“One Metropolis, Two Systems”

Contextual Policy Recommendations for Enhanced Metropolitan Cooperation between Hong Kong and Shenzhen

Produced by:
University of Southern California
Sol Price School of Public Policy
PPD 613 International China Lab
June 6, 2014
# TABLE OF CONTENTS

1. INTRODUCTION

2. CONTEXTUAL DILEMMA

3. THREE-STEP BLUEPRINT PROPOSAL
   3.1 SYMPOSIUM
   3.2 COMMISSION
   3.3 FUNDING MECHANISMS

4. CONCLUSION

REFERENCES
1. Introduction

A border implicitly and explicitly creates a geographic, social, and economic divide between people who otherwise might not necessarily be separated. An international border divides the metropolitan area of the Special Administrative Region (SAR) of Hong Kong and the Mainland city of Shenzhen. It is at this boundary where differences between the two populations are amplified and traditional urban challenges take on an additional layer of complexity. This unique “One Metropolis; Two Systems” arrangement comes with its own inherent challenges, requiring additional steps to be taken in order to improve cross-border collaboration and comprehensive communication between Hong Kong and Shenzhen.

The cross-border metropolitan dynamic that exists between Hong Kong and Shenzhen is not globally unique. All over the world, borders run through metropolitan areas, making geographically close areas politically separate. Examples of this scenario in the United States include the Detroit-Windsor area with Canada, as well as the San Diego-Tijuana and El Paso-Ciudad Juarez corridors with Mexico. In these cases, logistics can complicate dialogue between separate jurisdictions. In the case of Hong Kong and Shenzhen, it is institutional and communicational difficulties that frequently override purely technical matters. This then inhibits collaboration and the implementation of metropolitan solutions. Case studies from similar cross-border regions from around the world help offer insight into how these dilemmas in Hong Kong and Shenzhen might best be addressed. These international examples demonstrate how economic and travel demands, coupled with innovative infrastructure and political solutions, can provide benefits despite inherently challenging circumstances.

Consequently, this report puts forth a three-step blueprint for improving cross-border collaboration and comprehensive communication between Hong Kong and Shenzhen. The three steps include: 1) establish a symposium to convene experts from Hong Kong and Shenzhen on a regular basis in order to promote...
better collaboration between the two cities; 2) use the symposium as the impetus for creating a metropolitan commission to exchange information, policy ideas, and best practices among Hong Kong and Shenzhen; and 3) create a funding mechanism for implementing the sector-specific proposals brought about by the commission.

2. Contextual Dilemma

Before these steps are pursued, it is important to understand the unique circumstances that characterize the region, which present challenges to various sectors between the two jurisdictions. These dilemmas include people's mistrust in government, heavy Mainland immigration, and the current strain on Hong Kong's services. These problems necessitate cross-border collaboration between the two entities despite the difficulty of working with different economic and political systems. Working through these differences and recognizing common ground are ways to reconcile these difficulties and move forward with policy propositions.

2.1 Mistrust In Government

Successful cross-border collaboration between two entities with different systems hinges on recognizing the common dilemma and priorities they share. This is difficult since Hong Kong's populace desires to remain distinct from the rest of China, while the Chinese government is interested in having Hong Kong become more integrated into the Mainland. Furthermore, the people of Hong Kong seek to modify their existing political system, in which the Central Government in Beijing currently weighs in heavily on the selection of Hong Kong's Chief Executive. While recent polls published by the University of Hong Kong indicate that more than 90 percent of the 62,000 people surveyed supported the idea of public elections in 2017, intense controversy surrounds exactly how the voting process will take place. Consequently, many decisions made by the current Chief Executive and Hong Kong's Legislative Council are not seen as fully legitimate by the public, adding to the distrust and dissatisfaction found in Hong Kong's current political discourse.

2.2 Immigration

Cross-border collaboration and communication becomes even more important with the influx of Mainland Chinese seeking permanent residence in Hong Kong. This immigration has created tension between Hong Kong natives and those from Mainland China due to cultural practices and ideology clash. There is also fear that those from Mainland China may influence Hong Kong's unique system. Tension around immigration is also partially linked to government mistrust, which complicates the ability for the two jurisdictions to come together to create mutually beneficial policy. Immigration is an issue that complicates decision
making in many sectors, especially in social services and housing where native Hong Kong people inherently have more privileges over those with less time of residency on the island. Therefore, cross-border collaboration can become a pertinent forum to lessen the tension regarding Mainland Chinese immigration to Hong Kong.

