bay Area.<sup>19</sup> The principle of cooperation is to fully leverage the decisive role of the market in the allocation of resources, better leverage the roles of governments, and facilitate the flow and optimum distribution of factors of production and essential elements of living within the region.<sup>20</sup> This principle demonstrates the increasing status of market role.

### 4.3 Views from Interviews with Industrial Stakeholders

Using the SWOT framework (section 2.1), industrial stakeholders comment on market and policy dynamics between Mainland and the two special administrative regions are shown in Table 4.1.

**Table 4.1 SWOT Analysis (Market and Policy Driven Dynamics)**

<b>Strength</b>	<b>Weakness</b>
<p><i>Integration of Free-port policy (HK) and Free Trade Zone policy (Mainland)</i></p> <ul style="list-style-type: none"> <li>▪ Frequency and feeder cost of barge in Nansha is very competitive; attracts transshipment business to Nansha.</li> </ul>	<p><i>Policies affecting free market</i></p> <ul style="list-style-type: none"> <li>▪ Subsidies by Mainland municipal government on local industries</li> <li>▪ Some recent issues ((i) Cabotage, (ii) Tsing-Ma Bridge Air-draft, (iii) Pilotage, and (iv) Block exemption) have affected companies in using HK maritime hub.</li> </ul>

<sup>18</sup> [https://www.tid.gov.hk/english/cepa/cepa\\_overview.html](https://www.tid.gov.hk/english/cepa/cepa_overview.html)

<sup>19</sup> <http://www.info.gov.hk/gia/general/201707/01/P2017070100409.htm>

<sup>20</sup> [http://gia.info.gov.hk/general/201707/01/P2017070100409\\_262244\\_1\\_1498888409704.pdf](http://gia.info.gov.hk/general/201707/01/P2017070100409_262244_1_1498888409704.pdf)

<b>Opportunity</b>	<b>Threat</b>
<i>Trade facilitation</i>	<i>Disruptive effects of measures implemented by Chinese city government</i>
<ul style="list-style-type: none"> <li>▪ Development of the Big Bay Area could be market driven instead of policy driven.</li> <li>▪ HK SAR Government could do more on policy and incentives to attract business and investment.</li> <li>▪ In the spirit of free trade, HK SAR Government could not implement any tax incentives similar to Singapore.</li> </ul>	<ul style="list-style-type: none"> <li>▪ There was a case gives a sign that change of government policy and practice in China can affect HK's market operations.</li> <li>▪ Potential policy (consolidation of ports companies in coastal provinces) may be good in terms of elimination of vicious competition in the region but may be detrimental to free market competition.</li> </ul>

#### **4.4 Question and Comments from Central Government (Appendix C.2, in Chinese)**

##### **4.4.1 Question**

The following question is posed: “It is important the Central Government coordinate city’s cooperation in the Big Bay Area by *The Development Plan for a City Cluster in the Guangdong-Hong Kong-Macau Bay Area*. This could help to achieve complementary development of the cities in the Big Bay Area. What is the development plan for the Big Bay Area? Any specific timetable for the Initiative?”

##### **4.4.2 Comments from National Development and Reform Commission**

The comments are:

- We ought to respect the law of the market during the development of the Big Bay Area.
- The development of the Big Bay Area should be bottom up model.
- We do not have any pre-set plan for the development of the Big Bay Area, and we are welcome for suggestions and recommendations from all walks of life.
- The ports in the Big Bay Area need to integrate, in the future, these ports could be divided into east side port and west side port of the PRD (see also section 5).
- We encourage complementary development of the cities in the Big Bay Area, the detailed plans will be made after fully discussed by Ministry of transport and communications, Civil Aviation Department of HK, and other professional departments.

## 5. Division of Services

### 5.1 Airports

The airports in Bay Area include Guangzhou Bai'yun Airport (GZIA), Shenzhen Bao'an International Airport (SZIA), Hong Kong International Airport (HKIA), Macau International Airport, Zhuhai Airport (ZHA), and Foshan, Huizhou and other regional airports.<sup>21</sup> The airport industry is characterized by high density and high flow rate such that it in general suffers from airspace congestion.<sup>22</sup> The air traffic control falls on three different air navigation service providers in the region such that aircrafts flying across sector boundaries have to be transferred from one to another.<sup>23</sup> And there are duplicated constructions.<sup>24</sup>

To some extent, the development of infrastructure in PRD may have helped cargo throughput (Appendix D.1) in Shenzhen and Guangzhou airports (e.g. 2<sup>nd</sup> Humen Bridge, Shenzhen-Zhongshan Tunnel, Hong Kong-Zhuhai-Macau Bridge, and the high-speed train in the Bay Area, Figure 5.1). Currently, there is no clear division of services among the five airports in Bay Area. It has been suggested that Zhuhai Airport (ZHA) may be able to act as the 4<sup>th</sup> runway of HKIA before the 3<sup>rd</sup> runway is completed.<sup>25</sup>

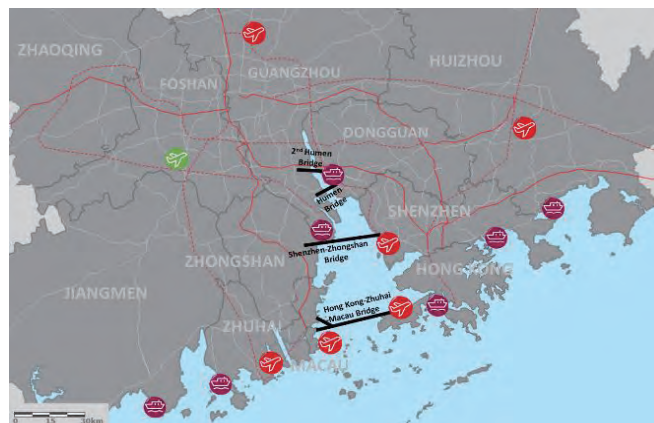


Figure 5.1 The infrastructure of transportation in the Big Bay Area<sup>26</sup>

The National “thirteen five” development plan has stated that the future of SZIA is to “enhance the international hub function, strengthen the regional hub airport function.” However, with location lies between GZIA and HKIA, SZIA is difficult to perform its target as an international hub because it is overshadowed by HKIA and GZIA.<sup>27</sup> In addition, the lack of world-class airline base will drag its development into an international hub. Nevertheless, the establishment of transportation infrastructure such as Guangzhou-Shenzhen-Hong Kong Express coupled with the planned

<sup>21</sup> <http://www.macau-airport.com/mo/media-centre/news/news/18720>

<sup>22</sup> [http://www.chinadaily.com.cn/hkedition/2017-08/28/content\\_31211387.htm](http://www.chinadaily.com.cn/hkedition/2017-08/28/content_31211387.htm)

<sup>23</sup> <http://www.scmp.com/comment/insight-opinion/article/1742794/how-can-hong-kong-compete-regional-airport-battle>

<sup>24</sup> <http://std.stheadline.com/daily/news-content.php?id=1614765&target=2>

<sup>25</sup> <http://www.scmp.com/news/hong-kong/article/1740885/hong-kong-airspace-too-crowded-third-runway-expansion-say-experts>

<sup>26</sup> <http://www.jllapsites.com/research/infrastructure-boost-to-the-greater-bay-area/>

<sup>27</sup> [http://www.caacnews.com.cn/zk/zj/qunyantang/201703/t20170310\\_1210398.html](http://www.caacnews.com.cn/zk/zj/qunyantang/201703/t20170310_1210398.html)

Shenzhen-Zhongshan Bridge enables its role as an auxiliary hub to HKIA.<sup>28</sup> Finally, SZIA is starting an 11.2-billion-yuan expansion plan to add a 3<sup>rd</sup> runway and 4<sup>th</sup> terminal to meet demand up to 2045.

As far as air cargoes are concerned, GZIA possesses location advantage as GZIA is 100km north of HK making it closer to the manufacturer based in the north part of the Big Bay Area.<sup>29</sup> However, the cargo throughput of GZIA is still only a small fraction of HKIA, that the success in passenger growth does not parallel in cargo growth (Appendix D.2).

HKIA has a strong international route (passenger and freight) links, through the Shenzhen airport to provide multimodal transport service to Mainland China and overseas markets.<sup>30</sup> HKIA is an important international hub airport in the world.

Macau airport has relatively low capacity to handle air cargos. Statistics have shown that its cargo volume has declined from the peak of 227,232 tonnes of cargos in 2005 to 32,891 tonnes of cargos in 2016.<sup>31</sup>

## 5.2 Container Ports

Figure 5.1 also depicts the locations of various ports in the Big Bay Area.<sup>32</sup> The main ports in the Big Bay Area are located in three cities, namely, Guangzhou, Shenzhen, and HK, while other local ports are in Zhuhai, Humen, and Huizhou. The three cities are close to each other but with different focus.<sup>33</sup> Guangzhou ports (GZP) mainly deals with domestic trade, Shenzhen ports (SZP) handles foreign trade goods, and Hong Kong ports (HKP) as an international hub port (Appendix D.3).

The overdevelopment of the coastal ports in the region has led to more intense competition among the ports.<sup>34</sup> It is said that HK is the cargo distribution center and the main transit hub in the region, while the other ports mainly provide point-to-point direct cargo transport (Appendix D.4).<sup>35</sup> Among the three hubs, HKP and SZP have been widely recognized as the gateway ports. The growing trend of HKP and SZP are similar to each other, they are heavily influenced by the international economic conditions and showed a drastic downturn during the financial tsunami in 2009. On the contrary, that of GZP which is a regional hub dealing with containers for domestic market, was less affected in 2009 but displayed a nearly monotonic growth.

In addition, the composition of the container flow from South China among the three ports has been changing, in particular, that of HKP has suffered from a stiff decrease

<sup>28</sup> [http://www.caacnews.com.cn/zk/zj/qunyantang/201703/t20170310\\_1210398.html](http://www.caacnews.com.cn/zk/zj/qunyantang/201703/t20170310_1210398.html)

<sup>29</sup> [http://www.cpu.gov.hk/doc/en/research\\_reports/HK%20Aviation%20Industry.pdf](http://www.cpu.gov.hk/doc/en/research_reports/HK%20Aviation%20Industry.pdf)

<sup>30</sup> <http://economists-pick-research.hktdc.com/business-news/article/%E7%A0%94%E7%A9%B6%E6%96%87%E7%AB%A0/%E7%B2%B5%E6%B8%AF%E6%BE%B3%E5%A4%A7%E7%81%A3%E5%8D%80%E7%99%BC%E5%B1%95%E5%89%8D%E7%9E%BB%E5%8F%8A%E9%A6%99%E6%B8%AF%E7%9A%84%E5%8A%9F%E8%83%BD/rp/tc/1/1X000000/1X0AAXMN.htm>

<sup>31</sup> <http://www.camacau.com/en/our-business/airport-traffic-statistics/traffic-statistics-cargo/>

<sup>32</sup> [http://www.cpu.gov.hk/doc/tc/events\\_conferences\\_seminars/05\\_Mr\\_CHEUNG\\_Wai\\_Lam.pdf](http://www.cpu.gov.hk/doc/tc/events_conferences_seminars/05_Mr_CHEUNG_Wai_Lam.pdf)

<sup>33</sup> [http://www.hkcd.com/content/2017-06/29/content\\_1054810.html](http://www.hkcd.com/content/2017-06/29/content_1054810.html)

<sup>34</sup> [http://www.hkcd.com/content/2017-06/29/content\\_1054810.html](http://www.hkcd.com/content/2017-06/29/content_1054810.html)

<sup>35</sup> [http://orientaldaily.on.cc/cnt/news/20170615/00176\\_033.html](http://orientaldaily.on.cc/cnt/news/20170615/00176_033.html)



of container flow from hinterland while that of SZP and GZP increased significantly. Actually, the rise of SZP and GZP and the rapid development of other ports in the Pearl River Delta have reshaped the structure of port container business in Pearl River Delta from HK as the single hub structure to Hong Kong-Shenzhen-Guangzhou, a multi-hub structure.<sup>36</sup> As a result, a decentralized structure of three-gateway ports emerges in the Big Bay Area.<sup>37</sup>

In 2016, the distribution of the container throughput shows that 84% of that of SZP belongs to External Merchandise Trade (EMT) while that of GZP is only 23%. This indicates that there may be a significantly competitive relationship between SZP and HKP, because both performances are heavily reliant on EMT. Therefore, the division of services between the HKP and GZP is likely while that between HKP and SZP is less likely.<sup>38</sup> Liu et al. shared the similar conclusion because both ports are positioned itself strongly international trade and are less dependent on each other than what they used to be.

