China’s 11th Five-year Plan: Opportunities and Challenges for Hong Kong

Final Report

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October 2006
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Executive Summary

Chapter 1  The 11th FYP and the Issue of Hong Kong being Marginalized

1. Chief Secretary Rafael Hui Si-yan's remarks made at a public meeting in March 2006 ignited the community as to whether Hong Kong is facing any serious threat of being marginalized vis-a-vis the mainland in the 11th Five-year Plan (11th FYP, for short, covering the period 2006-2010). This study attempts to examine the impact of China’s 11th FYP on the future of Hong Kong in the context of competitiveness and marginalization of Hong Kong. Some recommendations are proposed to strengthen Hong Kong’s competitiveness by establishing a free economic area with Zhuhai (and Macau), enhancing internationalization through institutional strengths, developing Hong Kong and Shenzhen as twin cities, improving infrastructure, speeding up the decision-making process and developing new industries in Hong Kong.

2. The term "marginalization" is examined in its conceptual meanings, supplemented by references to the historical and geographical vicissitudes of the fortunes of some cities in different settings. Many have risen and fallen as transport technologies, economic and political factors changed. Shanghai is a good example of a large Asian city that once thrived as the place to be in when many factors favoured for it to reach its peak in the early decades of the 20th century. Its decline since 1949 and then re-emergence since 1990 testify to the enduring worth of some cities.

3. Hong Kong's position as the only gateway to China since 1949 was further enhanced when China reopened its doors to the outside world for development and modernization in 1978. After more than two decades of openness and economic reform, China has made remarkable achievements along many fronts. However, Hong Kong is no longer the only door for China to interact with the world. Many cities on the mainland have developed rapidly to pose competition to Hong Kong. Is Hong Kong facing a real threat of being marginalized?

4. This threat is examined in this study in the context of the 11th FYP. With this Plan, certain broad and major directions need to be highlighted. First is the fact that, for the first time, Hong Kong and Macau SARs are included in the Plan, at least in general thrusts of development without spelling out details. Second, China continues its overall goal of building a xiaokang (moderately well-off) society that was initiated in the previous FYP. Third, economic growth is no longer pursued for its own sake.
Realistic and moderated targets have been set, with growth rates set to factor into energy conservation and sustainable development. The emphasis on economic efficiency, sustainability, innovation and high technology is obvious.

Chapter 2 Components of the 11th FYP Affecting Hong Kong

5. This study has attempted to examine the 11th FYP in the Bohai region, the Yangzi River Delta (YRD) and Guangdong and find out if there are provisions and developments that might affect Hong Kong in favourable or not so favourable ways. Further economic development in the mainland will definitely generate many opportunities for Hong Kong’s business sector and people. In the meantime, there are also direct competition and indirect challenges to Hong Kong’s prime position in the urban system in China and the world.

6. The Bohai region consisting of Beijing, Tianjin and Hebei province will see a new round of economic growth. Beijing will capitalize on its hosting the Olympic Games in 2008 to elevate its international status, improve its infrastructure development and accelerate the quality of its range of economic activity and services. Tianjin, with its Binhai New District having been designated by the central government as a new experimental area for comprehensive reforms, is poised to enter a period of rapid growth led by a cluster of manufacturing industries and logistics developments. The Binhai New District is assigned a national status in terms of new growth and development comparable to the Shanghai's Putong New District in 1990 and the Special Economic Zones in Guangdong and Fujian in 1980. Hebei's ten leading industries will also enter a new phase of growth. As Beijing and Tianjin have different hinterland from Hong Kong, their development does not lead to any direct competition with Hong Kong. But there may be many business opportunities for Hong Kong investors.

7. Overall, the YRD, consisting of Shanghai and the provinces of Zhejiang and Jiangsu, has set lofty goals of becoming the "world's sixth largest metropolitan region" and has plans to strengthen its competitive strengths across many fronts. It will further its development as a major manufacturing base in the country, with an emphasis on innovation, high technology and added values. Supporting developments in infrastructure, logistics and financial services are given enhanced attention. The Yangshan port already opened in 2005 will undergo further expansion and has the potential to become the largest port in the world. Putong airport will go through further expansion. A maglev railway linking Shanghai and Hangzhou is to be
constructed. Three bridges spanning the Hangzhou Bay are under construction. All these infrastructure projects are timed for completion before the World Expo 2010 will open in Shanghai, coinciding with the conclusion of the 11th FYP.

