

New reforms to build the Shenzhen Pilot Demonstration Zone and boost the development of the Greater Bay Area

Since the beginning of China's reform and opening-up, Shenzhen has been a "test bed" for reforms by pioneering new initiatives. By leveraging technology and innovation, Shenzhen has achieved significant economic success and has become one of the key driving forces in the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA").

Coinciding with the 40th anniversary of the establishment of the Shenzhen Special Economic Zone ("SEZ"), the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the "Implementation Plan for the Comprehensive Reform of the Pilot Demonstration Zone for Building Socialism with Chinese Characteristics in Shenzhen (2020-2025)"¹ (the "Plan"), giving the city greater autonomy to implement reforms in key areas.

In his speech on 14 October 2020, Chinese President Xi Jinping said he would support Shenzhen to implement comprehensive pilot reforms and grant Shenzhen more autonomy in important areas and key aspects of the reforms through batch authorisation. In the first batch, 27 reform measures and 40 authorised pilot initiatives were introduced.² President Xi highlighted that the basic policy of "One Country, Two Systems" must be fully and accurately implemented and the integrated development and mutual promotion of the Mainland, Hong Kong and Macao should be promoted.

The Plan aims to improve the system and mechanisms for market allocation of resources, the business environment, the high-level open economic system and the governance system for ecology, the environment and urban space.³ The Plan also puts forward goals for the next five years, demonstrating the Central Government's determination to develop Shenzhen as a "pilot demonstration zone for socialism with Chinese characteristics."



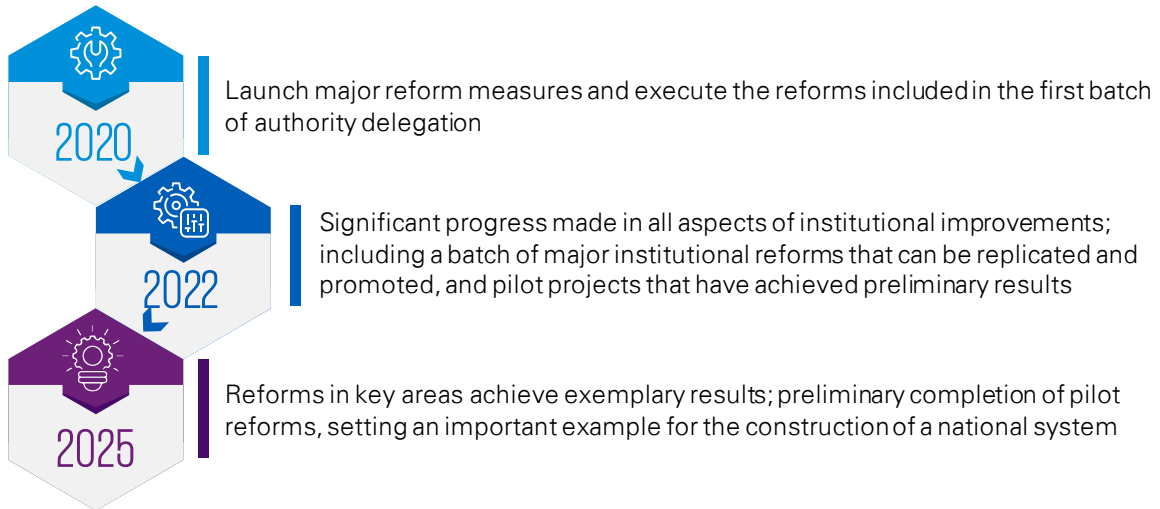
¹ State Council of the People's Republic of China, 中共中央办公厅 国务院办公厅印发《深圳建设中国特色社会主义先行示范区综合改革试点实施方案（2020－2025年）》，11 October 2020, http://www.gov.cn/zhengce/2020-10/11/content_5550408.htm