### 5.3 Road Transport

According to the statistics of HKTDC,<sup>39</sup> the volume of road transport of HK has decreased from 26.2 million tonnes in 2012 to 21.9 million tonnes in 2016. The decline is mainly due to (1) change of industry focus from labor-intensive industries to heavy industries such as auto and petrochemical industries such that less relevant goods and materials are transported to and from HK airports and container ports and (2) increase in using the transport model of river transport<sup>40, 41</sup> due to the relatively larger transport capacity and lower potential of traffic jam and less transportation cost.<sup>42</sup> Recently, the cargo transport volume via inner-river in PRD is estimated to be 70%.<sup>43</sup> (3) following the perfection of the road transport infrastructure in the Big Bay Area, goods and materials can be transported timely to various Mainland airports and container ports from hinterland to overseas without transiting to HK. (4) Many 3PLs in HK are SMEs, they lack resources and technologies to compete with those in China. Nevertheless, the perfection of transport network has shortened the spatial distance between HK and the western part of the Big Bay Area and channeled more goods from this area to HK.<sup>44</sup> Actually, the 3PLs in HK may face an unprecedented challenge such as ever-changing technologies, change of customer preference, and shortage of labour and land.<sup>45</sup>

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<sup>36</sup> [http://info.hktdc.com/shippers/vol29\\_6/vol29\\_6\\_chi\\_logistic.htm](http://info.hktdc.com/shippers/vol29_6/vol29_6_chi_logistic.htm)

<sup>37</sup> Liu, L., Wang, K. Y., Yip, T. L. (2013), Development of a container port system in Pearl River Delta: path to multi-gateway ports, *Journal of Transport Geography*, 28, 30-38.

<sup>38</sup> [http://www.hkcd.com/content/2017-06/29/content\\_1054810.html](http://www.hkcd.com/content/2017-06/29/content_1054810.html)

<sup>39</sup> <http://hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Freight-Forwarding-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X006NHM.htm>

<sup>40</sup> <http://www.legco.gov.hk/yr08-09/chinese/panels/e/dev/papers/e/dev0525cb1-1952-2-c.pdf>

<sup>41</sup> [http://www.cpu.gov.hk/doc/tc/research\\_reports/executive\\_summary\\_a\\_study\\_on\\_the\\_hong\\_kong\\_container\\_terminal\\_trade\\_c.pdf](http://www.cpu.gov.hk/doc/tc/research_reports/executive_summary_a_study_on_the_hong_kong_container_terminal_trade_c.pdf)

<sup>42</sup> [http://www.pland.gov.hk/pland\\_en/p\\_study/comp\\_s/pearl\\_river/abstract\\_3.pdf](http://www.pland.gov.hk/pland_en/p_study/comp_s/pearl_river/abstract_3.pdf)

<sup>43</sup> [http://www.cpu.gov.hk/doc/tc/events\\_conferences\\_seminars/05\\_Mr\\_CHEUNG\\_Wai\\_Lam.pdf](http://www.cpu.gov.hk/doc/tc/events_conferences_seminars/05_Mr_CHEUNG_Wai_Lam.pdf)

<sup>44</sup> <http://economists-pick-research.hktdc.com/business-news/article/研究文章/港珠澳大橋帶來珠西的機遇-4-物流發展/rp/tc/1/1X000000/1X0A0Q5P.htm>

<sup>45</sup> [http://www.cuhk.edu.hk/proj/sme-logistics/documents/SMLEs\\_Report\\_final.pdf](http://www.cuhk.edu.hk/proj/sme-logistics/documents/SMLEs_Report_final.pdf)



On the contrary, road transport volume in China is increasing. It is mentioned that as the market size of using 3PL is increasing when more companies in the PRD are outsourcing their logistics processes to 3PLs, more warehouses, DCs, logistics parks and free trade zones have been built in PRD to accommodate the rapid market expansion.<sup>46</sup> These facilities have attracted a significant portion of customers to directly import or export goods via the ports in China instead of transporting via HK ports. Doing so will increase their engagement with the 3PLs located in China and hence escalate the road transport volume.

#### 5.4 Trade and Logistics Services

Trading and logistics SMEs face several challenges in sale, marketing and operations. To sustain the SMEs' operations, one of the major challenge is labor shortage. According to a study by The Hong Kong Institute of Human Resource Management,<sup>47</sup> the top five business sectors that faced labor shortages in 2015 included logistics/transport/transport services at 64%, followed by IT at 50%. Increasing salary levels and benefits are widely used to recruit employees for IT sectors, but not for logistics sectors. For trading and logistics firms running with 5% to 6% gross margin only, many SMEs cannot afford to increase salaries to attract employees. The competitive advantages of SMEs are gradually being diminished.

#### 5.5 Views from Interviews with Industrial Stakeholders

Industrial stakeholder comments on division of services between PRD cities and the two special administrative regions are shown in Table 5.1. It should be pointed out again that the SWOT comparison is intended to compare the status quo with that of after integration, for the entire Big Bay area. Some stakeholders pointed out certain elements of SWOT for individual cities. Those elements of SWOT are important views and will be labelled for specific cities.

**Table 5.1 SWOT Analysis (Division of Services)**

<b>Strength</b>	<b>Weakness</b>
<p><i>HK has well-developed aviation hub in HK, PRD ports exceed HK in throughput and fast growth of E-commerce and automation in Mainland</i></p> <ul style="list-style-type: none"> <li>▪ HKIA: high service quality, solid management system, well-trained talents, transshipment hub.</li> <li>▪ International brands rely on HK to plan and operate logistics flow of China</li> <li>▪ PRD ports: throughout out-performs HK ports.</li> <li>▪ PRD: wages low relative to HK.</li> </ul>	<p><i>Customs issues in Mainland, and Land and manpower shortage in HK</i></p> <ul style="list-style-type: none"> <li>▪ PRD: customs issues</li> <li>▪ HK ports not close to source of exports</li> <li>▪ Reform in aviation rights in Bay Area?</li> <li>▪ Shenzhen airport and Guangzhou airport: lags far behind HKIA in efficiency and cargo throughput.</li> <li>▪ HK: expensive land, rental, manpower and difficult to source.</li> </ul>

<sup>46</sup> [http://www.cpu.gov.hk/doc/en/research\\_reports/HK%20Aviation%20Industry.pdf](http://www.cpu.gov.hk/doc/en/research_reports/HK%20Aviation%20Industry.pdf)

<sup>47</sup> Computer world, <http://cw.com.hk/news/9-10-hk-companies-struggling-skills-shortage?page=0,0>

<ul style="list-style-type: none"> <li>▪ Mainland: Rapid E-commerce growth.</li> <li>▪ HK is an international logistics hub.</li> </ul>	<ul style="list-style-type: none"> <li>▪ HK: logistics firms difficult to hire truckers and high trucker licence cost</li> <li>▪ PRD passengers lack incentive to cross border to HK to fly.</li> <li>▪ The situation of HK SMEs is worse due to the resources of many SME logistics firms are inadequate.</li> </ul>
<p><b>Opportunity</b></p>	<p><b>Threat</b></p>
<p><i>Each city is able to focus on its own advantages through collaboration</i></p>	<p><i>Tends to be competition instead of cooperation among cities in the Big Bay Area</i></p>
<ul style="list-style-type: none"> <li>▪ Service division should be market based.</li> <li>▪ HK focus: transshipment and import, Shenzhen focus: direct cargo export, Guangzhou focus: domestic trade.</li> <li>▪ HK ports focus: high-value added cargo.</li> <li>▪ Shenzhen: as backup support of HK and Guangzhou airports.</li> <li>▪ High-speed rail between Guangzhou and HK enables airport cooperation.</li> <li>▪ Shenzhen: monitoring and controlling customs in warehouses.</li> <li>▪ Macau and Zhuhai focus: tourism. Shenzhen and HK focus: technology innovation and logistics.</li> <li>▪ HK: regional logistics education center.</li> <li>▪ HK as the planning and control center of Bay Areas logistics activities (e.g. coordination and recovery action).</li> <li>▪ HK SME logistics firm can enjoy outsourcing from large logistics companies, like DHL.</li> <li>▪ It is imperative to define clearly the position and role of HK so that the SME logistics firms can survive.</li> <li>▪ Automation is the trend for competitiveness, firms in China can pursue automation to boost up the competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cities and companies in the Area tends to compete instead of cooperate.</li> <li>▪ Strong competition for terminal business in China.</li> <li>▪ Success of Bay area is reliant upon political reform and alignment of systems &amp; infrastructure.</li> <li>▪ Many restrictions to integrate since some system practices in China are very rigid to overseas customers.</li> <li>▪ Speed of implementation driven by policy initiative is very fast in Mainland whilst pace of HK SAR Government to respond to such change is slow.</li> <li>▪ If terminals are consolidated by one company in PRD West and one in PRD East, could be problems for HK ports</li> <li>▪ Establishment of the Bay Area is a threat to SME logistics companies but neutral to large ones.</li> <li>▪ HK logistics firm will enjoy little benefits from the Bay area.</li> </ul>

## 5.6 Questions and Comments from Central Government (Appendix D.5, in Chinese)

### 5.6.1 Questions

The following questions is posed to representatives of the bureaus:

Q1: "As for the integration of the Big Bay Area, would the central government plan to integrate the nine cities in Mainland then further integrate with HK and Macau at a later stage, or integrate these 9+2 cities as a whole? Any specific measures for the

integration?” (This question was first asked in section 3 relating to the approach of integration. It is also listed here since some of the comments from the Bureaus are related to division of services.)

Q2: “Would the central government set up a special committee to coordinate the work of positioning strategy and division of airports and ports in the Big Bay Area?”

Q3: “Would the central government consider to relax flow and airspace control to reduce flight delay?”

## **5.6.2 Comments from Bureaus**

### **5.6.2.1 Comments from Bureaus for Q1 are as follows.**

#### **National Development and Reform Commission:**

- We encourage complementary development of the cities in the Big Bay Area, detailed plans will be made after discussions by Ministry of transport and communications, Civil Aviation Department of HK, and other professional departments.