8. Many of the development plans in the YRD may, at first sight, be directly competing with Hong Kong. In reality, Hong Kong and Shanghai are serving two separate regions. In shipping and air traffic, the YRD and the PRD (Pearl River Delta) are sufficiently far apart that they do not compete directly. Even in further developing Shanghai in its financial centre, it is still many years before it can pose direct competition to Hong Kong. Hong Kong is so well connected internationally, coupled with its rule of law and sound regulatory framework, that, even with Renminbi’s convertibility, Hong Kong's role as an international financial centre still serves China well. However, Hong Kong must be vigilant on its human resources and talents recruiting policy. In the present era of globalization, leading cities anywhere always compete for talents and scarce human resources in the global pool. Shanghai has been very proactive in this strategy and Hong Kong must not allow itself to fall behind.

9. Guangdong as a pace-setter in China's economic reform and openness over the past two decades, enters the 11th FYP with a new mission and vision. In keeping with the national development goals, Guangdong has moderated its growth targets by setting moderately rapid rates of GDP growth. Even at 9 percent annual growth, Guangdong will comfortably achieve its target, along with the nation’s, of doubling its per capita GDP at the end of the Plan period in 2010. Guangdong will place greater emphasis on growth with due consideration on the environment and resource savings. It will also play an active role in actively promoting cooperation and regional integration within the Pan-PRD cooperative framework.

10. Guangzhou as the provincial capital has plans to develop as a modern mega-city with an international outlook. Its "go international" strategy will aim at the city making significant strides in economic and social development with new urban infrastructure development and modern management. It is being developed rapidly as a transportation centre within the province and beyond in the Pan-PRD region. Its growing international airport poses a major challenge to Hong Kong.

11. Shenzhen will develop further along its established strengths in high-tech, logistics, financial, exhibition industries, with an emphasis on quality and innovation. The expanding container port will challenge Hong Kong’s status as a major shipping centre. New emphasis will also be placed in developing the cultural industry and a
12. In the 11th FYP period, Guangdong and Hong Kong will have to reassess their well-honed symbiotic relationships developed since the early 1980s. The PRD has developed to be a "world factory" with many factories financed and managed by Hong Kong entrepreneurs. The famous model of "front shop, rear factory" has to be assessed as to its relevance and applicability, given the growth of many cities within the delta and their ability to set their own development agendas. The growing high-tech industries, heavy industries and petrol-chemical industries may weaken the economic linkage between Hong Kong and PRD as Hong Kong does not have much to offer for these industries. Hong Kong firms are also to face sterner regulatory rules regarding pollution and land use control. Many will face the immediate dilemma of relocation and survival.

Chapter 3 Relationship between Hong Kong and Guangdong

13. Since 1978, when China began to open up and pioneer in economic reforms, Hong Kong and Guangdong, especially the PRD, rapidly evolved a close economic relationship that capitalized on their respective advantages for their mutual benefit. The model, widely known as "front shop, rear factory," highlighted the effective division of labour between them, allowing over 53,000 Hong Kong firms to employ over 10 million workers in the PRD. The economic spread effects for both Hong Kong and Guangdong have been immense.

14. Since Hong Kong's handover in 1997, a long period of economic decline and social disorientation persisted until 2003, when the introduction of new policies favourable to Hong Kong, such as CEPA and the individual travel scheme, greatly helped to turn the tide and enabled Hong Kong to restart on a path of economic recovery and social stability.

15. Meanwhile, after almost three decades of cooperation, Hong Kong has recently found the PRD much changed. Recent difficulties have stemmed from the rising costs of labour, land and materials; ever stringent standards to maintain environmental control; and the provincial new economic orientation to develop heavy industries. At the same time, some cities in the delta have greatly increased their economic capability. They have the ability to bring their manufactured products to the international market, with Shenzhen's optical products being a good example.
16. Cooperation between Hong Kong and the PRD has entered a new phase of all-round integration. Cooperation has broadened to all levels, from the central, provincial and city governments, to non-government units like universities and other organizations. Notably since 2000, rapid economic growth in the PRD has dawned on the government and people of Hong Kong the imperative of seeking close cooperation with the delta. Closer cross-border cooperation, not surprisingly, has consistently formed a theme of successive policy statements of the Chief Executive.