² Please refer to the list of items in Appendix 1

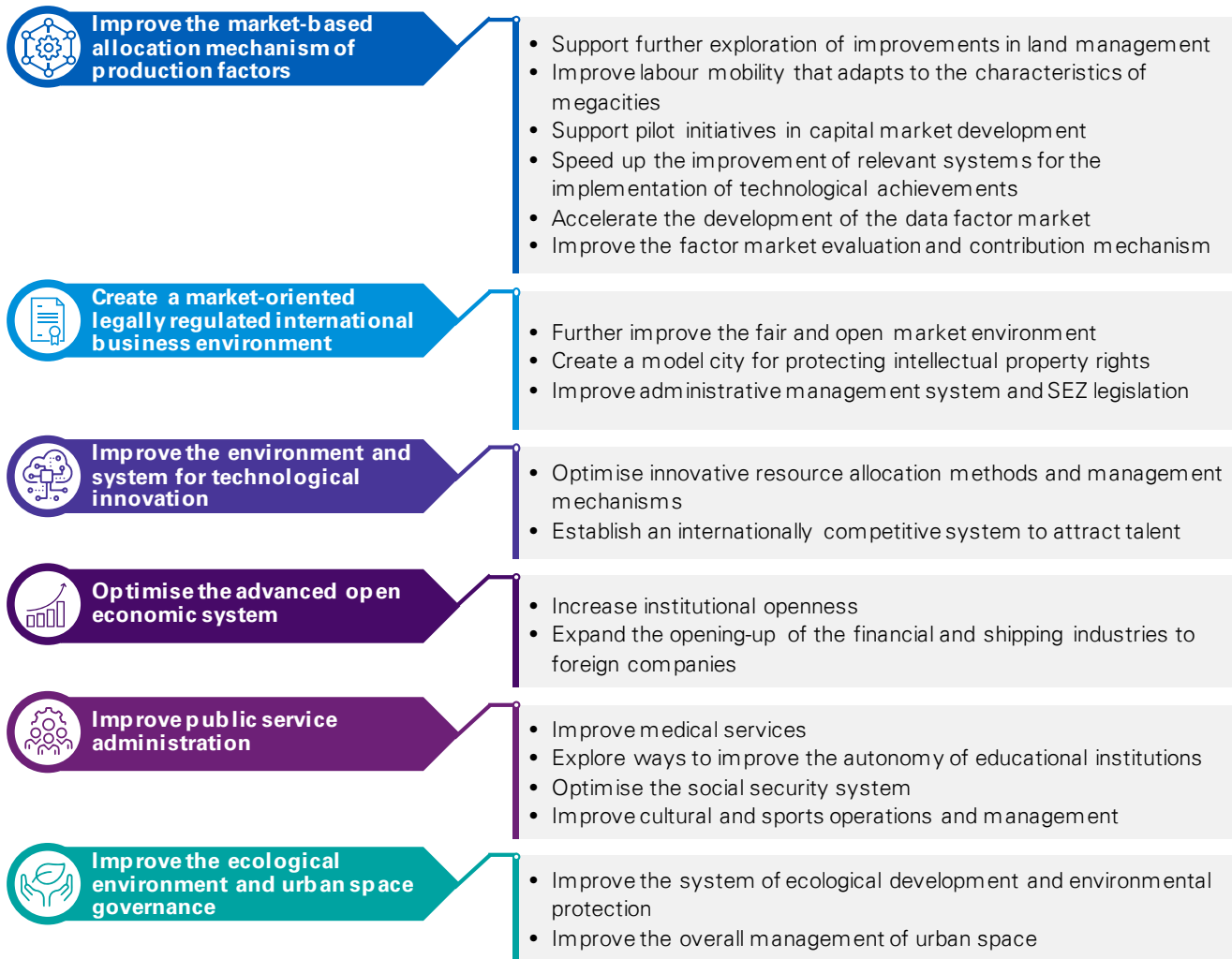
³ China Daily, "Xi: Forge ahead with reform, opening up", 15 October 2020, https://www.chinadaily.com.cn/a/202010/15/WS5f87821ca31024ad0ba7eb3d_2.html