2.3 Strain on Services
Transportation congestion, high rental prices, long wait lists for public housing, and lengthy timeframes for medical care characterize life in the SAR. Even without immigration, Hong Kong already deals with a crowded environment. This immigration burden exacerbates the already high strain on Hong Kong’s services. Not only does this damage the relationship between Hong Kong residents and its government, but it also increases the tension between Hong Kong and Shenzhen residents. Again, this necessitates cross-border collaboration in order to provide better services for the residents of Hong Kong and Shenzhen.

2.4 Hong Kong & Shenzhen’s Exceptionalism
When looking at cross-border collaboration and comprehensive communication between Hong Kong and Shenzhen, it is important to keep the “One Metropolis; Two Systems” dynamic in mind. Shenzhen’s rapid growth during the last three decades is the result of being granted special economic privileges by the Central Government, making the proposed metropolitan dialogues and solutions with Hong Kong more feasible than other cities within Mainland China. Aside from its geographic proximity, Shenzhen’s historical development makes it well-suited for stronger cross-border interaction with Hong Kong. By drawing on the history of innovation exhibited by Shenzhen and Hong Kong, the three-step blueprint suggested throughout this report would serve as a starting point to collectively address the mistrust in government, dilemmas brought about by immigration, and the strain on services due to growing demand.

3. Three-Step Blueprint Proposal
Currently, there are many cross-border symposiums and commissions, but they are separate from each other. A unified system for collaborative exchanges...
between Hong Kong and Shenzhen has not yet been built. This report proposes a flexible system of collaboration consisting of three stages: symposium, commission, and a funding mechanism. The symposium would be the first step, to be established in 2015. The primary function of the symposium is to initiate dialogue between sector leaders and experts in order to develop the framework for a cross-border commission. This framework would be developed by 2016, to allow for consideration of the proposal during the 2017 election. Once the election is complete, the commission would be established by 2018. To achieve its objectives, the commission would provide a knowledge exchange between Hong Kong and Shenzhen experts and offer policy recommendations to both governments. Once the commission has been well established, the final step of creating a funding mechanism would be implemented by 2022. This mechanism would enable the commission to fund projects based on policy recommendations that have the support and involvement of the Hong Kong and Shenzhen governments. This integrated system and associated implementation steps would enable enhanced cross-border collaboration and comprehensive communication between the two jurisdictions.

3.1 Symposium

The symposium will be the first step of the blueprint established in 2015. Currently, officials from Hong Kong and Shenzhen regularly meet and communicate several times a year. Examples of these bilateral meetings include the working meetings of the Hong Kong/Guangdong Cooperation Joint Conference and the Hong Kong-Shenzhen Cooperation Forums. In 2013, the Hong Kong/Guangdong Cooperation Joint Conference convened six times and held their 19th Working Meeting earlier this year.\(^2\) In these joint meetings, political leaders discuss cross-border metropolitan topics and potential opportunities for collaborative work. Despite these official meetings between both cities, they do not involve all of the stakeholders. Universities, businesses, NGOs, and other civil society organizations would benefit from a more unified forum for potential policy solutions. Broader cross-border collaboration and comprehensive communication would lead to more effective cross-border metropolitan solutions.

The goal of the symposium is to generate enough dialogue, interest, and legitimacy amongst stakeholders to form a metropolitan commission that will have the ability to create policy recommendations as well as offer insights to multiple fields. Taking advantage of existing partnerships between universities in both cities, the recommended symposium would complement existing dialogue and provide feedback on research, as well as circulate and share policy ideas on cross-border metropolitan solutions. University collaboration has already proven successful for non-governmental communication between Hong Kong and Shenzhen. Stationed in Shenzhen Virtual University Park, but sponsored by the Chinese University of Hong Kong (CUHK), the Shenzhen Research Institute provides education and training for the Pearl River Delta (PRD) region and
Shenzhen, while also fostering technology transfer between the two cities to strengthen Hong Kong’s presence in the Mainland. Universities are the most fitting hosts for the first symposiums, especially considering the distinct context between Hong Kong and Shenzhen as well as the skepticism that exists between many Hong Kong citizens and their Mainland counterparts. The recommended symposium would maintain an open platform of communication that can host a variety of opinions and ideas.