#### **Hong Kong and Macau Affairs Office of the State Council:**

- Each city in the Big Bay Area should have its own positioning strategy.

### **5.6.2.2 Comments from Bureaus for Q2 are as follows.**

#### **National Development and Reform Commission:**

- We support HK as a shipping centre, to further develop high value-added business such as marine insurance.
- The Civil Aviation Department of Hong Kong and the Civil Aviation Authority of Macau could discuss with the Civil Aviation Administration of China (CAAC) about the allocation of aviation rights and business.
- A cooperation mechanism between Mainland, HK, and Macau has been established for few years, and the tripartite cooperation in aviation is expected to enhance.
- The competition among airports in the PRD area is severe, however, all airports managed to maintain good developments due to the strong growth of air transport demand in this region.
- CAAC also concerned about the excessive competition in this region and will coordinate with HK on this issue; actually, CAAC already requested to cancel some flights or routes with small number of passengers.

- The ports in the Big Bay Area need to integrate, in the future, these ports could be divided into east side port and west side port of the PRD.

**Hong Kong and Macau Affairs Office of the State Council:**

- In principle, we suggest the airports in the Big Bay Area to collaborate, while the details need to be discussed and made by the Civil Aviation Administration of Mainland, HK, and Macau.
- There are already signed agreements between the Civil Aviation Administration of Mainland, HK, and Macau.

**5.6.2.3 Comments from Bureaus for Q3 are as follows.**

**Ministry of Transport and Communications:**

- Competing for air traffic among nearby airports is not a unique problem that occurs in the PRD; in other regions, such as airports in region of Chengdu, Chongqing, and Kunming, the same problem exists.
- In future, we will divide aviation rights into three parts in China: North, East, and South. Beijing and Shanghai will play as the hub airport in North and East respectively, while the other nearby airports would play an auxiliary role. As for South, further discussion is needed to decide which city (HK, Guangzhou or Shenzhen) to play the role as hub airport.
- With regard to specific issues on aviation, such as issues about aviation systems, we need the help from CAAC to coordinate and handle.

## 6. Customs

### 6.1 Customs in the People's Republic of China<sup>48</sup>

Customs in the People's Republic of China adopts a vertical management system, which is composed of three organisational levels. The top level is the General Administration of Customs, P.R.China, which reports directly to the State Council and is responsible for overseeing all the regional customs across China. Under it comes the Guangdong Sub-Administration of China Customs, two supervising offices in Tianjin and Shanghai, 42 direct-affiliated customs and 2 customs schools. Last but not least, those direct-affiliated customs have 742 local subordinate customs and offices. Besides, there are supervising organisations in Brussels, Moscow, D.C. Washington, HK, etc.

The Customs Law states four major duties of China Customs, which includes exercising control over means of transport, goods, postal items and other articles (hereinafter referred to as supervision), collecting customs duties and other taxes and fees (hereinafter referred to as tax collection), inspecting and combating smuggling and compiling customs statistics (Appendix E.1).

### 6.2 Mainland Policies on Facilitating the Customs Clearance

#### 6.2.1 "Big Customs Clearance Policy"<sup>49</sup>

In October 2001, the General Office of the State Council issued the *Notice on Further Improving the Working Efficiency of the Port*, which instructed clearly that "the implementation of the *Big Customs Clearance Policy* could improve the efficiency of customs clearance".

In short, the customs clearance means various customs procedures carried out at the port.<sup>50</sup> Customs is just one of the 6 to 7 law-enforced and related departments at the port, there are many other procedures needed to go through apart from the customs measures during the clearance process, such as border inspection as well as the entry-exit inspection and quarantine arrangements.

The aim of the implementation of the Big Customs Clearance Policy is to shorten the time required for the above customs procedures with efficient and effective supervision and monitor. By adopting electronic measures, the current procedure of customs clearance of goods at the port could then be reformed (Appendix E.2).

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<sup>48</sup> <http://www.customs.gov.cn/>

<sup>49</sup> <http://wiki.mbalib.com/zh-tw/%E5%A4%A7%E9%80%9A%E5%85%B3>

<sup>50</sup> [http://info.hktdc.com/shippers/vol25\\_5/vol25\\_5\\_ports01.htm](http://info.hktdc.com/shippers/vol25_5/vol25_5_ports01.htm)

## 6.2.2 “Bonded Area and Free Trade Zone”

Bonded area, also known as bonded warehouse, is a registered zone set up or approved by customs, where goods could be kept for a longer period of time.<sup>51</sup> Bonded area is supervised, monitored and managed by customs.

Bonded area in China, approved and set up by the State Council, is an economic zone specially supervised by customs. It facilitates the import and export processing, international trade and storage of goods. Besides, it enjoys the exemption policy, duty-free and bonded-tax policy. Bonded area is a special customs territory, and is also one of the most favourable opening-up economic zones with a highly-facilitated operations system and a comprehensive policy in China.

In June 1990, Shanghai established the first bonded zone in China, namely Shanghai Waigaoqiao Free Trade Zone (although referred to as Free Trade Zone, it is in fact a bonded area – Free Trade Zone as we know it today was only initiated in 2013), in accordance with the approval of the State Council (Appendix E.3.1).

The establishment of pilot Free Trade Zone (FTZ) represents China's major move to adopt a more proactive strategy of opening up in line with the new trend of global economic development.<sup>52</sup> The State Council has formally approved to established China (Guangdong) Pilot Free Trade Zone (GDFTZ) on 31 December, 2014.<sup>53</sup> GDFTZ locates in three cities of the Big Bay Area, which are Nansha Area of Guangzhou, Qianhai & Shekou Area of Shenzhen, and Hengqin Area of Zhuhai. Special customs supervision was implemented in GDFTZ (Appendix E.3.2).

## 6.2.3 “Customs Transit under Speedy Customs Clearance”<sup>54</sup>

In the beginning of 2001, customs introduced a pilot clearance system in places along Yangtze River and Guangdong regions in order to speed up the customs transit at the port and the land. Such pilot scheme had been successfully solved the traffic congestion issues in big ports like Shenzhen and Shanghai.

In August 2001, the speedy clearance scheme was launched across the country. Under efficient supervision and monitoring, procedures at the port were less complicated. The land customs could then speed up the inspection and discharge at the same time. This reduced the effort on handling customs transit declarations, forms and pre-entry. Besides, it also prevented possible duplicated checking. The “single declaration, single inspection and single discharge” policy could then be realised, which facilitates the cooperation between port and land customs as well as customs in different places (Appendix E.4).

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<sup>51</sup> <http://wiki.mbalib.com/zh-tw/%E4%BF%9D%E7%A8%8E%E5%8C%BA>

<sup>52</sup> <http://china-trade-research.hktdc.com/business-news/article/Facts-and-Figures/China-Pilot-Free-TradeZones/ff/en/1/1X000000/1X0A2V2D.htm>

<sup>53</sup> [http://www.china-gdftz.gov.cn/zjzmq/zmsyqjj/201604/t20160414\\_1723.html#zhuyao](http://www.china-gdftz.gov.cn/zjzmq/zmsyqjj/201604/t20160414_1723.html#zhuyao)

<sup>54</sup> [http://info.hktdc.com/shippers/vol25\\_6/vol25\\_6\\_chi12\\_02.htm](http://info.hktdc.com/shippers/vol25_6/vol25_6_chi12_02.htm)

#### **6.2.4 “Single Window”**

Since 2012, General Administration of Customs had collaborated with the General Administration of Quality Supervision, Inspection and Quarantine on launching pilots on "single declaration, single inspection and single release", which form the basis for the "single window" model. To date, such pilots had been implemented across eight provinces (municipalities) including Guangdong, Tianjin, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Shanghai and Fujian, representing a total of 17 customs territories in cargo clearance services. In 2014, the "single window" pilot was first be implemented at the China (Shanghai) Pilot Free Trade Zone, and be expanded to other areas.<sup>55</sup> On May 24 2017, Premier Li Keqiang announced that a "single-window system" will be adopted at all ports nationwide by the end of the year<sup>56</sup>.

#### **6.3 Hong Kong Customs<sup>57</sup>**

Being one of the disciplined forces under the Security Bureau of the Government of the Hong Kong Special Administration Region, Hong Kong Customs and Excise Department is responsible for protecting the HKSAR against smuggling, protecting and collecting revenue on dutiable goods, detecting and deterring narcotics trafficking and abuse of narcotic drugs, protecting intellectual property rights, protecting consumer interests, monitoring money service operators, and protecting and facilitating legitimate trade and industry and to uphold HK's trading integrity (Appendix E.5). The department is headed by the Commissioner of Customs and Excise.

As HK is a free trade port, so no taxes would be imposed on imported goods and articles. Hong Kong Customs is only responsible for protection and collection of revenue on four types of dutiable commodities.

#### **6.4 Collaboration Project by Customs in HK and Guangdong Province - “Single E-lock Scheme”<sup>58</sup>**

The Customs and Excise Department launched the Intermodal Transshipment Facilitation Scheme (ITFS) in November 2010 to provide facilitation to air–land and sea–land transshipment cargoes by simplified clearance process. With the electronic advance cargo information and application of electronic lock (e-lock) and Global Positioning System (GPS) technology, the Customs and Excise Department monitors the transshipment cargoes conveyed by the participating trucks within the territory.

Under the ITFS, the transshipment cargoes, if being selected for inspection, will normally be inspected once either at the point of entry or exit. Time is saved by reducing repeated inspection which will expedite the flow of transshipment cargoes.

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<sup>55</sup> <http://www.customs.gov.cn/publish/portal0/tab49564/info702014.htm>

<sup>56</sup> [http://www.chinadaily.com.cn/china/2017-05/31/content\\_29553918.htm](http://www.chinadaily.com.cn/china/2017-05/31/content_29553918.htm)

<sup>57</sup> <http://www.customs.gov.hk/tc/home/index.html>

<sup>58</sup> <https://www.rocars.gov.hk/tc/ITFS.html>

The Customs and Excise Department further extended the facilitation under the ITFS by launching the Single E-lock Scheme together with the Mainland Customs on 28 March 2016. Under the Single E-lock Scheme (the Scheme), ITFS is interconnected with the Speedy Customs Clearance (SCC) of the Customs administrations of Guangdong Province to build a “green lane” for facilitating logistics flow through seamless clearance service. One single e-lock and the technology of GPS as accredited by both Customs authorities are applied under the Scheme on the principle of “Across the Boundary with One Single E-lock under Separate Monitoring” and hence duplicate inspection on the same shipment by both Customs authorities at the boundary would be reduced, which helps to streamline the clearance process and expedite the flow of transshipment cargoes (Appendix E.6).

### 6.5 Views from Interviews with Industrial Stakeholders

Industrial stakeholder comments on custom policy between Mainland and the two special administrative regions are shown in Table 6.2.