Shenzhen's Timeline for Building a Pilot Demonstration Zone of Socialism with Chinese Characteristics from 2020 to 2025:



Key points of the Shenzhen pilot plan:



The plan proposes a series of reforms for the five elements of **land, labour, capital, technology** and **data**, as follows:



Land use:

The Shenzhen Municipal Government will be entrusted with authority previously held only by the State Council to convert agricultural land other than permanent basic farmland into construction land. The Municipal Government will promote the mixed use of land for secondary and tertiary industries, explore a market-oriented mechanism for the development and use of construction land, and improve the recovery mechanism for the correct use of idle land.



Labour resources:

The reforms permit the exploration of special working hours arrangements that meet the development needs of new technologies, new formats, new industries and new models. They also support establishing best practices for attracting overseas professionals, and relaxing restrictions on overseas personnel (excluding medical and health personnel) from participating in various professional qualification examinations.



Capital markets:

Various reforms will be initiated, including the pilot registration-based IPO system for the ChiNext board.



Technology:

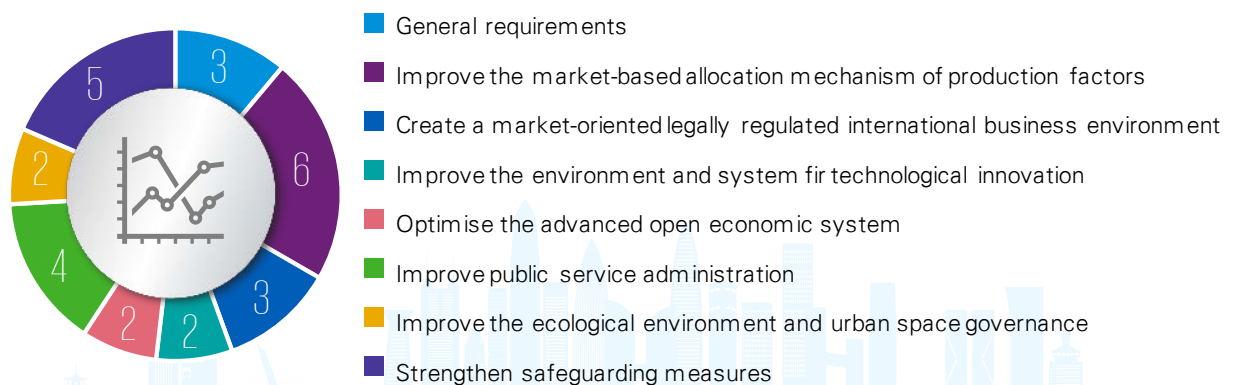
Mechanisms should be explored to enable patent rights for scientific and technological achievements of government-funded projects to be transferred to inventors or designers, as well as small and medium-sized enterprises, and enable royalties to be distributed.



Data:

New mechanisms should be explored for data property rights protection and utilisation.

Breakdown of the 27 Shenzhen Economic Zone Pilot Reform Measures



Source: State Council of the People's Republic of China



2020 Work Plan of the Framework Agreement on Hong Kong/Guangdong Co-operation

On 30 October 2020, Hong Kong Special Administrative Region (HKSAR) Chief Executive Carrie Lam and Governor of Guangdong Province Ma Xingrui signed the 2020 Work Plan of the Framework Agreement on Hong Kong/Guangdong Co-operation ("2020 Work Plan") in an exchange of letters, formalising their intent to jointly move forward with 57 measures covering eight major areas⁴ In 2010, the Framework Agreement on Hong Kong/Guangdong Co-operation⁵ was signed by the Hong Kong Special Administrative Region Government and the Guangdong Provincial Government after being approved by the State Council to establish a clear cooperation mechanism for both parties. In February 2019, the Central Government announced the Outline Development Plan of the Guangdong-Hong Kong-Macao Greater Bay Area⁶ ("GBA Outline Development Plan"), marking a new level of cooperation between Guangdong and Hong Kong within the framework of the GBA.