The potential to improve the understanding of cross-border metropolitan solutions would be the main appeal of such an overarching university-led symposium. With a focus on practicality and constructive discussion, quarterly symposiums would be held every year to discuss specific cross-border topics. For instance, one trending policy area where the symposium would have a substantial impact is the expansion of public-private partnerships in the research and development (R&D) field, where professors, researchers, and students can bolster current cross-border collaboration and comprehensive communication. The World Economic Forum’s Global Competitiveness Report for 2013-2014 ranks Hong Kong at number 25 globally for company spending on R&D, and number 21 for university-industry collaborations in R&D. Accordingly, the symposium would bring together institutions such as the Hong Kong University of Science and Technology and the South University of Science and Technology of China to strengthen Hong Kong’s commercialization of high-tech innovations from Shenzhen. This would translate into more diverse opportunities for employment, new sources of foreign investment, and value-added partnerships between cities.

Initial funding for the symposium would be a collaborative effort amongst the universities involved and local private foundations. This has already been done on the university level between Hong Kong and Shenzhen at the CUHK International Symposium on Stem Cell Biology and Regenerative Medicine in Shenzhen and the Prince of Wales Hospital in Hong Kong. The sponsors include CUHK, but also include the School of Medicine from Shenzhen University and the Hong Kong Jockey Club Sports, a local private foundation. As the symposium gains more traction and interest, businesses would be invited to fund and partner in applicable sector-specific symposiums. A good example is the Hong Kong Water Governance Symposium, which brings together international academic water policy experts to address the effects of water shortages across borders. ADM Capital Foundation initially funded it, but corporate sponsors have been permitted to provide additional funding with the acknowledgement that the symposium’s work will not be compromised by the financial support that it receives.

The purpose of the symposium is to foster and facilitate enough cross-border collaboration and comprehensive communication among stakeholders to
lead to a Hong Kong-Shenzhen metropolitan commission. By centralizing the cooperation on metropolitan solutions, Hong Kong and Shenzhen will be better able to collaborate and communicate across borders. The symposium would become the forum of collaborative learning and conversation for the formation of the commission. Ideally, this proposal for the commission will be released in 2016 and be open to public debate and discussion. The issue can then be raised to the Hong Kong Chief Executive political candidates before the 2017 election and help Hong Kong citizens better understand the different political platforms. The commission will be set up in 2018 after the details of implementation, including its composition and regulations, are decided by the symposium. Once the commission is established, the symposium will shift its focus to providing a constant metropolitan dialogue to address issues including housing, health care services, transportation, education and social services.

3.2 Commission
The commission would be an independent, permanently staffed body to coordinate the exchange of information and best practices between Hong Kong and Shenzhen. This commission would be unique to Hong Kong and Shenzhen because it would unite and streamline cross-border collaboration and comprehensive communication between existing bodies. Examples of regional commissions include the Mainland/Hong Kong Science and Technology Co-operation Committee, the Consultative Committee on Economic and Trade Co-operation between Hong Kong and the Mainland, and the Hong Kong Human Rights Commission. Leaders from universities, businesses, NGOs, as well as non-voting governmental officials would be invited to administer the commission as well as formulate policy recommendations. Prominent academics with local knowledge from Hong Kong and Shenzhen are crucial to engineering a successful commission. The commission would not just be another policy think tank; it would serve as a knowledge fund for both cities, allowing for generation, storage, and recommendation of policies. For example, one policy issue that the commission would help address is the gradual reduction of stringent border procedures and customs delays in cross-border transportation. These are important for the smooth operation of a common market and can only come about through political consensus.

The commission would be similar to the Central Policy Unit (CPU) of Hong Kong, which serves as a database of knowledge that is “a simple and flexible organisation [that acts] quickly on requests for analysis and recommendations.” However, unlike the CPU, the commission will be funded primarily by universities. While the CPU is Hong Kong-centric in its work, the recommended commission would broaden its scope to include Shenzhen due to its symbiotic relationship with Hong Kong and the lack of a unified intersectoral dialogue. The Congressional Research Service is a successful example of this within the United States. They provide policy recommendations and legal analysis, offering
breadth and depth of expertise in multiple fields, to the members of both the House of Representatives and the Senate. The commission would make available similar metropolitan solutions to Hong Kong and Shenzhen officials on dilemmas such as public health and social service projects. However, it would go beyond the technical level by providing a process and institutional framework where policies would be vetted and implemented. For example, the commission would provide analysis and recommendations for temporary cross-border waste disposal and recycling measures for Hong Kong, since its landfills will be full by 2019 and the proposed incinerators will not be online until 2022.