17. In June 2004, the Pan-PRD cooperative framework came into existence and has offered Hong Kong the opportunity to further extend its hinterland and seek cooperation and joint development with a large number of governments and their people in a large region of the country. At the government level, Hong Kong through provincial governments has committed itself to cooperative ventures in commerce, environmental protection and technological development. At the business level, Hong Kong entrepreneurs have utilized the new platform to seek new business opportunities, with investment figures ever on the rise. Quite clearly, the Pan-PRD offers a new window of opportunity for Hong Kong to seek integration with a much enlarged hinterland.

18. Notwithstanding the new Pan-PRD platform, the Guangdong-Hong Kong framework to seek closer cooperation since 1998 has not been detracted. In fact, since 2003, cooperation between Hong Kong and Guangdong has improved and accelerated in both quality and quantity. The annual consultative meeting since 2003 has been followed up by many thematic groups for research and implementation. A new situation has been unfolding for both sides to seek deeper cooperation and integration for their mutual benefit.

19. With Shenzhen, Hong Kong is ready for closer cooperation in many sectors as the two cities share a common boundary. The 2004 memorandum of understanding between the two cities to strengthen cooperation has specified six main spheres for the two governments to explore and actively follow up.

20. Beyond this general direction of cooperation already identified, several specific topics are worthy of further investigation to gauge their feasibility. One is the idea of pushing the present boundary of Hong Kong and Shenzhen to the second boundary, involving the easing of travel of Shenzhen hukou residents to Hong Kong without the need of applying for specific travel permits. Second is the further consideration of the
use of the River Loop area bordering Hong Kong and Shenzhen. Third is how Hong Kong should respond to the "Shenzhen 2030" plan that was approved in 2006, since Hong Kong has started the process of long-term forward planning, “Hong Kong 2030,” well ahead of Shenzhen. Fourth, the border crossings between Hong Kong and Shenzhen should be further examined against recent trends of cross-boundary flows in people, goods and vehicles.

21. With a rapidly changing situation of Hong Kong in relation to Guangdong and beyond, while its preeminent former status has faded, Hong Kong is still well placed to avoid being marginalized by positively seeking to develop new comparative strengths and to integrate itself with an ever larger part of China. The enduring strength of Hong Kong is its being a world city with extensive global networks and rich experience in global capitalism.

Chapter 4 Ten Large Projects that may Affect Hong Kong

22. Ten large infrastructure and other projects have been selected in respect of their potential to adversely affect and challenge the competitiveness and international status of Hong Kong. They are concentrated in the three most developed coastal regions of China and are mostly infrastructure projects.

23. Shenzhen port – Since its development in the 1990s, Shenzhen port has witnessed exceptionally rapid growth, having become, since 2003, the world’s fourth busiest container port after Hong Kong, Singapore and Shanghai. During the past few years, the gap between Hong Kong and Shenzhen in container throughput has continued to narrow. The real threat to Hong Kong comes from relevant government policy, the absence of a coordinated development strategy between Hong Kong and Shenzhen, and some business/management practices.

24. Guangzhou Baiyun and Shenzhen Baoan international airports – Since Guangzhou Baiyun’s relocation in 2004 and Shenzhen Baoan’s opening in 1991, their record of success and impressive growth speaks well for new infrastructure constructions in the PRD. While their recent growth has been spectacular, what their future plans have in store will challenge the aviation hub status of Hong Kong in the region. The development plans for Guangzhou Baiyun by 2030, with five runways and a capacity to handle 90 million passengers, will pose a direct threat to Hong Kong. Despite the potential threat, Hong Kong should view the five large airports within the PRD as an entity and strives for coordinated development so that, collectively, the
aviation business in the region will scale another level of development and success.

25. Hong Kong-Zhuhai-Macau Bridge – A bridge to link Hong Kong to the western 
wing of the PRD has been in discussion for two decades but the latest round of 
planning and discussion for a bridge to link Hong Kong with Zhuhai and Macau is 
still to be finalized and the official announcement to be made. Many governments and 
developers have not failed to perceive the vast potential that the east-west spanning 
bridge can bring in terms of Hong Kong’s positive influences on the western part of 
the delta and, indeed, beyond in western Guangdong and even southwestern China. 
With the customs clearance issue settled recently, the remaining hurdle apparently is 
one of financing.