The 2020 Work Plan will continue to focus on the implementation of the GBA Outline Development Plan and further deepen cooperation between Guangdong and Hong Kong. The eight major reform areas⁷ include:



1. Cross-boundary infrastructure development and customs clearance facilitation



2. Joint development of an international innovation and technology hub



3. Fostering cooperation in modern service industries (including cooperation in the financial services sector and professional services, as well as cultural and tourism co-operation)



4. Taking forward co-operation in education, talents and youth matters



5. Developing an international business environment



6. Joint development of a quality living circle

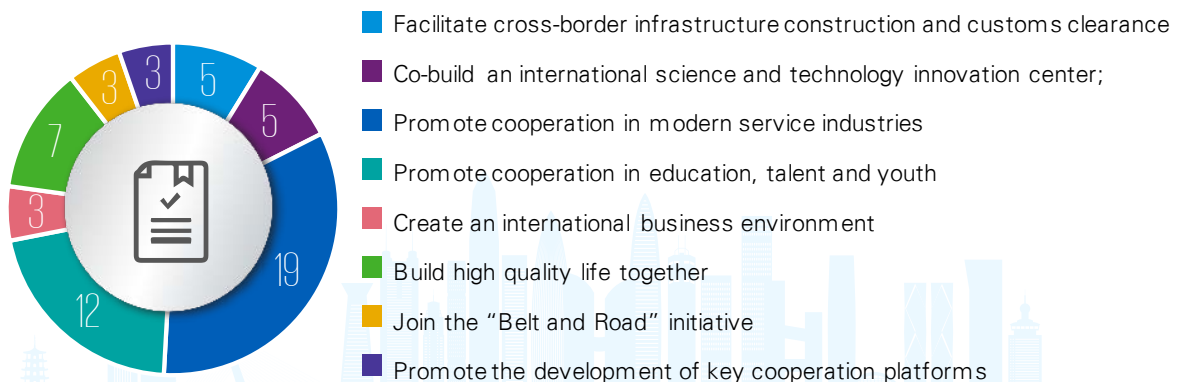


7. Joint participation in the Belt and Road Initiative



8. Taking forward the development of key co-operation platforms.

Breakdown of the 57 measures of the 2020 Work Plan of the Framework Agreement on Hong Kong/Guangdong Co-operation



Source: Hong Kong and Macao Affairs Office, the People's Government of Guangdong Province

⁴ Hong Kong and Macao Affairs Office, the People's Government of Guangdong Province, 实施《粤港合作框架协议》2020年重点工作, 30 October 2020, http://hmo.gd.gov.cn/zwgk/zcfg/content/post_3118080.html

⁵ HKSAR Government Constitutional and Mainland Affairs Bureau Legislative Council Panel on Commerce and Industry, Framework Agreement on Hong Kong/Guangdong Co-operation, April 2010, <https://www.cmab.gov.hk/upload/LegCoPaper/cicb1-1559-1-c.pdf>

⁶ HKSAR Government Constitutional and Mainland Affairs Bureau, Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, February 2019, https://www.bayarea.gov.hk/filemanager/sc/share/pdf/Outline_Development_Plan.pdf

⁷ HKSAR Government press release, 30 October 2020, <https://www.info.gov.hk/gia/general/202010/30/P2020103000495.htm>

The purpose of the 2020 Work Plan is to further facilitate exchanges between Guangdong and Hong Kong residents, improve the quality of life of residents in both places, promote innovation and technological development, strengthen cooperation in different sectors and industries, and help Guangdong and Hong Kong work together to enhance the leading role the GBA plays in the economic development and opening-up of the country. Some key tasks in individual areas include:

