



**Integrity and Professionalism – Key to Business Success
Conference for SMEs in Guangdong, Hong Kong and Macao**

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**The National 12th Five-Year Plan
and the New Environment, Opportunities and Challenges for the Development of
Small-and-Medium Enterprises (SMEs) in the Pearl River Delta (PRD)**

22 September 2011

Dr. Timothy TONG, ICAC Commissioner; Dr. FONG Man-Chong, Commissioner of the Macao Commission Against Corruption; Mr WANG Xuechang, Deputy Procurator-General of the Guangdong People's Provincial Procuratorate; ladies and gentlemen, Good morning!

I am very delighted to join you at this “Integrity and Professionalism – Key to Business Success” Conference for SMEs in Guangdong, Hong Kong and Macao jointly organized by the Independent Commission Against Corruption (ICAC) of Hong Kong Special Administrative Region, the Guangdong People's Provincial Procuratorate (GDPP) and the Commission Against Corruption (CCAC) of Macao Special Administrative Region to explore the new positioning and development prospects of the SMEs in PRD under the National 12th Five-Year Plan. My presentation topic today is “The National 12th Five-Year Plan and the New Environment, Opportunities and Challenges of Small-and-Medium Enterprises (SMEs) in the Pearl River Delta (PRD)”.

As we all know, the 12th Five-Year Plan is our nation's action agenda for economic and social development over the period of 2011 to 2015. It sets out clearly the strategic intent of our country and the work focus of the government in guiding market-oriented economy. The Plan features a dedicated chapter on the deepening of co-operation between the Mainland, Hong Kong and Macao, and defines the direction, scope and mode of co-operation. It not only creates a new environment facilitating co-operation of enterprises in the Mainland, Hong Kong and Macao, but also brings

about invaluable opportunities for SMEs' development in PRD. I would like to put across my views in the following three points:

I. New Environment for the development of SMEs in PRD

(1) Global economic environment

There has been a significant improvement in the economic situation of the emerging economies so far this year, with more rapid economic growth in countries like India, Russia and Brazil. The world economy is slowly recovering and has basically shaken off the shadow cast by economic crisis. The International Monetary Fund reckons the world economy grew by 4.3% in the first half of this year. Nevertheless, given the inadequate growth momentum of the world's major economies and worsening of sovereign debt crisis, crisis resolution still remains very difficult. While the loose liquidity situation cannot be altered in the short term, pressure on worldwide inflation will continue to mount. In such trend of development, although the basic condition of world economic recovery has not changed, the foundation for recovery is rather fragile and its process will be long and tortuous. This will bring uncertainties to the global operations of SMEs in PRD.

(2) Mainland economic environment

This year, the Mainland economy maintains a stable and relatively fast growth overall, achieving an annual GDP growth of 9.6%. The inflation is under control, with consumer prices in the first half of this year soaring 5.4% from a year ago. The effect of domestic demand intensified, resulting in a 16.8% boost in total retail sales of consumer goods and a 25.6% increase in fixed capital investment for the first half of this year. Private investment is active with a growth rate of 33.8%. Total imports and exports shot up 25.8% , with imports growing 3.6% point faster than exports. The imports and exports structure has improved, with trade surplus down 18.2%. New strategic industries have developed rather quickly, especially for the new energy such as wind and solar power. A good momentum of development is also observed in the modern service industry such as software, information services, cultural and creative industries. Credit growth has returned to normal while social financing scale is generally appropriate. Looking ahead, the stable and relative fast growth of Mainland economy will become the key drive of SMEs' development in PRD.

(3) Development conditions of SMEs in PRD

Most of the enterprises in PRD are SMEs, primarily engaging in the manufacturing industries of computer and electronic equipment, electronic appliances and machinery, metal products, textile and garment and plastic products, etc. Many of

these products occupy large market share in the world. In recent years, the number of enterprises engaging in the service sector has increased and their pace of development has picked up remarkably. This year, following easing of global financial crisis, operating conditions for SMEs in PRD have substantially improved. Their corporate profits have increased and operations have become stable. However, some SMEs in PRD encountered difficulties during the outbreak of global economic crisis in 2008. This shows the SMEs over there have a lower resistance to risk.