26. Guang-Shen-Gang (Hong Kong) High-speed Railroad – The experience in Japan 
and Europe has amply demonstrated that high-speed trains have played a crucial role 
in facilitating development and regional integration. After years of planning and 
discussion, the high-speed railroad linking Guangzhou, Shenzhen and Hong Kong 
was approved by the central government in 2005. Construction of the section in 
Guangdong has commenced and is scheduled for completion and use by 2010. The 
Hong Kong section, on the other hand, is still under considerable uncertainty despite 
the Executive Council approval in 2006. A “shared tracks” solution is favoured, but a 
“dedicated tracks” possibility has not been ruled out. The soonest date for the Hong 
Kong section to be opened is 2013. This case brings home again that the Hong Kong 
system of decision making in major infrastructure projects of this type lags far behind 
our counterparts on the mainland.

27. Shanghai-Yangshan port – The construction of the Shanghai-Yanshan deep-water 
port is an important national project conceived to elevate Shanghai’s competitiveness, 
while speeding up its status as international economic, financial, trading and logistics 
centres. Opened in 2005, the Shanghai-Yangshan port will increase its container 
throughput capacity to 15 million TEUs by 2010. As the only customs free port in 
China, the port aspires to concentrate its business in trade entailing transshipment, 
purchasing, forwarding and transfer, along with value-added services. It is anticipated 
that because of their non-overlapping hinterlands, the Shanghai-Yangshan and Hong 
Kong-Kwai Chung ports will not be directly competing with each other.

28. Shanghai Pudong international airport – Opened in 1999, the Shanghai Pudong 
international airport was built as an aviation hub in the Asia-Pacific region. In 2006, 
the airport had a daily average of 560 landings and takeoffs, reaching 60 percent of its
built capacity. By 2007, the Pudong and Hongqiao airports in Shanghai will have a combined throughput of 49 million passengers and 2.5 million tonnes of cargo. The Pudong airport serves primarily the Yangzi River Delta and does not pose direction competition to Hong Kong.

29. Tianjin Binhai New District, consisting of three Administrative Districts and four other special-purpose districts, has an area of 2270 sq km, or slightly over twice the area of Hong Kong. Its record of GDP growth between 1994 and 2005 is spectacular at an average annual growth rate of 20.6 percent. In 2006, as part of the 11th FYP, Tianjin Haibin New District has been assigned a unique national status. It has been designated as a new district for comprehensive reforms, much in the same way Pudong was assigned a new role for openness and experimentation in 1990. It is thus widely anticipated that Tianjin will launch itself to a period of rapid growth and transformation, leading the Bohai region and capitalizing on Beijing’s hosting the Olympic Games in 2008. The next five years will be critical for the Bohai region, with Tianjin taking the lead in a range of economic and industrial activities and maximizing on its geographical advantages. This will open up opportunities for investment and cooperation for Hong Kong entrepreneurs.

30. Shenzhen’s innovative industries – Shenzhen possesses a creditable record of high technology industry which is in the forefront of the country. Shenzhen’s high-tech industry park ranks one of the five best such parks in China. In the 11th FYP, Shenzhen has set a number of specific goals, including investing a total of RMB100 billion in R&D, setting up medium and long-term plans for developing scientific technologies, establishing five new platforms for specific innovative technologies, building a new science museum, establishing a Chinese (South China) international exchange centre for technology patents, and setting up a new innovation fund. The scope is wide for cooperation between Hong Kong and Shenzhen, with several universities from Hong Kong already active in pursuing cooperative projects or training ventures.

31. Shanghai and Shenzhen financial centres – Shanghai and Shenzhen are the only two cities in China which run a stock exchange market. By this unique status, it is logical that they both harbour ambition to be financial centres. For Shanghai, the goal is to establish itself as an international financial centre and hopes to be able to reach this goal by 2020. By then, it will be in a position to challenge Hong Kong’s established status. Shenzhen, on the other hand, aspires to be a financial centre for South China. In its 11th FYP, Shenzhen has laid emphasis on developing its financial
industry but has fully recognized the potential benefits that can be derived from closely cooperating with Hong Kong.

Chapter 5 Hong Kong's Competitiveness

32. A central focus of this study is whether Hong Kong is being marginalized or is, willy-nilly, marginalizing itself. The traditional core strengths of Hong Kong are derived from two sources. One is systemic effectiveness and well-oiled institutions, along with international networks, inherited from its colonial background. The other source stems from new opportunities that China's openness has brought about for Hong Kong, thereby vastly elevating its competitiveness on a global basis.