-  Improving the cross-border vehicle access policy and relevant entry-exit policies for the Hong Kong Zhuhai Macao Bridge
-  Accelerating the construction of the Guangzhou-Shenzhen-Hong Kong-Macao Science and Technology Innovation Corridor; effectively implementing policies on the cross-border use of scientific research funds; and facilitating cross-border payments
-  Based on the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) policy framework, continuing to deepen the implementation of measures to relax access restrictions on Hong Kong's service industry with regard to business scope, shareholding ratio limits, operating areas, qualifications, etc.
-  Improving Guangdong-Hong Kong financial cooperation mechanisms; jointly implementing the "Opinions on Financial Support for the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area" policy measures; and promoting further integration of Guangdong-Hong Kong financial cooperation within the context of national financial reform and opening up
-  Promoting the recognition of Hong Kong professional qualifications in fields such as tourism, medicine and health, and construction
-  Supporting international film and television exhibitions and exchange activities between Guangdong and Hong Kong and promoting events such as the Guangdong International Tourism Industry Expo and the Hong Kong International Travel Expo
-  Supporting the development of Guangdong and Hong Kong youth innovation and entrepreneurship bases; supporting the establishment of Guangdong and Hong Kong youth entrepreneurship and employment pilot zones; and promoting the construction of innovation workshops, cultural and creative communities, entrepreneurship zones, entrepreneurship valleys and other youth innovation and entrepreneurship bases. This also includes jointly building brands, increasing investment of resources, and launching comprehensive support services to encourage and attract more Hong Kong youths to move into these bases. Under schemes provided by the Youth Development Fund, young entrepreneurs can directly benefit from various support policies in the nine mainland China cities within the GBA⁸
-  Further promoting discussions and exchanges in industries that heavily utilise intellectual property (IP) to facilitate the creation, protection, usage and trade development of IP rights in both regions; and boosting the integrated development of advanced IP services and regional industries
-  Optimising and implementing policies and measures to facilitate property purchases by Hong Kong residents in Guangdong. This includes further simplifying the property purchase process and improving housing loan policies for Hong Kong residents, enabling them to eventually be treated the same as Guangdong local residents
-  Supporting Guangdong and Hong Kong enterprises to conduct investment negotiations in countries and regions related to the "Belt and Road" initiative; and supporting Hong Kong enterprises to expand their business in Guangdong's economic and trade cooperation zones overseas
-  Jointly developing the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and creating a demonstration zone in Nansha⁹ for comprehensive cooperation between Guangdong, Hong Kong and Macao



⁸ Youth Development Fund, Youth Development Commission, updated 1 December 2020, <https://www.ydc.gov.hk/en/programmes/startup/fund.html>

⁹ Xinhua, "China to advance Guangdong-Hong Kong-Macao cooperation platforms", February 2019, http://www.xinhuanet.com/english/2019-02/18/c_137831640.htm

Based on the Plan and the existing GBA policy framework, the sections below discuss how Shenzhen can play a leading role in the development of the GBA from five aspects: the construction of the GBA, the encouragement of innovation, the promotion of capital market reforms, the development of the digital economy and the expansion of policies that support further opening-up.

Construction of the GBA

President Xi pointed out in his speech at the Shenzhen 40th anniversary that the basic policy of “One Country, Two Systems” must be fully and correctly upheld to promote the integrated development and mutual promotion of the Mainland, Hong Kong and Macao. The Plan’s guiding ideology is to promote a higher level of Shenzhen-Hong Kong cooperation, which will serve as the “core engine” of GBA development. This also reflects the Party Central Committee’s comments in its “On Supporting Shenzhen in Building a Pilot Demonstration Zone for Socialism with Chinese Characteristics” paper issued in August 2019.¹⁰ The paper promotes the construction of the GBA as a way to enrich “One Country, Two Systems” while taking the lead in realising socialist modernisation. According to the paper, this reflects the role assigned to Shenzhen since the beginning of China’s reform and opening-up, and also shows its importance in the country’s overall development strategy.