**Table 6.1 SWOT Analysis (Custom Policy)**

<b>Strength</b>	<b>Weakness</b>
<i>Transparent and well-established customs system in HK</i>	<i>Complex customs processes and unstable customs policy in Mainland</i>
<ul style="list-style-type: none"> <li>▪ Customs clearance time is more predictable in HK.</li> <li>▪ Customs process is flexible and with a free-port trade policy in HK. HK has strength on customs processes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Custom policy changes too often and covers a short duration in China.</li> <li>▪ Logistics firms - difficult to cope with changes on the positive list and tax policy in China.</li> <li>▪ Customs processes in China is complex.</li> </ul>
<b>Opportunity</b>	<b>Threat</b>
<i>Simplification and improvement of customs procedure in the Big Bay Area</i>	<i>Disruptive effects of measures implemented by Chinese city government</i>
<ul style="list-style-type: none"> <li>▪ One of the expectations on the Big Bay Area would be simplification and improvement of the customs procedure.</li> <li>▪ Simplified procedure for cross-border truck.</li> <li>▪ Tax tariff has to be removed.</li> <li>▪ Customs and cross-border policies in China are improving, sometimes even more advanced than HK.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customs procedures are still different in the Bay Area for different cities, for example the customs procedures are different in Zhongshan and Shenzhen.</li> <li>▪ Different customs have different policies. The customs procedure is different for HK and Shenzhen.</li> <li>▪ Construction of Hong Kong-Zhuhai-Macau Bridge has been delayed, the completion date, customs clearance arrangement, and toll fee are unknown.</li> </ul>



## **6.6 Questions and Comments from Central Government (Appendix E.7, in Chinese)**

### **6.6.1 Questions**

The following questions is posed to representatives of the bureaus:

Q1: “As for the integration of the Big Bay Area, would the central government plan to integrate the nine cities in Mainland then further integrate with HK and Macau at a later stage, or integrate these 9+2 cities as a whole? Any specific measures for the integration?” (This question was first asked in section 3 relating to the approach of integration. It is also listed here since some of the comments from the Bureaus are related to custom policy.)

Q2: “An efficient customs clearance process is important to promote the import and export of goods along the Belt and Road Initiative. For the customs clearance process of land transport and rail transport, is there any difference in customs process and documents between the Belt and Road Initiative and the normal practice?”

### **6.6.2 Comments from Bureaus**

#### **6.6.2.1 Comments from Bureaus for Q1 are as follows.**

##### **Hong Kong and Macau Affairs Office of the State Council:**

- It is subject to WTO restrictions as there are three tariff zones in the Big Bay Area.

#### **6.6.2.2 Comment from Bureau for Q2 is as follows.**

##### **General Administration of Customs:**

- HK and the Mainland already have the relevant green channel, and customs clearance could be speeded up by advance notice.

## 7. Single Window

### 7.1 Background

United Nations described a Single Window (SW) facility can improve the implementation of standards, techniques and tools for simplifying and expediting information flows between traders and government. It defines SW as a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfil all import, export, and transit-related regulatory requirements<sup>59</sup>. If information is electronic, then individual data elements should only be submitted once. United Nations Network of Experts for paperless Trade (UNNEXT) suggested approaches in achieving SW by developing paperless customs, e-payment for customs duty, container loading list and electronic documents exchange. The SW should further connect other government back-end information technology systems and exchange electronic document with other air and sea port communities. The ultimate goal of SW should be an integrated national or regional logistics platform allowing information exchange for traders and logistics service providers with the government (Appendix F.1).

China has announced in 2017 the extension of SW development from 6 provinces, including Tianjin and Guangdong, to 13 more provinces, including Beijing and Shanghai. Implementing SW in these areas reduces the time for enterprises in handling customs processes from 3 days to 2 hours. HK announced a similar initiative in 2016 and expected full implementation to be completed on 2024. Framework standardisation and integration of SW in HK, China and other cities of the Big Bay Area will certainly be one of the major directions in facilitating trade flow and logistics operations efficiency.

In HK, 51 business-to-government (B2G) trade documents, required by 9 government agencies for import, export and transshipment of goods, are still needed before the commencement of SW. These documents, in electronic or paper mode, are related to Import and Export Declaration (TDEC), Cargo Manifest, Advance Cargo Information (ACI), Food Import Declaration, Certificate of Origin, Licenses, Permits and other documents for trading of goods into, out of and through HK. The documents are submitted to different government departments concerning customs, health, food safety, environment, trading, agriculture and fisheries, civil engineering, communications, and census and statistics. Government consultation papers, discussion forums and meetings with stakeholders about the development of trade SW in HK are carried out in 2016. Most of the freight forwarders welcome the initiatives while there also parties concerning the impact from the change as well as long implementation timeline, as many countries have already developed SW for years.

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<sup>59</sup> [https://www.unece.org/fileadmin/DAM/cefact/recommendations/rec33/rec33\\_trd352e.pdf](https://www.unece.org/fileadmin/DAM/cefact/recommendations/rec33/rec33_trd352e.pdf)

## 7.2 Single Windows in Big Bay Area

Further to the United Nations Economic Commission for Europe’s (UNECE) Recommendation setting out the basis for establishing a single window environment in 2005, a number of driving forces, including World Trade Organisation (WTO)’s Trade Facilitation Agreement and World Customs Organisation (WCO), pushes the countries, such as China, moving ahead to develop single window to achieve more effective trade facilitation. For cities in the Big Bay Area, customs procedures, tax policies and documentation systems are different in these cities, creating hurdles and burdens for trading companies and carriers. This lowers the productivity and increases operations costs for logistics companies. Guangzhou and Shenzhen are the very first few areas that develop and rollout SW, which could now be a reference for other cities including Beijing, Shanghai and cities in the Big Bay Area. The schedule of SW rolling out is shown in Appendix F.2.

## 7.3 Views from Interviews with Industrial Stakeholders

Industrial stakeholders comments on single window between Mainland and the two special administrative regions are shown in Table 7.1.

**Table 7.1 SWOT Analysis (Single Window)**

<b>Strength</b>	<b>Weakness</b>
<i>Fast development of China Single Window</i>	<i>Low level of electronic process in HK</i>
	<ul style="list-style-type: none"> <li>▪ Although a lot of electronic shipping documents are being used at present, there are still a lot of papers being used during the cargo delivery.</li> </ul>
<b>Opportunity</b>	<b>Threat</b>
<i>Facilitate Single Window integration in the Big Bay Area</i>	<i>Single Window in HK is far behind that in Mainland</i>
	<ul style="list-style-type: none"> <li>▪ The single window needs eight years to be completed in HK. This is far behind the development in China.</li> </ul>

## 7.4 Question and Comments from Central Government (Appendix F.3, in Chinese)

### 7.4.1 Question

The following question is posed: “Would the General Administration of Customs discuss with HK SAR Government for the arrangements on linkage of Mainland Single Windows and HK Single Window?”

#### **7.4.2 Comments from General Administration of Customs**

The comments are:

- Single Window had a pilot run in Shanghai then extended to the whole country, and the Single Window in Shanghai has been developed to a multi-functional platform.
- To facilitate the Belt and Road Initiative, China will establish a national Single Window in 2020.
- The Single Window of Mainland is ready to connect to and share data with HK Single Window.

## 8. Summary and Discussion

### 8.1 Stakeholders Views and Bureau Comments – A Summary

Table 8.1 summarises the key comments of industrial stakeholders and bureaus. In general, the Central government is leaning towards pursuing a two-phase approach to integrate the Bay Area: integrate 9 cities in the first phase and then 9 cities + 2 SARs in the second. Both industrial stakeholders and the Central Bureaus see merits in division of services in the Bay Area and that market force should be recognized as the basis for such divisions. Moreover, it was expressed that there exists uniqueness (e.g. geographical, functional) in different cities, which should not be overlooked. Between the 9 cities and 2 SARs, there are a variety of concerns on the alignments of systems and policies (e.g. customs, single window) as the former and latter have significantly different approaches. In the next section, we discuss these key issues and provide policy implications.

**Table 8.1 Summary of Stakeholders Views and Bureaus Comments**

Key Issues	Stakeholders Views	Bureaus Comments
Integration	<ul style="list-style-type: none"> <li>▪ It is unclear whether it is integration of 9 Mainland cities “in conjunction with” development in Hong Kong and Macau?</li> <li>▪ Big Bay Area could be considered as an extension of Free Trade Zone (FTZ).</li> <li>▪ The three regions have different institutional systems that are difficult to merge, such as the legal system and financial system.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Central Government is aiming to integrate the 9 Mainland cities first. HK and Macau will then join the process to achieve the overall integration and development.</li> <li>▪ The ultimate objective is to achieve free movement of materials, capitals, and services.</li> <li>▪ A committee will be formed with representatives of the 11 cities and central government. The central government’s representative performs co-ordination and liaison.</li> </ul>
Market and policy driven dynamics	<ul style="list-style-type: none"> <li>▪ Development of the Big Bay Area could be market driven instead of policy driven.</li> <li>▪ Consolidation of ports in PRD may be good in terms of elimination of vicious competition in the region but may be detrimental to free market competition.</li> </ul>	<ul style="list-style-type: none"> <li>▪ We ought to respect the law of the market during the development of the Area.</li> <li>▪ We encourage complementary development of the cities in the area.</li> <li>▪ The ports are needed to integrate and divide into East and West of the PRD.</li> </ul>
Division of services	<ul style="list-style-type: none"> <li>▪ HK ports not close to source of exports.</li> <li>▪ Cities and companies in the Area tends to compete instead of cooperate.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Each city should have its strategy for positioning in the Big Bay Area.</li> <li>▪ We support HK as a shipping centre, to further develop high value-added business.</li> <li>▪ We suggest the airports in the Big Bay Area to collaborate.</li> <li>▪ Aviation rights will be divided into three parts in China: North, East, and South. Further discussion is needed to decide which city to play as hub airport in South.</li> </ul>
Customs policy	<ul style="list-style-type: none"> <li>▪ Customs process is flexible and with a free-trade port policy in HK.</li> <li>▪ One of the expectations is simplification and improvement of customs procedure.</li> <li>▪ Different cities have different customs procedure and policies.</li> </ul>	<ul style="list-style-type: none"> <li>▪ It is subject to WTO restrictions as there are three tariff zones in the Big Bay Area.</li> </ul>

	<ul style="list-style-type: none"> <li>Custom policy changes too often and covers a short duration in China.</li> </ul>	
Single window	<ul style="list-style-type: none"> <li>Although lots of electronic shipping documents are being used, still a lot of papers being used during the cargo delivery.</li> <li>HK SW needs 8 years to be completed, that is far behind the development in China.</li> </ul>	<ul style="list-style-type: none"> <li>To facilitate the Belt and Road Initiative, China will establish a national SW in 2020.</li> <li>The SW of China is ready to connect to and share data with HK SW.</li> </ul>

## 8.2 Two-Phase Approach: Integrating 9 Cities first, then Integrating with 2 SARs

Largely due to “One Country, Two Systems” principle, both Hong Kong and Macau have a different system from the 9 cities. As such, one approach towards integration is a two-phase approach: begin by integrating the 9 cities first followed by integrating Hong Kong and Macau into the group.

Integrating the nine Mainland cities prior to involving the two SARs bears several advantages. The nine Mainland cities have similar institutional infrastructure, which can create early success of integration. Less coordination and lobbying effort will be needed for the integration of 9 cities.

However, to ensure holistic consideration, the design of integration would need participation of the SARs even during phase one. It bears reminding that Hong Kong represents not just a member city of the Bay Area. Hong Kong is an international city. An effective alignment of systems and policies between 9 cities and Hong Kong is crucial to the Bay Area’s connectivity to the rest of the world. This is also a critical step in the Belt-and-Road initiative.