33. Since Hong Kong's handover in 1997, various international surveys have tracked Hong Kong's competitiveness. While the odd survey has shown worrisome signs of decline, by and large, most surveys have confirmed the high standings of Hong Kong's competitiveness, globally speaking. The Heritage Foundation has voted Hong Kong to be the freest economy in the world for 12 years in a row. The Japan Centre for Economic Research also in its potential competitiveness survey ranked Hong Kong No. 1 in the world ahead of Singapore and the United States.

34. Many of the international survey results have shown Hong Kong to have performed well, owing in large part to the China factor. In 2005, Hong Kong was outstanding in attracting foreign direct investment, broke the record of multinational firms setting up regional headquarters here, became the world's fourth largest arbitration centre, continued as a thriving convention and exhibition including hosting the WTO 6th Ministerial Meeting, performed as the leading airport in cargoes handled and ranking container port in container throughput, and shone as a financial centre through its markets in stocks, warrants and raising capital.

35. However, Hong Kong's advantages are being eroded by its pollution problems, a mismatch in the job market, the poverty gap and social disquiet. They reflect deep-seated conflicts in society with many competing interests and values arising not only internally but regionally, even globally, as globalization continues to gain in momentum.

36. The background factors leading to Hong Kong's new challenges can be traced to a rapidly changing regional situation. Hong Kong is no longer China's only gateway to the world. In the PRD, many cities, notably Guangzhou and Shenzhen, have emerged
as powerful entities able to set their own development agendas. One reason why Hong Kong has lagged behind is its inability to timely respond to development opportunities, with endless discussions and debates having dragged on. Second is the changed mindset of the Hong Kong people. Instead of the former "never say die" and flexible attitude, what has emerged is a self-centred state of mind that is not conducive to building harmonious relationships within the community or with our neighbouring cities.

37. Hong Kong needs to adjust its role and effectiveness. Against the momentous changes that have swept China, especially South China, Hong Kong has moved away from its former role to serve China for benefit but being detached from it. It has transformed into a Chinese city serving South China and beyond. More importantly, it can lead the region, especially the PRD, to advance in regional development and competitiveness.

38. Looking ahead, Hong Kong should expand and perfect its headquarters economy based on what it has achieved. With many Chinese firms that are likely to grow strong and large during the 11th FYP period, "going out" will be an overriding development strategy. Foreign enterprises having an interest in the China market will also use Hong Kong as a launching platform. Either way, Hong Kong's headquarters economy should emphasize not merely trade, but rather professional, financial, logistics and other high-end services. In this respect, the Hong Kong stock exchange market provides a critical backdrop to further this development.

39. In support of its headquarters economy, Hong Kong should continue to expand its hinterland. The establishment of the ASEAN-China Free Trade Area in 2010 and the process leading to it will be highly favourable to Hong Kong. To this end, Hong Kong must review and improve on its record of falling behind in developing large-scale cross-border infrastructure projects. It must also recognize the true contribution of regional cooperation in what it can benefit its economy. With CEPA having been in operation for several years, attempts must be made to maximize its utility to Hong Kong.

40. Hong Kong is still a city favourable for outside investment. However, raging societal controversies manifested in diverse ways including massive demonstrations if not properly handled, will adversely affect Hong Kong's overall strengths and attractiveness. Several large-scale and icon-making construction projects, including Central reclamation, the West Kowloon cultural district, and the former Kai Tak site,
have been unduly delayed because of persistent controversies. The last two projects have been sitting on idle land for years at considerable cost to the government and community. The extended delay has also cost Hong Kong on its reputation for efficiency.

41. In tune with the changing regional environment, Hong Kong must rediscover its advantages or discover new ones. In preparation for its ageing population and rapidly rising expenditures on medical services, it calls for Hong Kong to develop medical services as a new industry, much in the way Singapore has done over the past three decades to serve the medical needs of not only its population but that of the Southeast Asian region. A small start has been made by some private hospitals to arrange medical services coupled with sightseeing tours. Concomitantly, the government has to coordinate in policies to expedite entry of visitors seeking medical services, devise a supervisory structure to ensure a proper balance be struck between satisfactory service and professional conduct, and the balance of service between local and foreign patients.