The recommended commission would be modeled on the United States-Mexico Border Health Commission (BHC), a truly intersectoral nonprofit organization. It brings healthcare researchers and providers together to address solutions for improved health along the border and to improve the quality of life for those who live there. In addition to medical professionals, the BHC is composed of university specialists that conduct public health research, inform policy recommendations, and encourage further study of solutions to help those in the region. Together, members of the BHC craft strategic plans to develop ongoing health related solutions in the region and develop workshops, consortiums, symposiums, and conferences to engage and educate those from the broader community.

Once the commission is well established, the final recommended step of creating a funding mechanism would be implemented. This step would need to allow enough time for the commission to be legitimized by the local governments, anticipated to occur by 2022. The funding mechanism would enable the commission to finance projects based on its policy recommendations with the support and involvement of the Hong Kong and Shenzhen governments. This integrated system and associated implementation steps would enable enhanced cross-border collaboration and communication between the two jurisdictions.

### 3.3 Funding Mechanism

Stable and reliable financial support is necessary for both public and private organizations involved in cross-border collaboration and comprehensive communication. An approach to address this need would be for the recommended commission to employ a bilateral funding mechanism for approved metropolitan projects. The following are three funding mechanism options that could be implemented.

#### 3.3.1 Funding Mechanism Type One: Development Bank

One potential funding mechanism would be the formation of the Hong Kong-Shenzhen Development Bank (HSDB): a bilateral, government-funded institution that would provide financing for the commission’s collaborative projects. At this
point, the commission will have to evolve from an exchange of information and policy recommendation body to an organization with the ability to propose and implement projects. HSDB would be the financing mechanism of the commission, and it would provide financial support for the projects approved by the commission. Multiple financial options would be available such as loans and grants for infrastructure, education, healthcare, and other socioeconomic areas. For example, low interest loans would provide funding to private enterprises in return for carbon emissions reductions within a given timeframe. Grants would incentivize the private sector to change its behavior for binational benefit. An advantage of a development bank platform is the ability to provide funding to both the public and private sectors.

The North American Development Bank (NADBank) is a recommended model for this initiative. The North American Free Trade Agreement (NAFTA) formed NADBank and the Border Environment Cooperation Commission (BECC) to address environmental border dilemmas in the Paso Del Norte region. NADBank and BECC became responsible for providing cross-border communication, an exchange of best practices, and funding for projects. The Paso Del Norte region exists along the United States-Mexico border, which suffered from extreme air pollution. NAFTA, NADBank, and BECC work in conjunction to formulate environmental solutions across the border. Using environmental, health, and sustainable development standards, the BECC certifies environmental infrastructure projects for funding. The NADBank helps guide the planning process and loans money to the projects, which is equally provided by both the United States and Mexican governments. One best practice introduced by the NADBank and the BECC is the use of joint audits and strong accountability protocols, which ensure transparent use of funding and representative participation from each side.

In accordance with the financial goals of the commission’s collaborative projects, the HSDB would allow for a more harmonized process to allow for both public and private organizations to access capital for policy projects. This institution would be limited to projects approved by the recommended commission and implemented within the Hong Kong and Shenzhen metropolitan area. Funding for continued operation of the projects would initially be capitalized by equal investments from both the Hong Kong and Shenzhen governments. Furthermore, the organization of these mechanisms would require equal representation from both Hong Kong and Shenzhen, whose members would be nominated by the recommended commission.