### 8.2.1 Phase One – the 9 Cities

The goal is to remove obstacles of integration and to promote and allow free flow of material, information, capital, etc., within the region. The cities are to complement each other and to alleviate fragmentations and unhealthy competitions. While the 9 cities have similar institutional infrastructure (e.g. legal, financial, regulatory, customs, etc.), there are still considerable amount of issues to be addressed.

#### (i) Uniformity in Regulations and Policies

This would mean that the region would be under one system and have uniformity in policies – at least as much as possible. One important consideration is to have uniform treatments of trade and logistics regulation. Some relevant areas are:

- Customs processes and policies.** For many years, the customs processes and policies differ between Mainland cities in the region. While some industrial stakeholders still believe that the customs processes in the region remain complicated, others agree that positive reforms have taken place, that the custom processes are now uniform across the region, enabling the flow of

material to be far more efficient. However, there are still issues to be addressed (see also section 8.4).

- **Special zones in Bay Area (e.g. FTZs and Qianhai).** Consider FTZs and Qianhai in the Bay Area. These are designated regions having special features setup to facilitate trade and special services. Will these special regions be expanded to the entire Bay Area or will they continue in its present scope?
- **Subsidies from municipal governments.** There have been practices of local municipal governments offering subsidies to local industries. This practice would either need to be discontinued or that uniformity and control be established - such that subsidies would not be used to gain regional advantage over others.

## (ii) Corporate Governance in Bay Area

A special regulatory issue concerns the governance of SOEs in the Bay Area.

- **Cross ownership and consolidation.** Cross-ownerships in Mainland's SOEs are very common, and it raises concern on the distortion of market forces. Cross-ownership exists in both vertical and horizontal manners in many trade and logistics SOE's. This is a huge issue in corporate governance in Mainland, and to some extent, it has evolved to be a "characteristics" in Mainland. With respect to the Bay Area, it is possible that SOEs would be consolidated to achieve integration. Such consolidation could result in a monolithic super company having a monopolistic effect in the Bay Area.

## (iii) Division of Services

During or even before integrating respective cities in the Bay Area, it has been widely acknowledged that division of services would be pursued. In fact, the Bureaus have suggested that individual cities should establish their own positioning, allowing uniqueness of advantages of certain cities to be utilized. This is a huge topic and will be addressed specifically in section 8.3.

### 8.2.2 Phase Two: 9 Cities + 2 SARs

During the second phase of integration, there will need to have alignment of systems and policies between 9 cities and 2 SARs – as much as possible. Financial service and logistics are the pillar industries of Hong Kong. In addition, Hong Kong has many top-tier educational institutions and they are critical to the development of an innovation and technology hub in the Bay area.

## (i) Alignment of Systems and Policies

Industrial stakeholders' major concerns are the potential barriers of integration between 9 cities and SARs, given the differences in many systems (e.g. legal and financial systems).

- **Connect to international market.** Alignment with systems in Hong Kong is not just an isolated issue. Alignment with Hong Kong means facilitation towards global integration. It means facilitation of trading with international partners.
- **Cross border issues.** Clearly, cross-border issues would be of the highest concern. The goal is to support various stakeholders to improve cross border mobility and trade facilitation. Crossing border to Hong Kong also means alignment with international standards. Many systems in Hong Kong adopt international standards or are aligned with international systems. Customs and adopting the use of single window are discussed in section 8.4.
- **Government incentives.** To ensure uniformity in major market conditions, there will be a need for municipal governments in the Bay Area to agree on certain trade incentives and practices (e.g. subsidy for port usage).
- **WTO requirements.** The entire integration process must be placed within the WTO framework. It is very important that the integration and reorganization of entities in the region must be established within the boundaries defined by WTO. A healthy trade environment, of which sustaining a level playing field for all enterprises (foreign and domestic) is paramount, needs to be maintained. This also means that healthy regulatory measures must be balanced with market forces.

## (ii) Division of Services between 9 Cities and 2 SARs

Hong Kong, in general, is a market driven economy. It is an international city and has a free port. This requires efforts and cooperation between local governments of the 9+2 cities to develop a framework for division of services based on economic policy, environment and transport issues, and regulatory coordination. This issue will be discussed in the next section.

### 8.3 Division of Services

It has been pointed out by the Bureaus that respective cities in the Bay Area should seek their own positioning in the region. It has also been widely acknowledged that:

- Guangzhou greater area can be a manufacturing base.
- Shenzhen and Hong Kong can become an innovation and technology base.
- Macau and Zhuhai can become a tourism and hospitality base.



In the development of the Big Bay Area, each city or SAR needs to consider its own competitiveness and put the common benefit to the highest priority. Trade and logistics will continue to be the pillar industry in the region. In addition, the financial industry is also expected to flourish. Hong Kong could play a critical role as international financial centre facilitating trade flows. The Big Bay Area has its advantage in all the aspects of supply chain, namely cash flow, material flow and information flow.

From a bigger perspective, if the development strategies are well coordinated and planned, the opportunity to integrate 9+2 and to identify sustainable division of services could result in significant synergy, generating huge dividends in the Big Bay Area for years to come. On the other hand, if the degree of coordination is poor, then there will be poor allocation of resource and capacity, which often results in unhealthy competition rather than collaboration.

The following are some approaches to division of services:

- **Geographical approach: Two halves - dividing ports in PRD region as East and West.** The ports in the Bay Area are suggested to be grouped into two halves: one in PRD West (west of Pearl River) and PRD East (east of Pearl River). The assumption could be that ports in the east would handle good on the east side and ports in the west would handle goods in the west. That is, the market is divided geographically. There is also a corresponding issue of consolidating ports along the east-west divide. It should be pointed out that this might not be the result of a free market.
- **Natural or sustainable advantages approach.** This is in line with the proposal that greater Guangzhou would become a manufacturing base due to its existing clusters of manufacturing firms, that Shenzhen and Hong Kong would become an innovation and technology base due to the former's high technology firms and the latter's international connection, and that Macau and Zhuhai would become a base for tourism and hospitality enterprises due to Macau's gaming industry and Zhuhai's tourism.
- **Synergistic positioning approach.** It is clear that in the PRD region, the advantage is innovation, high tech industry, and manufacturing, which Hong Kong lacks. Hong Kong has its edge in finance, service, logistics industries, and education. Hong Kong's sound legal system and structure, as well as the intensive trading network are hard to be outperformed by other cities in the region. There is great opportunity for synergy. For example, universities in Hong Kong can cultivate the talents needed in the Big Bay Area. The knowledge transferred from universities can provide more innovation and high tech development opportunities. All these can contribute to the Big Bay Area's success. Similarly, greater Guangzhou manufacturing base could bring growth opportunity to its supplier network in its neighbouring cities. It can be anticipated that integration couple with division synergy and complementary positioning will improve the competitiveness of the whole region.

- **Strategic integration approach - a city's ability to integrate others (e.g. hub or center).** Hong Kong has been identified by Central Government as an international shipping center. This is largely due to Hong Kong's history as a gateway for China's export economy. HK could continue its leading position in the region through transport infrastructure and by providing high value-added services in addition to logistics operations. However, as far as passenger handling is concerned, as indicated by the Bureaus, it remains unclear whether the HK airport would be the hub airport in south China. Moreover, Shenzhen's high tech industry has flourished in recent years making it a strong candidate as an innovation and technology hub, bringing economic benefits to the Bay Area. Further, Guangzhou, other than having a manufacturing base in its hinterland, is also the administrative center of the region – capable of initiating integration policies of Bay Area.

#### **8.4 Customs Policies and Single Window**

A key factor in aligning 9 cities with 2 SARs, especially in trade and logistics facilitation, is in custom policies. China Customs and Hong Kong Customs are very different in terms of duties and authority. As a national administrative organisation that directly reports to the State Council, the General Administration of Customs is responsible for developing regulations on the collection of customs duties and the implementation details, organising and managing the collection of import and export tariffs as well as other taxes. Its direct-affiliated customs and subordinate customs are responsible for organising, supervising, monitoring and enforcing different policies in districts. The Customs and Excise Department of HKSAR, directly reporting to the Security Bureau of HKSAR, is one of the disciplined forces. The department is only responsible for collecting revenue, protecting and deterring against smuggling. It does not have the authority to develop any policies on tariffs.

Hong Kong's free trade port has become its most significant advantage. Also, only four groups of commodities are charged with excise duties in HK, making the procedures on customs declaration and clearance very simple. On the other hand, there are taxes levied on all imported goods and articles in China. Clearance can only be allowed through processing trade or in zones monitoring by customs, such as free-trade zones and export processing zones. This makes the clearance procedures much more complicated and time-consuming. We can see that the China Customs bears more duties and responsibilities. At the present, the China Customs is also implementing different policies and schemes, including the "Big Customs Clearance Policy", bonded area, electronic clearance system and customs transit scheme, in order to facilitate and promote international trades.

##### **(i) Single Window**

Over 70 economies over the world has implemented Single Windows, which has substantial impact in facilitating trade and logistics of goods. Cities in the Bay Area will benefit stakeholders on their productivity in documentation, customs declaration and licenses and permits submissions. The success of SW depends on its capability in

facilitating trade and logistics, exhibiting three major characteristics, namely flexibility, integrity and accessibility. The flexibility of SW platform is accessed on how it requires users in submitting the data, including submission channels and schedule. Integrity refers to the validation of data and capability in ensuring a complete data set is received for customs declaration. Accessibility covers the capability of data flow within and among SW platforms, ease of access, user-friendly interfaces, and security.

- **SW, e-Business and e-Commerce.** With major economies implemented SW to facilitate trade flows, the future of SW can be expanded to business to business (B2B) and business to consumer (B2C). The incomplete equation implies the unlimited connections to modern manufacturing, finance, medical system, agriculture, etc. It is regarded as the driver for the fourth industrial revolution in China, similar to 'Industry 4.0' strategy proposed in Germany.
- **Digital trade & transport network in Big Bay Area.** To facilitate trading and cross-border e-commerce, an integrated platform can be developed to connect end-to-end production with multimodal transportations. Respective cities in the Bay Area can collaborate over such integrated platform in the cloud environment. With such integrated platform, consumers can trace the origin of products and service through block chain mechanism. People and products are connected over the Internet in the region to build the new engine for seamless new product planning, production, distribution, finance, and consumer usage.
- **SW and e-Customs.** Looking into the development of SWs in Bay Area and overseas, single window can be utilized as part of the e-Customs process.

## **9. Suggestions and Recommendations**

We can see that there are quite a bit of concerns regarding the integration of the Big Bay Area and that Bureaus of the Central Government have given quite a bit of thought to many of those concerns. It is also clear that the issues relating to the physical integration of the Bay Area such as the Hong Kong-Zhuhai-Macau Bridge and high speed rail are largely quite clear. What remains quite unclear are the many policy issues that have been raised. In this section, we make suggestions and recommendations to decision makers to plan and develop logistics and trade facilitation in Big Bay Area.