42. For any city in the globalization era, talents constitute a critical factor for its success. Competition for talents is a global game and is growing ever more intense. For Hong Kong to do well in enlarging its talents pool, it must strengthen measures at all levels of education. At the tertiary level, universities must be in the position to attract and retain world-class academics for teaching and research, and make themselves attractive destinations for local, Chinese and overseas students to compete for entry. Hong Kong has already lost some precious years in developing tertiary education as an industry as Singapore has been singularly successful in this respect. With a population twice as large as Singapore, Hong Kong certainly has the requisite background to make tertiary education a viable industry. Hong Kong will have to find a different way and, with China on the rise as a global power, the time and geography are right for Hong Kong to tap this growing market. Chinese youngsters are hungry for knowledge and education in the present information society. To attract talents that are already in the market, Hong Kong should reconsider or even relax the threshold admission criteria, considering past talents schemes have not been well subscribed and failed to yield the talents we need in our changing economy.

43. Among the new industries Hong Kong is nurturing is the cultural innovation industry, which includes advertising, design and software services. Under CEPA provisions, it also includes movie making, distribution and movie house services, sound recording production. As small enterprises enter the China market in the
industry, they all face keen competition and inadequacy in manpower, capital and information. For backup services, the government can perhaps help to alert training at the local universities and professional schools, devise measures that can help the industry to reposition itself to face competition, and assist the industry to understand the enormous and fast changing China market.

44. The logistics industry is one of Hong Kong's four pillar industries, accounting for 6 percent of employment and 5.4 percent of GDP. Yet it is facing a variety of crises, including the origin of goods being transported lies in the PRD hence the uncertainly of where the goods go, apparent high cost, inadequacy occasioned by the industry growing bigger, going further and more complicated, and administrative hindrances related to the clearance procedures as required by the "one country, two systems" formula. Looking ahead, the industry needs to concentrate on improving the "transport" component of the work, in addition to supply chain services. Furthermore, the industry needs the help of the government to remove administrative hurdles to minimize time to clear customs, improve change-mode connections, and increase value-added services.

45. Despite Hong Kong not being able to make any impact on high tech industry in terms of manpower, capital and cost, it still possesses certain advantages over its mainland counterparts. That the logistics industry in Hong Kong has been able to scale higher ground owes much to technological innovations and explorations by a group of scientists and specialists. Hong Kong government has also entrusted local universities to establish relevant academic research programmes. Hong Kong's competitiveness in high tech industry is predicated on its high-level services and due respect and protection of intellectual property. Especially in applied technology, Hong Kong has excelled by example. The Octopus stored-value card has been so popular and diversified in functions in Hong Kong that it is being exported to cities in the PRD. Running housing estates using the Hong Kong style of management is catching on in cities like Shanghai, Beijing, Guangzhou and Shenzhen. The Hong Kong style of corporate management, modelled after Cathay Pacific, MTR, Hong Kong Airport Authority, is spreading on the mainland, often through joint ventures.

46. Hong Kong is in the midst of massive and momentous changes, buttressed by globalization and regionalization. Against rapid developing regional economies, Hong Kong has managed largely to maintain its competitiveness. Nevertheless, it is vitally important for Hong Kong to cling on to its traditional strengths and simultaneously move with changing times and regional situations to discover new strengths and
advantages to meet a challenging future. In the remaining four years of the 11th FYP, Hong Kong-mainland cooperation will enter a new phase. In order not to be marginalized, every key decision taken during this time will matter crucially to the future of Hong Kong.

Chapter 6 Conclusions and Recommendations

47. During the coming five years, Hong Kong will face sterner competition across the boundary in the PRD. Many of the cities in the delta are catching up fast and Hong Kong people must realize that we must find ways to move with the changing hinterland on which we depend for our future. We must find ways to innovate ourselves and find new strengths so that, with the mainland as our fall back for support, we continue to sharpen our competitiveness in the global market. Between the mainland and the world, Hong Kong still has its advantages in its "headquarters economy," its middleman role in assisting mainland firms to raise capital and to go international and for foreign investment to tap the growing China market.

48. The "one country, two systems" framework has bestowed certain advantages on Hong Kong in its relations with mainland governments, yet it has also bound it in ways that it is constrained by many procedural strictures. Its "big market, small government" mentality has severely curtailed its ability to conduct negotiation or joint development with its mainland counterparts. It is, therefore, a challenge for Hong Kong to find ways to maximize the advantages of the model, so that all can benefit from it. The model presupposes certain elements to Hong Kong's advantage, on which it must seek ways to ensure that it will not be marginalized in the foreseeable future.