KPMG analysis:



The construction of the GBA is a major national development strategy. The 2020 Work Plan aims to strengthen cooperation in various fields. Shenzhen is an important engine for the construction of the GBA. In the process of seizing major opportunities, it will actively promote the integration of rules and mechanisms for economic operation in the Mainland, Hong Kong and Macao, enhance the efficiency of the distribution of various factors, and advance market integration. Shenzhen will further embody innovation in all aspects of the business environment and its implementation path. Through the development of research clusters such as the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and the Hetao Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone, Shenzhen aims to set standards for best practices that can be emulated in other areas of China, and also attract more Hong Kong and Macao youths to live and study in the mainland.

GBA cities are expected to realise the benefits of cooperation by 2022, in accordance with the GBA Outline Development Plan. During this period, Shenzhen will take the lead in encouraging and guiding investment and expertise from overseas. The mutual promotion of Shenzhen-Hong Kong cooperation will allow the region to take advantage of Hong Kong’s status as an international financial hub.

In addition, with deeper and more extensive cooperation between Guangdong, Hong Kong and Macao, the GBA will further develop its position as a leading region with outstanding innovation capabilities, an optimised industrial structure, smoother allocation of resources, and a cleaner and more livable natural environment.

¹⁰ State Council of the People’s Republic of China, 中共中央 国务院关于支持深圳建设中国特色社会主义先行示范区的意见, August 2019, http://www.gov.cn/zhengce/2019-08/18/content_5422183.htm



Encouraging Innovation

President Xi mentioned “innovation” 27 times in his speech at the Shenzhen SEZ 40th anniversary celebration, emphasising that innovation is the main driving force for Shenzhen’s past and future development. The Plan proposes to optimise and innovate resource allocation methods and management mechanisms and support the implementation of both non-competitive and competitive “dual-track” scientific research funding investment mechanisms. Further, it aims to improve the management mechanisms of scientific research institutions and establish a consistent consulting system for government and enterprise scientific and technological innovations; implement targeted training systems for advanced scientific and technological talent; and establish an internationally competitive system to attract talent.



KPMG analysis:



Science and technology have played a central role in Shenzhen’s rapid rise. The city’s innovation development is taking advantage of the right timing, geographical location and talent pool. As China’s economic development enters a new stage, in order to achieve high-quality development, technological innovations need to closely follow the national strategy and market demand. They also need to break through the traditional management model of scientific research institutions and make full use of the relatively complete supply chain and technical expertise.

This innovative environment has given rise to internationally competitive companies such as Tencent, Huawei, BYD and DJI. These enterprises have become market leaders and centres for talent development in the fields of financial technology, artificial intelligence, intelligent manufacturing, and other emerging technology fields. Shenzhen’s comprehensive and diverse talent policies have strengthened its ability to attract overseas high-tech talent as well as develop local scientific research talent. These policies will help Shenzhen achieve its ambitions to become a global innovation centre.





Promoting Capital Market Reforms

The Plan proposes to pilot a registration-based IPO system in the ChiNext market of the Shenzhen Stock Exchange and conduct pilot innovative measures in the domestic issuance of stocks or Chinese Depository Receipts (CDR). It will establish a mechanism for companies listed on National Equities Exchange and Quotations (NEEQ) to transfer to other boards. Further, it aims to optimise the market access environment for private equity funds and market access and development conditions for venture capital companies.



KPMG analysis:



The capital market pilot measures cover the entire development cycle of innovative and entrepreneurial ventures, including start-up, investment and financing, the transfer of listing on NEEQ, the piloting of CDR, and the development of the registration-based system of the ChiNext. The CDR pilot program can facilitate the smooth return of overseas Chinese concept stocks to A-shares without dismantling the variable interest entity (VIE) structure, and further strengthen the Shenzhen pilot demonstration zone's support for leading technology companies.

