

CLIENT ALERT ON SEPTEMBER 2019

RE: THE LEGAL AND ECONOMICAL CONSIDERATION ON THE GUIDELINE OF BUILDING SHENZHEN INTO A SOCIALIST DEMONSTRATION AREA

On 18 August 2019, the Communist Party of China Central Committee and the State Council issued the guideline on “China to build Shenzhen into socialist demonstration area” (the “**Guideline**”).¹

Shenzhen, being a pilot demonstration area of socialism with Chinese characteristics, is being requested to construct a “digital economic innovation and development pilot zone”. The terms “digital currency”, “digital government” and “digital cultural industry” were mentioned several times in the Guideline, which also implies that digital economy and blockchain industry may benefit from this in the future.

Specifically, the implementation of the idea involving the People’s Bank of China’s own digital currencies and the internationalization of the Renminbi may be accelerated by the innovative blockchain industry of Shenzhen, especially with the market force from corporations such as Huawei, ZTE and Tencent. Such industry may potentially be adopted in Shenzhen innovatively, and may even be adopted in the GHM Greater Bay Area, including Hong Kong. It is observed that certain areas will largely benefit from this trend, in particular big data analysts and identity authenticators or certifiers, wallet service providers that utilize blockchain technology to provide retail payment solutions, technology specialists and enterprises actively adopting blockchain reform.

In addition, the Guideline proposed the financial market of Guangdong, Hong Kong and Macao to have mutual interconnection and mutual recognition of funds, which further indicated the possibility of increasing numbers of eligible public and private fund that can be mutually recognized by the two places in the future. Currently, there are Shenzhen-Hong Kong Stock Connect, Mutual Recognition of Fund(MRF) and Bond Connect between the two places. In particular, Northbound Trading of the Bond Connect is now permitted², laying down an important gateway for Hong Kong investors to enter into the bond market of China. In the future, it may also become possible for Chinese investors to invest into the Hong Kong bond market.

In conclusion, the publication of the Guideline positively affirmed the forthcoming good prospect of digital economy, blockchain industry and financial products in the GHM Greater Bay Area. At the same time, in light of the availability of mainland Renminbi capital account is still limited locally and subject to foreign exchange control, Hong Kong, as the offshore financial center of the Renminbi, still plays an active and important role. Therefore, under the guidance of relevant guidelines and policies from the Central Committee, L&Y Law Office will, together with China Commercial Law Firm and relevant

¹ 《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》 - http://www.gov.cn/zhengce/2019-08/18/content_5422183.htm

² Mainland-Hong Kong bond connect launched - http://english.www.gov.cn/news/top_news/2017/07/03/content_281475710094749.htm

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