49. The challenges faced by Hong Kong can be traced to rapid changes in its hinterland, where development in high-tech, heavy and petro-chemical industries may weaken the economic linkage between Hong Kong and the PRD. In the wider context of Hong Kong’s marginalization in a historical context, Hong Kong must realistically assess its changing role in an emerging China. It will not be marginalized if it maintains the strengths of its institutions and the innate quality of its “soft” environment.

50. The study has made a number of recommendations that are grouped under five headings. The first is the establishment of a Hong Kong-Zhuhai(-Macau) Free Economic Area which is considered superior, but not necessarily a replacement of any efforts to seek closer cooperation with Shenzhen, in terms of potential payoff,
available land for development, and in keeping with the general trend of intensifying
development in western PRD. The free economic area will provide ample land for the
development of high-tech industry, higher education, trade and commerce, luxury and
low-cost housing. Hong Kong and Zhuhai (plus possibly Macau) will form an
administrative authority, obviating the need for boundary check on the new bridge to
be constructed.

51. Secondly, Hong Kong can enhance its internationalization inherent in its strength
as embodied in the “one country, two systems” creation. It should seek to implement
free trade agreements with other WTO members, with support from the central
government, as modeled on Singapore’s experience. With its worldwide networks
expanded, Hong Kong will serve China better and consolidate its status as a global
city in Asia.

52. Thirdly, Hong Kong and Shenzhen should seek closer cooperation and even
integration via further facilitating border crossings, jointly developing the border area,
specifically the river loop area, and concretely show their shared vision of twin cities
through planning and joint projects.

53. In terms of infrastructure projects, specific recommendations are offered with
respect to a master planning approach for the port operation for Hong Kong and
Shenzhen; measures to combine the air space over Hong Kong, Zhuhai and
Guangzhou into one; a second look at the need for a railway provision for the Hong
Kong-Zhuhai-Macau bridge and road design to cater for traffic from eastern Shenzhen
and beyond; and the problem of Hong Kong falling behind Guangdong by three years
in opening the Guang-Shen-Gang (Hong Kong) railroad and the obvious future
pitfalls in the preference for a "shared tracks” option.

54. Other recommendations covering diverse subjects include the "rear factory" crisis
faced by many Hong Kong industrialists and possible ways Hong Kong government
and the chambers of commerce can assist; further education of the Hong Kong public
in the closer cooperation proposal with Shenzhen and the full integration with China
in general; ways to overcome the deficiency in our political consultation process that
has caused unacceptable delays in large-scale public works projects in Hong Kong
and cross-border infrastructure projects with the mainland; a road map to guide new
industries in Hong Kong that are perceived to add to its competitiveness and
economic growth; and alerting the public of inviting opportunities that await Hong
Kong people to invest, participate and become a part of the many exciting plans and
developments being components of the 11th FYP, especially in Tianjin, Shanghai, Guangzhou and Shenzhen and in the regions in which they are located.

End
Chapter 1

The 11\textsuperscript{th} Five-year Plan and the Issue of Hong Kong being Marginalized

1.1 Introduction

At an important public meeting where the Eleventh Five-year Plan of China (11\textsuperscript{th} FYP, for short, covering the period 2006-2010) was introduced by speakers from Beijing and Hong Kong as to its contents in March 2006, Chief Secretary Rafael Hui Si-yan warned of the risk of Hong Kong being marginalized by the rapid development of Shanghai and the Pearl River Delta (PRD), especially from the viewpoint of logistics.\footnote{See Mainland-Hong Kong Academic Exchange. No. 69, March 2006, pp. 5-6.} The clarion call from Mr. Hui was timely, because the 11\textsuperscript{th} FYP broke new ground as far as Hong Kong is concerned: the Special Administrative Regions (SARs) of Hong Kong and Macau are included for the first time in the vital national plan, at least in broad directions without spelling out details. At the same time, the call stirred the Hong Kong community to an exercise of seriously addressing the strategic positioning of Hong Kong during the plan period, as it is critically important for policy makers, opinion shapers, entrepreneurs, academics and others to size up what challenges and opportunities there exist for Hong Kong, not only in the five years covered by the Plan but for a longer term.

Indeed, Hong Kong society was animated in the months following Mr. Hui’s remarks. The topic of marginalization has filled many newspaper columns, academic forums and private discussions. The concept means a different thing to different people, but it is of benefit to the community that it should wake up to the ever-changing regional, even global, situation, in which Hong Kong has found itself. After almost three decades of openness and economic reform, China has achieved an astonishing economic transformation and is on its way to becoming a global economic power. Hong Kong’s relation with the mainland is vastly different from the period prior to the handover in 1997, when it was a British crown colony. As a constituent part of China under the “one country,
two systems” formula, Hong Kong now has to play its role gingerly with not only Beijing, but also Guangdong and other parts of the country.