II. New Opportunities for the Development of SMEs in PRD

First, the 12th Five-Year Plan has provided a new development scope for SMEs in PRD.

First, our country has clearly specified the goals and strategies in development. During the 12th Five-Year Plan period, a basket of initiatives are put forward to accelerate economic growth; deepen reform and opening up; safeguard and improve people's livelihood; and consolidate and expand efforts to cope with global financial crises. With the targetted annual GDP growth at 7% and the share of service sector in GDP raised by 4%, there would be abundant business opportunities for Hong Kong and its enterprises which focus on the service sector. The per capita disposable income of urban residents and the net income of rural residents will increase by an average of more than 7% respectively, speeding up the urbanization process, upgrading the domestic consumption pattern and ensuring a promising domestic market.

Second, efforts will be stepped up to facilitate the development of SMEs. It is clearly promulgated in the 12th Five-Year Plan that more work will be done to facilitate the development of SMEs : enhancement of policy regimes; facilitation of SME transformation; strengthening of quality and integrity building; enhancement of product quality and competitive edge; establishment of a robust SME financial services and credit guarantee system; increase in SME loans and exploration of more channels for direct capital financing. Besides, implementation and enhancement of the tax preferential policy will also be carried out to alleviate the social burden of SMEs. While these policies can help SMEs tackle problems and provide impetus for sustainable development, they also demand higher standard operations of SMEs.

Third is the support rendered to the development of Hong Kong and Macao. The affairs of Hong Kong and Macao were discussed for the first time in a dedicated chapter in the 12th Five-Year Plan. It was written in a more systematic, concrete and specific approach, manifesting the Central Government's concern on Hong Kong and Macao and recognizing the significant function and positioning of Hong Kong in the development strategy of the country. The 36 policies and measures in support of

Hong Kong's economic development announced by Vice-Premier of the State Council Li Keqiang during his visit to Hong Kong in mid-August were well received by different sectors of the local community. Implementation of these initiatives is in full swing in the Mainland and some of them will also be applicable to Macao according to their characteristics.

Besides, CEPA also creates new development opportunities for the SMEs in PRD.

CEPA is one of the first free trade agreements ever concluded by the Mainland with an external region under WTO's scrutiny. Through continuous additions and amendments, CEPA and its seven supplements have opened up the Mainland markets for Hong Kong and Macao systematically. This is a free trade agreement with the highest level of liberalization in the Mainland.

The Mainland started to levy zero tariffs on all goods produced in Hong Kong and Macao from 1 January 2006. With gradual expansion and opening up of the trades in services, the number of service sectors opened up for Hong Kong reaches 44 with an accumulated 278 preferential tax items. For Macao, it reaches 43 with an accumulated 262 preferential tax items for Macao, showcasing the promotion of trade and investment facilitation.

Hong Kong SMEs are the direct beneficiaries of the implementation of CEPA. The Mainland has relaxed the market access conditions of foreign businessmen by reducing the minimum registered capital requirements of industries like investment trades and logistics. This has attracted a large number of Hong Kong SMEs investing in Guangdong and at the same time, created new development opportunities and scopes for the SMEs in Hong Kong and Macao. Opportunities are present for SMEs in the two places to integrate with the Mainland's manufacturing industry and leverage on their advantages in the fields of production management, marketing and sales, etc.

Second, the Mainland will basically realize a full liberalization of trade in services for Hong Kong and Macao by the end of the 12th Five-Year Plan period.

According to the classification criteria of WTO's GATS Services Sectoral Classification, the Mainland has liberalized 145 service sectors of Hong Kong, accounting for 90.6% of the total 160 service sectors under the said Classification. Liberalization measures for Macao are similar to those for Hong Kong which has already been enjoying the highest degree of preferential access to the Mainland market. In order to realize a full liberalization of the service trade for Hong Kong by the end of the 12th Five-Year Plan period, the Mainland will step up the following work:

First is to broaden the scope of liberalization, i.e. to further liberalize the trade in services in the Mainland for Hong Kong's service sectors aiming at realizing a basically comprehensive liberalization of trade in services for Hong Kong. By that time, the degree of liberalization endowed with Hong Kong by the Mainland in the free trade agreement will be the highest in the world.