### **9.1 Recommendations for the Two-phase Integration**

#### **(i) First Phase: Integrating 9 Cities.**

- While the integration concerns the 9 cities, it is highly recommended both Hong Kong and Macau can be involved during the deliberation in this phase. As an international city, Hong Kong can contribute by providing an international perspective.
- Uniformity in regulation and policies for the region should be pursued as much as possible. This extends to custom policies, licensing, subsidies, etc. The goal is to remove obstacles of integration and to promote and allow free flow of material, information, capital, etc., within the region.
- When consolidating potentially fragmented SOEs, it is possible that the market in the Bay Area may become monopolistic or oligopolistic. Decision makers need to assess the effect of such consolidation, both within the Bay area and with respect to international markets.

#### **(ii) Second Phase: Integrating 9 Cities with 2 SARs**

- During the second phase of integration, it is recommended that alignment of systems and policies between 9 cities and 2 SARs will be needed – as much as possible. This is Bay Area's connection to international market, where cross-border issues and differences in many systems (e.g. legal and financial systems) will need to be carefully addressed.
- It is recommended that municipal governments in the Bay Area agree on certain trade incentives and practices, including constructing single windows and digital platforms for trade and customs.
- The entire integration process must be placed within the WTO framework. A healthy trade environment, of which sustaining a level playing field for all enterprises (foreign and domestic) is paramount, needs to be maintained. It is recommended that healthy regulatory measures must be balanced with market forces.

## 9.2 Recommendations for Division of Services

We have identified at least four approaches to division of services: geographic, natural or sustainable advantages, synergistic positioning, and integrative positioning (hub or center). Of course, these approaches are not mutually exclusive.

- It is recommended that division could be in two phases: division according to natural or sustainable advantages to identify positioning of certain cities first, followed by synergistic positioning of a city's neighbouring cities.
- In the process of dividing services and positioning, there could also be consolidation of fragmented SOE's. Again, it is possible that the market in the Bay Area may become monopolistic or oligopolistic. Decision makers need to assess the effect of such consolidation, both within the Bay area and with respect to international market.
- It is recommended that the following suggestions be carefully examined:
  - Guangzhou greater area can be a manufacturing base.
  - Shenzhen and Hong Kong can become an innovation and technology base.
  - Macau and Zhuhai can become a tourism and hospitality base.

## 9.3 Recommendations for Customs Policies and Single Window

Since customs plays a signification role in trade and logistics, the engagement and collaboration of different customs are essential for addressing issues of Bay Area trade and logistics, such as standardizing customs clearance procedure, harmonizing cargo inspection and security, information exchange and mutual recognition of authorized economic operator.

Operationally, standardizing Guangdong's 9 cities in customs clearance will be relatively low in difficulty as all the customs policies are developed and introduced by General Administration of Customs. However, due to the "Two Systems" policy, to standardize Hong Kong and the 9 cities customs clearance procedure will be difficult. Hong Kong is a free port and its customs will need to work with the 9 cities customs to simplify cross border trade and logistics arrangements. Here, single window can be a great facilitating feature.

### (i) Single Window and Digital Platforms

Single window is not only a custom-processing mechanism, but a major feature in mobile e-business and e-commerce, as well as an important facilitating element in mobile Internet, cloud computing, big data and the Internet of Things.

- It is recommended that single windows be constructed across the Bay Area: a single window for 9 cities linking to respective single windows of Hong Kong and Macau.

- It is recommended that SW be linked to digital trade and transport platforms, which would be constructed for the Big Bay Area. Such platforms should be connected to each other and have interoperable capabilities:
  - Flexibility in facilitating trade and logistics stakeholders.
  - Interconnectivity with other SWs of Bay Area.
  - Interface with different platforms and integration with other sectors.
  - Technology advancement for safety and security platform.
  
- It is recommended that the construction of SW and digital platforms for the Big Bay Area be placed on the highest priority, as the benefits resulted from such an initiative are huge.

## Appendix

### Appendix A (Interviews and Meetings)

**Table A-1 Meeting Bureaus of the Central Government by HK Delegation in Chinese**

日期	時間	接見部委	議題
9月18日	09:00-10:00	國務院港澳事務辦公室	廣深港高速鐵路實施“一地兩檢”
			粵港澳大灣區城市群發展規劃
			整合粵港澳大灣區旅遊產業
9月18日	10:50-11:50	海關總署	華南機場綜合發展
			港珠澳大橋、深中通道
			港珠澳大橋交通運輸安排
9月18日	15:00-16:00	交通運輸部	蓮塘、香園圍新口岸配套
			促進中港跨境運輸
			自由貿易協議
9月19日	8:30-9:30	國家發展改革委員會	促進空運服務
			發展“單一窗口”區域平台
			港珠澳大橋綠色通道
9月19日	8:30-9:30	國家發展改革委員會	蓮塘、香園圍新口岸配套
			發展高端航運港口中心
			改善北京、華東地區航空交通流量
9月19日	8:30-9:30	國家發展改革委員會	港珠澳大橋、深中通道
			港珠澳大橋交通運輸安排
			促進中港跨境運輸
9月19日	8:30-9:30	國家發展改革委員會	粵港澳大灣區城市群發展規劃
			整合粵港澳大灣區旅遊產業
			華南機場綜合發展

### Appendix B (Integration)

#### B.1 “Report on the Work of the Government 2017”

In 2017 March, the Premier Li Keqiang delivered the “Report on the work of the Government 2017” and stated that “we will promote closer cooperation between the Mainland, HK and Macau. We will draw up a plan for the development of the city cluster in the Guangdong-Hong Kong-Macau Greater Bay Area, give full play to the distinctive strengths of HK and Macau, and elevate their positions and roles in China's economic development and opening up.”<sup>60</sup>

#### B.2 Views on Development of the Big Bay Area

Zhao, of the Guangdong Academy of Social Science, thought that the Big Bay Area is a geographical concept.<sup>61</sup> The implementation of ‘one country, two systems’ brings a diversified landscape of economic and social development with the Big Bay Area. On the other hand, the Institute of Studies for the Big Bay Area pointed out that the diversified systems might become an institutional advantage that could provide a more flexible institutional arrangement for

<sup>60</sup> <http://www.gov.cn/zhuanti/2017/hzfgzbg/>

<sup>61</sup> <http://news.cnstock.com/event,2017xghg-2017xghgtt-201706-4096730.htm>

connecting the world and promoting the facilities under the ‘One Belt One Road’ initiative. Free ports, Special Administrative Regions, special economic zones and free trade pilot areas could also bring along positive additive effects, which could expand the exploration of trade and industry cooperation.

### B.3 Four Stages of Integration<sup>62</sup>

The first stage is the integration of trade, that means cancelling restrictions on the goods circulation. The second stage is the integration of elements, that means implementing free flow of production elements and setting up common trade barriers towards other countries. The third stage is the integration of policy, achieving the policy coordination raised by the government. The fourth stage is the overall integration, integrating all policies, including monetary and financial policies.

### B.4 Question and Comments from Bureau Representatives in Chinese

**Table B-1 On the Approach of Integration – Question and Comments from Bureau Representatives**

問題	部委回應
<p>1. 對於大灣區內各城市的融合，中央政府是採取先融合珠三角九個城市，再與香港、澳門合作，還是 9+2 整體一體化，有何具體措施落實？</p>	<p style="text-align: center;">國家發展和改革委員會</p> <ul style="list-style-type: none"> <li>▪ 希望大灣區走由下而上推動的發展模式</li> <li>▪ 大灣區要融合發展，協同發展，合作發展</li> <li>▪ 發改委對於大灣區的發展模式與內容沒有預設方案，歡迎各界人士提出意見和方案</li> <li>▪ 已成立大灣區發展的協調工作小組，繼續深化改革</li> <li>▪ 大灣區的新規劃要突破以往的限制</li> <li>▪ 建設粵港澳大灣區為“宜居宜游宜工作”的國際性灣區</li> <li>▪ 爭取大灣區內建立一個統一、綜合的數據統計機制</li> <li>▪ 大灣區發展過程中會尊重特區政府的管治，堅持一國兩制</li> </ul>
	<p style="text-align: center;">國務院港澳事務辦公室</p> <ul style="list-style-type: none"> <li>▪ 中央政府傾向的一體化進程是內地九個城市先融合后再與港澳地區協調以最終達致粵港澳大灣區的整體發展</li> <li>▪ 希望大灣區裡的整個城市群共同發展，雖然不同的關稅區，不同的法律制度會對融合發展造成一定困難，但可做的事情還很多</li> <li>▪ 廣州是灣區內的其中一個重要城市，但仍需借助香港和澳門走出去，尋找更多的機遇，而香港和澳門也能在廣州的發展中找到商機</li> <li>▪ 最終目標是實現物流、資金、服務等要素的自由流動</li> <li>▪ 將來會成立由 11 個城市代表組成的大灣區專責小組，中央政府也會派駐代表，並承擔統籌、聯絡的角色</li> </ul>

<sup>62</sup> <http://hk.crntt.com/crn-webapp/touch/detail.jsp?coluid=7&kindid=0&docid=104815450>



## Appendix C (Policy-driven vs Market-driven)

### C.1 Financial Services Development Council & Innovation and Technology Bureau

HK's former CEO, Leung Chun-ying, also set up a new Financial Services Development Council and promised that his cabinet would discuss a closer economic partnership with the Mainland. In addition, the new Innovation and Technology Bureau to boost technology industries has been setup.

### C.2 Question and Comments from Bureau Representatives in Chinese

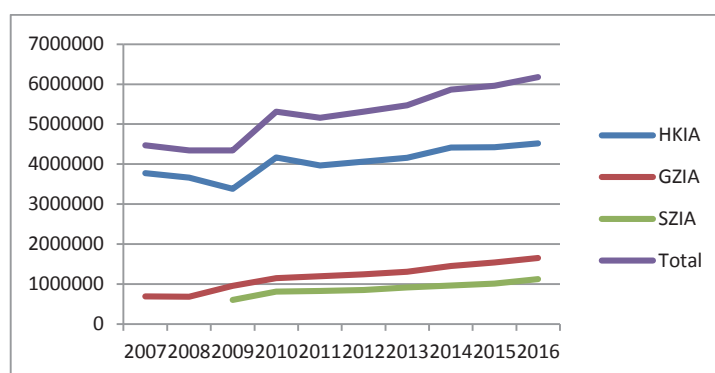
**Table C-1 On Market Economy and Policy-driven Economy - Question and Comments from Bureau Representatives**

問題	部委回應 - 國家發展和改革委員會
<p>1. 中央政府透過《粵港澳大灣區城市群發展規劃》協調粵港澳大灣區內港、澳及區內各城市的合作是十分重要，以促使區內城市群能各司其職。對於共同建設粵港澳大灣區，請問發展規劃是怎樣的，有沒有具體時間表？</p>	<ul style="list-style-type: none"> <li>▪ 大灣區的發展要尊重市場力量</li> <li>▪ 希望大灣區走由下而上推動的發展模式</li> <li>▪ 發改委對於大灣區的發展模式與內容沒有預設方案，歡迎各界人士提出意見和方案</li> <li>▪ 大灣區的港口需要整合，可用珠三角來劃界，劃分為東西兩邊的港口</li> <li>▪ 鼓勵大灣區內各城市間要錯位發展，具體方案可由中國交通部，香港民航處等各專業部門共同商議後再做決定</li> </ul>

## Appendix D (Division of Services)

### D.1 Cargo Throughputs of Airports in HK, Guangzhou, and Shenzhen

Figures D-1 profiles the cargo throughputs of the three most high-ranked airports in the region across the years.