In addition, the ["Opinions on Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area"](#) issued by the People's Bank of China and the four ministries and commissions of financial regulatory agencies in May proposed 26 specific measures in five aspects, aiming to promote the facilitation of cross-border trade, investment and financing in the GBA, and further opening-up of the financial services sector; while promoting the interconnection of financial markets and financial infrastructure, enhance the innovation level of financial services in the GBA, and effectively prevent cross-border financial risks. The measures are designed to further guide a higher level of financial opening, promote financial opening innovation, deepen financial cooperation between the Mainland and Hong Kong and Macao, increase financial support for the development of the GBA, and enhance the GBA's leading role in national economic development and opening-up.

Hong Kong's capital markets continue to facilitate access to international capital for innovative companies in the GBA. In 2018, the Hong Kong Stock Exchange amended its listing rules to allow New Economy companies with weighted voting rights (WVR) structures and pre-revenue biotech companies to list on the Main Board. These amendments not only provide innovative companies with new financing platforms and opportunities for sustainable development in the GBA, but also promote the internationalisation of these companies. The capital markets of Shenzhen and Hong Kong complement each other and provide compatible financing channels and solid capital support for companies in the GBA at different stages.





Development of the Digital Economy

In order to better support the development of the digital economy, the Plan specifically proposes accelerating the development of the data factor market, taking the lead in improving the data property rights system, and establishing a data privacy protection system. It also supports the development of a data platform in the GBA. It also calls for additional studies to assess the best approach in terms of whether to establish a data trading market or rely on existing trading venues to carry out data transactions. It also proposes carrying out pilot projects for statistical accounting of data production factors. With regards to digital currency, the Plan proposes establishing a financial technology innovation platform as a subsidiary of the People's Bank of China Digital Currency Research Institute in Shenzhen. It also supports the development of internal closed pilot testing of the digital Renminbi, and promoting international cooperation, R&D, and application of the digital Renminbi.



KPMG analysis:



The ["Opinions of the Central Committee of the Communist Party of China and the State Council on Building a More Comprehensive Factor Market Allocation System"](#) released on 30 March 2020 listed data as the fifth major production factor in addition to land, labour, capital and technology. The ["Data Security Law of the People's Republic of China \(Draft\)"](#) released in June is regarded as the basic law of the data transactions industry. In July 2020, Shenzhen took the lead in promulgating data economy regulations by announcing the ["Shenzhen Special Economic Zone Data Regulations"](#). Home to many high-tech enterprises, backed by the huge market in the GBA, Shenzhen has a solid foundation in big data and can serve as a hub for neighbouring cities to realise the value of data. To further promote the development of data as a standalone industry, Shenzhen has conducted pioneering research into a data assets trading system and the exploration of pricing standards.

Shenzhen is also at the forefront of China's development in digital currency and blockchain. For example, the Digital Currency Research Institute was launched in Shenzhen in 2017. Also, in October 2020, the digital Renminbi red packet pilot program was rolled out for all Shenzhen residents. The pilot scheme covered multiple areas such as digital Renminbi issuance, placement, circulation environment construction, personal account opening and consumption scenarios. The digital currency pilot will improve the level of internationalisation of the Renminbi and its governance, further enhancing China's financial competitiveness in the international market, and expanding its influence in the global financial payment and monetary system.





Additional opening-up policies

The Plan calls for further opening-up of financial and shipping industries, among others. It supports qualified foreign financial institutions to initiate the establishment of securities companies and fund management companies in Shenzhen. It also supports qualified foreign institutions to obtain payment business licenses in Shenzhen in compliance with laws and regulations. Finally, it aims to improve market access in energy, telecommunications, public utilities, transportation, education and other fields and further relax restrictions on foreign investment in frontier technology fields.



KPMG analysis:



The Central Government has granted Shenzhen the authority to formulate a list of certain industries, known as the “Shenzhen List”, that can enjoy relaxed market access compared to the National Unified Negative List Regime for Market Access. The “Shenzhen List” will remove restrictions on Sino-foreign joint ventures for the specified fields and make it easier for international industry leaders and leading companies in cutting-edge technology to move to Shenzhen. The scope of the Shenzhen Free Trade Zone will not be limited to Qianhai but will cover the whole of Shenzhen with respect to industries that will allow relaxed access to foreign investment. These measures will help Shenzhen develop into a major investment destination.