Second is to further increase the depth of liberalization - 84 service sectors in the Mainland have been fully liberalized while 61 are partially opened up for Hong Kong. More efforts will be devoted to further enhance the scope and depth of liberalization for Hong Kong's trade in services.

Thirdly, regional co-operation in PRD has created a new platform for the development of local SMEs.

The PRD region is one of the relatively fast-growing regions in the Mainland with the most active economy. The Framework Agreements on Hong Kong/Guangdong and Macau/Guangdong Co-operation have constructed a new platform for the development of SMEs in PRD.

First, on further economic integration and more specific division of labour. Under the Framework Agreement on Hong Kong/Guangdong Co-operation signed in April 2010, both parties will embark on co-operation in eight major areas including infrastructure construction, modern service industry and technological innovation. Likewise, under the Framework Agreement on Macao/Guangdong Co-operation signed in March 2011, both parties will embark on co-operation in six major areas including the development of Hengqin Island, industries collaboration and cultural innovation. Both framework agreements elucidate the co-operation principles, economic development positioning, and working mechanism in addition to a more specific description of the division of labour for the Mainland, Hong Kong and Macao. The agreements will prove beneficial to advancing co-ordinated development in the PRD region.

Second, on the formulation of specific development objectives, duties and policy support. The two Framework Agreements clearly state that the PRD region will be built and shaped into the most dynamic and competitive city group in the Asia-Pacific region by firstly developing it into a new world-class economic zone with tremendous potential for development and growth. The Agreements also set out the policy objectives to help Guangdong, Hong Kong and Macao to exploit their own particular advantages and to strengthen systemic protection to co-operation in such areas of their advantages. This will definitely create a favourable business environment and bring business opportunities to SMEs in PRD.

III、New challenges for SMEs in their development

(1)Imminent need for SMEs in PRD to develop towards the two ends of the smiling curve

Many SMEs have grasped the opportunities of the early reform and opening up of PRD to develop and expand in their localities and become international large-scale enterprises subsequently. Many others, however, adhered steadfastly to the original mode of operation without any changes, focusing on production only and overlooking research, development and marketing in the course of their operations. Some remained stay put in low-end processing activities without technological contents and their own brand building. As a result, these enterprises suffered a lot in the financial crises thereafter. Hence, there is an imminent need for these enterprises to transform and upgrade. In parallel to developing towards the front end of the product value chain, strengthening product R&D, and adding value to their products, they should also progress in the areas of product marketing and brand building for the sake of increasing the scope of their business interests. In fact, these are also the objective requirements for enterprises to enhance competitiveness and sustain long-term development. The 12th Five-Year Plan has provided long-term development conditions as well as specific transformation and upgrading directions for enterprises.

(2) Imminent need for SMEs in PRD to strengthen their capabilities to explore global markets

Over a long period of time, the great number of manufacturing SMEs in PRD have been primarily engaging in the processing trade. A great ratio of their products were targeted for external sale, relying heavily on the global markets with their overseas marketing channels. There is now an imminent need for these SMEs to explore and expand their international markets. Most of the enterprises in the service sector in PRD are SMEs. Highly localized, these enterprises, however, are weak in their radiating capability in competing with large-scale transnational service enterprises. Facing the challenges of increased internationalization and globalization of regional economy, these SMEs have an imminent need to enhance their core competitiveness.

(3) Imminent need for SMEs in PRD to exploit their own advantages for mutual benefit and rational division of labour

Early economic prosperity with high industry concentration and variety benefited the PRD region. There is a relatively perfect industry chain of great complimentary product offer capabilities, high production efficiency and relatively low cost. On the other hand, enterprises in Hong Kong and Macao are well conversant with the global market regulations and have close external contacts. The two places need to exploit

their own particular advantages for mutual benefit and strengthen co-operation in respect of rational division of labour in order to perfect and upgrade the industry structure.

Ladies and gentlemen:

In the next few years, SMEs in PRD will enter into a new development era with greatly improved policy environment and unprecedented development opportunities. We believe that with strengthened co-operation and integration to brave the challenges, enterprises of the three places in PRD will achieve “business success through ethical business practices”.

Thank you.