**Figure D-1 Total and individual cargo tonnes (2007-2016)<sup>63</sup>**

<sup>63</sup> [https://en.wikipedia.org/wiki/List\\_of\\_busiest\\_airports\\_by\\_cargo\\_traffic](https://en.wikipedia.org/wiki/List_of_busiest_airports_by_cargo_traffic)

## D.2 Passengers Performance of GZIA

As far as passengers are concerned, GZIA has been perceived as one of the two important international hubs in the Big Bay Area, besides HKIA. The recent development of GZIA has equipped it with strong capacity to surpass its sister airports in the region,<sup>64</sup> for instance, its expansion to five runways.<sup>65</sup>

## D.3 Main Ports in the Big Bay Area

Although main ports in the area are mainly owned/managed by the four companies: Modern Terminals Ltd (MTL), Sea Land Terminal Ltd., Hongkong International Terminals Ltd. (HIT), and COSCO-HIT, it is mainly HIT and MTL competing with each other due to the high degree of cross-ownership among the ports. Apparently, cross-ownership strategy has made the ports compete but also cooperate with each other in the region.

## D.4 Statistics of Main Ports in the Big Bay Area

The recent statistics, as shown in Figure D-2, reveal that the number of TEU of the ports in HK is declining although the terminal efficiency is still significantly higher than those of Guangzhou and Shenzhen.<sup>66</sup> Figure D-2 further shows that both ports in HK and Shenzhen step into a mature stage while the ports of Guangzhou are growing. This result is congruent with the finding of Liu et al. (2013).<sup>67</sup>

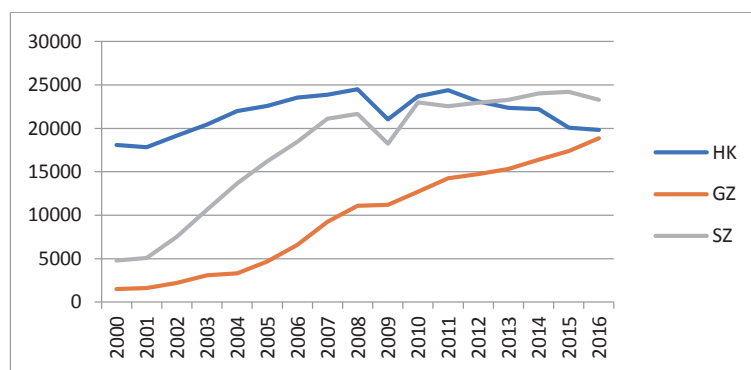


Figure D-2 Bay Area Container Ports ('000TEU)<sup>68</sup>

<sup>64</sup> <http://www.scmp.com/business/companies/article/2098722/guangzhou-airport-edge-out-hong-kong-dominant-regional-hub-coming>

<sup>65</sup> <http://www.scmp.com/comment/insight-opinion/article/1742794/how-can-hong-kong-compete-regional-airport-battle>

<sup>66</sup> [http://repository.um.edu.my/9250/1/Munisamy%20and%20Singh\\_Benchmarking%20the%20efficiency%20of%20Asian%20container%20ports.pdf](http://repository.um.edu.my/9250/1/Munisamy%20and%20Singh_Benchmarking%20the%20efficiency%20of%20Asian%20container%20ports.pdf)

<sup>67</sup> Liu, L., Wang, K. Y., Yip, T. L. (2013), Development of a container port system in Pearl River Delta: path to multi-gateway ports, *Journal of Transport Geography*, 28, 30-38.

<sup>68</sup> <http://xxw3441.blog.163.com/blog/static/75383624201651275859365/>

## D.5 Question and Comments from Bureau Representatives in Chinese

Table D-1 On the Division of Services – Question and Comments from Bureau Representatives

問題	部委回應
	國家發展和改革委員會
1. 對於大灣區內各城市的融合，中央政府是採取先融合珠三角九個城市，再與香港、澳門合作，還是 9+2 整體一體化，有何具體措施落實？	<ul style="list-style-type: none"><li>鼓勵大灣區內各城市間要錯位發展，具體方案可由中國交通部，香港民航處等各專業部門共同商議後再做決定</li></ul>
	國務院港澳事務辦公室
	<ul style="list-style-type: none"><li>大灣區內各城市要有自身的定位</li></ul>
	國家發展和改革委員會
2. 中央政府會否考慮成立專責委員會，以協調大灣區內各機場及港口碼頭的定位及分工？	<ul style="list-style-type: none"><li>支持香港作為航運中心，向高增值業務發展，如航運保險</li><li>香港和澳門民航處可與內地民航局商討航權、空運業務如何分配</li><li>內地與港澳近年已建立一個合作機制，在空運分配上會加強合作</li><li>珠三角地區的機場雖然競爭激烈，但得益於強勁的航空運輸需求增長，各機場都能維持良好增長勢頭</li><li>民航局也關注區內過度競爭的問題，會與香港方面協調，空管部門已經要求取消某些載客量少的航班或航線</li><li>大灣區的港口需要整合，可用珠三角來劃界，劃分為東西兩邊的港口</li></ul>
	國務院港澳事務辦公室
	<ul style="list-style-type: none"><li>原則上建議各機場間開展合作，但具體措施需要三地民航處去商談和制定</li><li>內地民航局已與港澳民航處簽有合作框架協議</li></ul>
	交通運輸部
3. 中央政府是否考慮放寬流量控制和空域管制，降低由於流量控制而導致航班延誤的發生概率？	<ul style="list-style-type: none"><li>臨近機場之間的爭奪航空流量的問題並不是只存在於珠三角地區，在其他地區，如成都，重慶和昆明之間也存在同樣的問題</li><li>將來會採取“北東南”三分航權的措施：北京和上海分別作為北部和東部地區的樞紐中心，其他臨近機場則擔當輔助的角色；至於南部地區是由香港，廣州還是深圳擔當樞紐角色還需進一步的研究討論</li><li>涉及到具體航空系統方面的問題，需要由民航局來協調和處理</li></ul>

## **Appendix E (Customs)**

### **E.1 Responsibilities and Main Duties of China Customs<sup>69</sup>**

#### **E.1.1 The Responsibilities of China Customs**

##### **Supervision**

The Customs shall exercise different management systems towards different inward and outward means of transport, goods and articles in accordance with the Customs Law, related law and regulations, ensuring the authenticity of such act as well as the legality of the administrative management adoption.

##### **Tax Collection**

Import and outport taxes, collected by the Customs on behalf of the country, refer to an indirect tax, including customs duties, consumption tax, value-added tax, ship tonnage and customs supervision fees, imposed on the imports and export goods as well as inward and outward goods.

##### **Smuggling Inspection and Combat**

Smuggling inspection and combat is a safeguard measure taken in order to ensure smooth implementation on supervising the management of the inward and outward procedures.

##### **Customs Statistics Compilation**

Customs statistics is a statistical result and analysis on the import and export goods by collecting, integrating, and processing of the declarations on the import and export goods as well as other declarations approved by customs. Customs statistics is official statistics that would be announced and addressed publicly.

#### **E.1.2 The Main Duties of China Customs**

The General Administration of Customs, P.R.China is responsible for studying and drafting the China Customs Policy, which is implemented by direct-affiliated customs and subordinate customs.

##### **The General Administration of Customs, P.R.China is responsible for:**

- Studying and developing regulations on the collection of customs duties and the implementation details; organising and managing the collection of import and export tariffs as well as other taxes; adhering to the measures on Antidumping and Countervailing Duties.
- Organising the supervision on the inward and outward means of transport, goods and articles; study, develop and implement the supervision on processing trade, bonded zone, processing zones for exports and bonded warehouses.
- Studying and developing catalogs for import and outport goods; developing rules and regulations on the origins of export goods; implementing the customs protection of intellectual property rights.

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<sup>69</sup> <http://www.customs.gov.cn/>

- Compiling and announcing the statistics of national import and export trades.
- Studying and outlining the plan of port opening as well as specific measures and implementation methods; outlining an overview on the plan of port opening.

**Direct-affiliated Customs is responsible for:**

- Carrying out customs clearance; organising and supervising subsidiaries on customs operations, such as clearance, tax collection, inspection and discharge.
- Developing and implementing monitoring systems on different types of customs supervision sites, inward and outward goods and means of transport.
- Developing and implementing control measures on trades; collecting taxes; supervising processing trade; categorising and managing corporates; and protecting the outward of intellectual property rights.
- Sorting out statistics on trade and business of customs clearance and analysing the statistics result.

**Subordinate Customs is responsible for:**

- Carrying out general work of clearance, such as declaration approval, tax collection, verification, inspection, discharge, etc.
- Supervising the processing trade in different customs districts.
- Carrying out supervision on the inward and outward means of transport as well as its fuel, materials and any spare parts; collecting the ship tonnage.
- Managing the storage, movement, discharge and any handling of goods under customs clearance, transfer and tax-protection.
- Conducting a risk analysis of means of transport, inward and outward goods and any supervision sites; implementing different risk management measures.
- Handling the registration of customs clearance from the Customs Declaration Units in different customs districts.
- Approving applications of the establishment of customs supervision sites in the district as well as the carrier sub-contracting of customs-supervised goods.
- Carrying out follow-up supervision on specific tax-exempted goods in the customs districts.

**E.2 Big Customs Clearance Policy Example<sup>70</sup>**

The Big Customs Clearance Policy could also help develop an integrated platform to centralise all of the port information, standardising and enhancing information flow, documentation flow, cargo flow and capital flow at the port which enables effective information sharing.

Take Shenzhen Customs as an example. Shenzhen Customs is one of the major law-enforcement departments at the Shenzhen Port, and is a crucial participant of the development of the “Big Customs Clearance Policy”. Shenzhen Customs have been improving the clearance services and creating a “Big Customs Clearance” environment by implementing different measures, including:

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<sup>70</sup> <http://wiki.mbalib.com/zh-tw/%E5%A4%A7%E9%80%9A%E5%85%B3>

- I. From January 2001, Customs Clearance Reform on Land has been introduced in full scale. The land port in Shenzhen and 73 customs transfer checkpoints in the province have adopted the new monitoring system on the transportation of the customs transfer procedure. The new measure requires advance declaration, speedy discharge of goods at the port customs, inspection and monitoring procedure mainly carried out by the land and sea customs, in order to realise a streamlined procedure of “single declaration, single inspection and single discharge” policy. In the past, it needs 45 minutes on average to discharge a vehicle clearance at the port, it reduces to only 1 to 2 minutes after adopting the new measures. This has significantly eased the port traffic and strengthened the efficiency of the supervision and monitoring. In the same year, Shenzhen Customs introduced the “automated e-inspection system” at the port and highway, which could improve the clearance efficiency, achieve an effective law-enforcement, and facilitate the trade integration.
- II. “Big Customs Clearance Policy” is a huge systematic project, involving various industries and a number of different law-enforcement departments and parties, such as customs, entry-exit inspection and quarantine, airports, seaports, shipping agents, freight forwarders, customs brokers, marine department, border department, communications department, banks, logistic companies, warehouses, tax department, etc. As a major promoter of the “Big Customs Clearance Policy”, Shenzhen Customs has been working hard on deepening its automated clearance reform and proactive strengthening the cooperation with the managing departments of other ports under the integrated deployment of Shenzhen Municipal Government, in order to build a smooth and efficient customs clearance environment.