Through the Plan, the Central Government has provided Shenzhen with greater decision-making autonomy and looked to Shenzhen to come up with measures that can be replicated and promoted in other areas of China. Also, under the guidance of the GBA Outline Development Plan, Shenzhen is set to play a more pivotal role in the development of the GBA. Shenzhen’s development as a Pilot Demonstration Zone is expected to allow it to continue to set high standards that can be applied to other regions throughout China.



Appendix 1 - List of 40 authorised pilot initiatives in the “First Batch of Authority Delegation for the Comprehensive Reform of the Pilot Demonstration Zone for Building Socialism with Chinese Characteristics in Shenzhen”

Market-oriented allocation of factors

1. Authorisation and delegation of land use approval rights
2. Improve the natural resources asset-trading and supervision mechanisms
3. Carry out pilot projects for the advance-notice registration and transfer system in the secondary land market
4. Carry out a pilot reform of special working hours management
5. Support initiatives in capital market construction
6. Launch Shenzhen Stock Index Futures
7. Carry out pilot projects for domestic issuance of shares or Chinese Depository Receipts (CDR) by innovative companies
8. Optimise the market access environment for private equity funds
9. Explore and optimise the market access and development environment for venture capital companies
10. Carry out pilot projects for real estate investment trust funds in the infrastructure sector in accordance with laws and regulations
11. Explore and improve market-based pricing and transaction mechanisms for intellectual property and scientific and technological achievements
12. Classification and step-by-step liberalisation of the communications industry
13. Promote the construction of big data platforms and related mechanisms
14. Deepen the comprehensive reform of state-owned assets and state-owned enterprises

Business environment

15. Development of innovative industries and standardising organisational management systems to an international level
16. Carry out a pilot reform of the bankruptcy system
17. Launch a pilot program for the protection of new intellectual property rights
18. Innovation in staff management
19. Support Shenzhen to carry out reform of the administrative review system
20. Support Shenzhen to carry out administrative litigation system reform
21. Support Shenzhen to make full use of the legislative power of the SEZ

Technological innovation system

22. Explore and improve the management mechanisms of “Big Science” research plans
23. Optimise the technology transfer mechanism of scientific research institutions
24. Improve the financial system and mechanism to support technological innovation
25. Facilitate a streamlined visa application process for foreign talent
26. Explore a more streamlined residence application system for high-level foreign talent and an occupation list system for in-demand occupations
27. Implement a highly efficient practice system for overseas professionals

Opening to the outside world

28. Improve the jurisdiction system for foreign-related commercial disputes
29. Improve international legal services and coordination mechanisms
30. Launch pilot projects for the integration of domestic and foreign currencies in cross-border capital pool business
31. Pilot local government bond issuance mechanisms
32. Expand the opening-up of ports and shipping businesses
33. Deepen the reform of the international ship registration system
34. Grant the right of bonded refueling permission to ships on international voyages

Public service system

35. Relax access to new drugs developed internationally
36. Explore and improve the cross-border connection mechanism for medical services
37. Expand the academic autonomy of postdoctoral stations in enterprises

Ecological environment and urban space governance

38. Optimise the ecological environment management mechanism
39. Explore and optimise the approval mechanism for land use, forest use and sea use in construction projects
40. Carry out pilot projects for structural reform of aviation resources

For more details, please refer to the “List of the First Batch of Authority Delegation for the Comprehensive Reform of the Pilot Demonstration Zone for Building Socialism with Chinese Characteristics in Shenzhen” issued by the National Development and Reform Commission of the People’s Republic of China.

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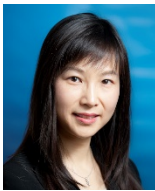
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