3.3.2 Funding Mechanism Type Two: Foundation

Another funding mechanism option would be the creation of a Hong Kong and Shenzhen Foundation (HSF) to provide grants for metropolitan projects. As previously mentioned, the commission will have evolved from an exchange
of information and policy recommendation body to an entity with the ability to propose and implement projects. Similarly to the development Bank, the HSF aims to provide financial assistance to improve cross-border collaboration and comprehensive communication as well as recommend metropolitan solutions for regional transportation, housing and development, the economy, the environment, and other significant regional issues. Such an initiative would follow the example of the Asia Foundation, which is a non-profit international development organization that provides assistance for livelihood projects in eighteen Asian countries. The Asia Foundation focuses on governance and law solutions, economic development, women’s empowerment, the environment, and regional cooperation. Though governments and multilateral institutions largely fund this institute, it receives funding support from individuals, corporations, foundations, and organizations. Within the foundation, there exists a President’s Leadership Council, which provides private sector expertise, catalogues best practices, and ensures the foundation’s grants are effective. Unlike the development bank, which would only receive initial monetary funding from the Hong Kong and Shenzhen governments (and possible additional funding through the disbursement of loans), the foundation would also receive funding from bilateral public and private institutes, individuals, and corporations, as well as goods and services. Similar to the Asia Foundation, the HSF would also create a bilateral Leadership Council consisting of various experts to oversee both its accountability and effectiveness.

In this sense, the HSF would be of particular assistance for social services and housing. As of 2013, there were an estimated 1.3 million Hong Kong residents who were officially poor, as well as a large, fluctuating migrant population that has led to the overcrowding of housing, education, healthcare and other social services provided by the Hong Kong government. Therefore, a new development-oriented funding mechanism would help provide grants, and/or low-interest loans for projects that lower the cost of living for low-income families, ease public transportation access, and provide funding for the extension of quality education and healthcare in Shenzhen. This investment would help relieve the strain on social services and housing problems in Hong Kong. It is essential for the benefits of the funding mechanism’s projects to be realized by the communities in both areas. This funding mechanism would be viewed as one step of many toward improving the livelihood and social cohesion in Hong Kong and Shenzhen.

### 3.3.3 Funding Mechanism Type Three: Joint Governmental Fund

The third option for a funding mechanism is to create a joint Hong Kong and Shenzhen Fund (HKSZF), which would receive funding from both governments. Its mission would be similar to the NADBank and HSF, serving as a regional organization to provide grants for cross-border projects as well as helping solve bilateral issues regarding the economy, the environment, and social services.
Furthermore, the HKSZF would be modeled in part after the European Regional Development Fund (ERDF), in which proposed projects need the permission from both national authorities in order to provide funding.\textsuperscript{17} The funding resources for the HKSZF would come from both the Hong Kong and Shenzhen government budgets, which already use part of their budgets to fund bilateral initiatives.\textsuperscript{18} Unlike the other two proposed funding mechanisms, the commission would likely evolve into an independent advisory body to the HKSZF. The new commission would advise on the feasibility and effectiveness of proposed projects and provide a final recommendation on whether the projects should be funded.

Once the funding mechanism has been determined, the issue of governance will need to be addressed. The governance structure for a nonprofit foundation would involve a board of directors, trustees, or governors. A board of directors would be composed of individuals from both Hong Kong and Shenzhen and would have the fiduciary responsibility as well as the legal authority and discretion for overseeing the foundation. On the other hand, the responsibility of an advisory board is to provide advice to the governing board of the commission and may be composed, maintained or disbanded at the discretion of the board of directors. An advisory board does not have the authority to instruct or direct an organization nor does it have veto power in regards to policies of the board of directors. It simply exists to provide advice. The determination of the funding mechanism to be used by the commission will dictate the form of governance to be used. Both governments will have greater authority over the allocation of funds in the HKSZF, it is potentially a more feasible funding mechanism to enact compared to the other two mechanisms discussed above.

\textbf{4. Conclusion}

Despite successful and ongoing collaborations between Hong Kong and Shenzhen, the two cities have yet to attain an all-encompassing, integral process through which to better coordinate their efforts. This stems mostly from the current cooperation being primarily issue-centric and taking place under the framework of distinct political systems. However, the creation of a symposium, commission, and development-oriented funding mechanism can contribute to increased cross-border collaboration and comprehensive communication. This improvement would be derived through policy solutions and through the convergence of best practices that both cities can utilize for mutual benefit. In addition, prospective shifts in Hong Kong’s political system also require more elaborate discussion and complementary venues for effective policy design and execution. Fortunately, Shenzhen’s unique economic privileges indicate that Beijing is open to allowing experiments to continue on a metropolitan level. This collaborative partnership, utilizing the blueprint proposed in this report, would establish stronger communication and collaboration between Hong Kong and Shenzhen, enabling both cities to participate as more effective partners in the Pearl River Delta.
References