### **E.3 Bonded Area and Free Trade Zone**

#### **E.3.1 Bonded Area in China<sup>71</sup>**

After the first bonded zone in Shanghai, the State Council had also approved the establishment of 14 bonded zones and a special economic development area with the preferential policies of free trade zones later. These zones include Tianjin Port, Dalian, Zhangjiagang, She Tau Kok, Futian, Fuzhou, Haikou, Xiamen Xiangyu, Guangzhou, Qingdao, Ningbo, Shantou, Yantian Port, Zhuhai Bonded Area, and Yangpu Economic Development Zone in Hainan. Right now, all the facilities in 15 bonded areas across the country have been approved by the General Administration of Customs and put into operation.

With China’s WTO admission, the regional pattern of the bonded area across the country has been formed. In the southern part, there is the Pearl River Delta Region where Guangzhou and Shenzhen lies. In the middle part of China, there is Yangtze River Delta Region where Shanghai and Ningbo lies. In the northern part, there comes the Bahai Bay Rim surrounding Tianjin, Dalian and Qingdao. These three bonded areas have become important ports for international exchange between China and the world. Besides, these zones have also developed a unique operation mode of logistics.

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<sup>71</sup> <http://wiki.mbalib.com/zh-tw/%E4%BF%9D%E7%A8%8E%E5%8C%BA>

### **E.3.2 Special Customs Supervision in GDFTZ<sup>72</sup>**

According to the official website of GDFTZ, in the bonded port area of Guangzhou's Nansha FTZ, Goods can be imported by import manifests first, and handled customs declaration in the later step.

### **E.4 Characteristics of Customs Transit under Speedy Customs Clearance<sup>73</sup>**

After the reform of customs transit, only 5 procedures are needed for waterway customs transit instead for 8 while only 4 procedures are needed for the land transit instead of 11. Characteristics of customs transit under speedy customs clearance as follows.

#### **Cancelling the Restrictions on Customs Transit**

Goods in bulk cargos, such as ore, coal, food and large machineries and equipments, could be transited and proceeded to declaration and tax collection processes at specific customs sites by different means of transportation except for the items and goods, including imported whole vehicles, waste materials and stainless steels, restricted by the national regulation.

#### **Simplifying the Customs Clearance Procedures**

The transit form for the import is no longer needed after the implementation of speedy clearance. Now, the local port customs would transmit the electronic information required for the clearance to the customs at the destination. After implementing the speedy clearance procedure, imported transshipments will be transited directly by the local customs to the customs at the destination. For non-transshipments, corporates are required to submit declaration in advance at the port of destination, so goods could be transited after the import.

#### **Speeding Up the Customs Clearance Procedures**

Applicants could now submit the declaration in advance at the port of destination, when they have the information and details of the transportation used, cargo/freight and the bill of lading, before transshipments entering the port. So, customs at the port of destination can start checking and approving the submitted declaration via such electronic information when the imported transshipments are in transit. Upon the arrival of these goods, customs could carry out the remaining clearance procedure in a timely manner, including the inspection, tax-collection and discharge.

#### **Facilitating the Tax Rebate of Exports**

After receiving the electronic information of manifests, customs at the port of destination would issue an electronic receipt to the customs at the departure origin within 3 days. Customs at the departure origin could complete the clearance procedure and the tax rebate visa for exported goods according to the information on the electronic receipts.

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<sup>72</sup> [http://www.china-gdftz.gov.cn/zjzmq/zmsyqjj/201604/t20160414\\_1723.html#zhuyao](http://www.china-gdftz.gov.cn/zjzmq/zmsyqjj/201604/t20160414_1723.html#zhuyao)

<sup>73</sup> [http://info.hktdc.com/shippers/vol25\\_6/vol25\\_6\\_chi12\\_02.htm](http://info.hktdc.com/shippers/vol25_6/vol25_6_chi12_02.htm)

## **E.5 Main Duties of Hong Kong Customs<sup>74</sup>**

### **Protection of Revenue**

There is no tariff on goods entering HK but excise duties are charged on four groups of commodities, whether they are imported or manufactured locally, for domestic consumption. These commodities are certain hydrocarbon oil (motor spirit, aircraft spirit and light diesel oil), liquor with alcoholic strength more than 30 per cent by volume, methyl alcohol and tobacco (other than smokeless tobacco). Licences are issued to those who import, export, manufacture or store dutiable commodities. The Customs and Excise Department also assesses the taxable value of motor vehicles, for the purpose of calculating the first registration tax payable under the Motor Vehicles (First Registration Tax) Ordinance.

### **Import and Export Clearance**

The Customs and Excise Department is responsible for reviewing the import and export clearance documents, ensuring accurate trade statistics, accessing and collecting import and export declaration charges and Clothing Industry Training Levy. The department also introduces the Electronic Cargo Clearance Platforms, including the Air Cargo Clearance System, the Electronic System for Cargo Manifests (Waterway) and the Road Cargo System, facilitating businesses on the customs declaration and clearance.

### **Trade Controls**

The Customs and Excise Department safeguards the certification and licensing systems, and deters and investigates offences of origin fraud. The department also investigates cases of import and export of strategic commodities and other prohibited articles, which are not in accordance with the licence requirement. It carries out cargo examination at the control points, factory inspections and consignment checks.

### **Prevention and Detection of Smuggling**

The Customs and Excise Department prevents and detects smuggling activities under the Import and Export Ordinance; enforces the licensing controls on prohibited articles by inspecting cargoes imported and exported by air, sea and land; processing passengers and their baggage at entry/exit points, and searching aircraft, vessels and vehicles entering and leaving HK.

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<sup>74</sup> <http://www.customs.gov.hk/tc/home/index.html>



## E.6 Comparison of the Customs Duties between the Mainland China and HK

**Table E-1 Customs Duties Comparison between China and HK**

	The General Administration of Customs, P.R.China	The Customs and Excise Department
Reporting to	<ul style="list-style-type: none"> <li>The State Council</li> </ul>	<ul style="list-style-type: none"> <li>The Security Bureau of the Government of the Hong Kong Special Administration Region</li> </ul>
Nature	<ul style="list-style-type: none"> <li>State administrative organisation</li> </ul>	<ul style="list-style-type: none"> <li>Disciplined force</li> </ul>
Collection of revenue	<ul style="list-style-type: none"> <li>Develops regulations on the collection of Customs duties and the implementation details.</li> <li>Organises and manages the collection of import and export tariffs as well as other taxes; adhering to the measures on Antidumping and Countervailing Duties.</li> <li>Carries out follow-up supervision on specific tax-exempted goods in the customs districts.</li> </ul>	<ul style="list-style-type: none"> <li>There is no tariff on goods entering HK but excise duties are charged on four groups of commodities.</li> </ul>
Trade Control	<ul style="list-style-type: none"> <li>Supervises on the inward and outward means of transport, postal goods and articles.</li> <li>Develops and implements the supervision on processing trade, bonded zone, processing zones for exports and bonded warehouses.</li> <li>Develops catalogs for import and output goods; develops rules and regulations on the origins of export goods; implements the Customs protection of intellectual property rights.</li> <li>Develops monitoring systems on different types of customs supervision sites, inward and outward goods and means of transport.</li> <li>Develops and implements control measures on trades; collecting taxes; supervising processing trade; categorising and managing corporates; and protecting the outward of intellectual property rights.</li> <li>Outlines the plan of port opening as well as specific measures and implementation methods; carryout an overview on the plan of port opening.</li> </ul>	<ul style="list-style-type: none"> <li>Safeguards the certification and licensing systems</li> <li>Protects against smuggling and fraud</li> </ul>
Import and export clearance	<ul style="list-style-type: none"> <li>Organises and supervises customs operations, such as clearance, tax collection, inspection and discharge.</li> </ul>	<ul style="list-style-type: none"> <li>Reviews the import and export clearance documents and collects import and export declaration charges.</li> </ul>
Customs Statistics	<ul style="list-style-type: none"> <li>Compiles and introduces the statistics of national import and export trades.</li> </ul>	<ul style="list-style-type: none"> <li>Compiles the trade statistics.</li> </ul>

## E.7 Question and Comments from Bureau Representatives in Chinese

Table E-2 On Custom Policy - Question and Comments from Bureau Representatives

問題	部委回應
	國務院港澳事務辦公室
1. 對於大灣區內各城市的融合，中央政府是採取先融合珠三角九個城市，再與香港、澳門合作，還是9+2 整體一體化，有何具體措施落實？	<ul style="list-style-type: none"> <li>大灣區裡三個關稅區並存，因此會受到 WTO 條款的限制</li> </ul>
	海關總署
2. 便捷的清關流程對於推動一帶一路的貨運進出口很重要。請問在陸運及鐵路運輸方面的清關流程及文件和一般進出口清關有沒有分別？	<ul style="list-style-type: none"> <li>香港和內地已有相關的綠色通道，可提前通報以加快清關</li> </ul>

## Appendix F (Single Window)

### F.1 SWs in Various Countries

Table F-1 SW Implemented in Various Countries or Unions

Country/Union	Commence Year(s)	Name of Platform(s)
U.S.	2017	Automated Commercial Environment (ACE)
U.K.	2016	National Maritime Single Window (NMSW)
Korea	2008	Korean Single Window – UNI-PASS system
Japan	2013	Nippon Automated Cargo and port Consolidated System (NACCS)
Taiwan	2013	Customs-Port-Trade (CPT) Single Window
Singapore	1989; 2017	TradeNet and TradeXchange (1989); National Trade Platform (NTP) (2017)
Malaysia	2009	National Singapore Window – MyTradeLink
Philippines	2010	Philippines National Single Window (PNSW)
Thailand	2011	Thailand National Single Window (NSW)
Vietnam	2014	The Vietnam National Single Window (VNSW)
Brunei Darussalam	2013	Brunei Darussalam National Single Window (BDNSW)
Myanmar	2016	Myanmar Automated Cargo Clearance System (MACCS) and Myanmar Customs Intelligence System (MCIS)
EU	2015	European Maritime Single Window (EMSW)
ASEAN	2013	ASEAN Single Window (ASW)

## F.2 SW in the Big Bay Area

**Table F-2 Pilot SW Rollout Schedule of Cities in the Big Bay Area**

Big Bay Area	SW Pilot Rollout
Dongguan	July 2017
Foshan	July 2017
Guangzhou	2014-2017
Hong Kong	2016-2024
Huizhou	August 2017
Jiangmen	July 2017
Macau	2015-2017
Shenzhen	2014-2017
Zhaoqing	July 2017
Zhongshan	July 2017
Zhuhai	2015-2017

## F.3 Question and Comments from Bureau Representatives in Chinese

**Table F-3 On Single Window - Question and Comments from Bureau Representatives**

問題	部委回應 - 海關總署
1. 海關總署是否會與特區政府研究連接兩個“單一窗口”的具體安排？	<ul style="list-style-type: none"> <li>▪ 單一窗口在上海試點後已經推廣到全國 26 個省份，而上海的單一窗口已經發展成一個綜合的多功能平台</li> <li>▪ 到 2020 年將在全國範圍內建立單一窗口，對接一帶一路</li> <li>▪ 內地的單一窗口已經做好準備與香港的單一窗口做對接，共享數據</li> </ul>