This research project was commissioned soon after Mr. Hui’s speech caught the rapt attention of the community. It is, therefore, prudent to turn every stone to examine where Hong Kong stands in relation to the fast-paced and changing country of which it is part. The rise or re-birth of China as a global economic and political power has been widely viewed as almost a certainty in the early decades of the 21st century. This project will also scrutinize what opportunities and challenges that await Hong Kong during the 11th FYP, in particular with reference to official development plans in the three most important regions in China, namely the PRD, the Yangtze River Delta (YRD) and the Bohai Rim. This report is made up of the following chapters apart from this one.

2 Components of the 11th FYP affecting Hong Kong
3 Relationship between Hong Kong and Guangdong
4 Ten large projects that may affect Hong Kong
5 Hong Kong’s competitiveness
6 Conclusions and recommendations

1.2 The meaning of marginalization

The word “margin” refers to the edge or periphery relative to a body or some space, and carries the implied meaning of not being important. The antithesis of margin is “centre,” which is generally understood as something important. In academic discourse, the concept of centre and periphery is built around a well-recognized body of literature that refers, in simple terms, to the relationship of economic condition over space, often highlighting economic disparity between the well-developed centre and the developing or yet-to-be developed periphery. The centre-periphery model of economic development has been applied globally to the economically advanced Western Europe, later the United States and Japan as the centre. Other countries that developed sequentially at later stages
are referred to as the periphery or semi-periphery. A large stock of literature on global development or global economy, even the world systems theory and globalization, has drawn from this basic spatial differentiation of economic change. Equally, the model has been applied to regions and countries, even cities, because they are prone to exhibiting tendencies of uneven development, identifiable with the core and periphery.

The classic centre-periphery model has been postulated by Gunnar Myrdal, a renowned Nobel Laureate in Economics and John Friedmann, an influential professor in urban/regional studies. The relationship between the centre and the periphery in their interaction in capital, labour and supply of materials is depicted in Figure 1.1:

![The Classic Center-Periphery Model: Myrdal & Friedmann](source)

Figure 1.1 The classic centre-periphery model: Myrdal & Friedmann
Source: www.geoearth.uncc.edu/facultypages/ lheard/3100Notes/Jan30.ppt

The model presents a way of explaining the concentration of power in one location and the surrounding hinterland’s dependence upon it. The chief concern of the model has
been to get inside the particular black box and derive the self-reinforcing character of spatial concentration from more fundamental considerations.² From the standpoint of an urban system, the model explains factors of production and interaction among cities. In other words, a city can be viewed within the context of other cities. Core processes as dominant processes are characterized by economic relations that incorporate relatively high wages, advances technology and a diversified production mix, whereas periphery processes involve low wages, more rudimentary technology and a simple production mix. Figure 1.2 shows the transfer of resources and control between the centre and the periphery. However, globalization processes have engendered new production processes that are far more complicated, with multiple centres and peripheries.

![Figure 1.2 Transfer of resources and control between the centre and the periphery](http://mama.indstate.edu/users/gejdg/global.pdf)

The core-periphery model is a highly practicable conceptual tool that has been employed to explain the interdependence of cities in urban/regional systems. For example, recent studies have shown how in Canada, Calgary and Edmonton have forged ahead, leaving Winnipeg in relative decline. Montreal and Toronto have dominated another part of Canada, with the Canadian Shield and the Maritimes in peripheral status. Similarly, spatial restructuring and globalization processes in the Frankfurt-Rhein-Main region have resulted in Frankfurt taking a decidedly global role and remaining a strong economic centre.

Apart from the spatial dimension, there is a functional explanation of the core-periphery model. This refers to how central or important a particular city or enterprise is in relation to the rest in terms of certain roles or functions. An example is how Hong Kong fares in financial services or tourism within the PRD. Thus viewed, a subset of the functions of a city can be looked at in operational terms and its relative importance so judged.

The purpose of initiating this discussion on the centre-periphery model is to draw out the essence of the concept and illustrate how it can be applied to our present concern about the changing role of Hong Kong amid a rapidly changing and growing China, especially in relation to the PRD. More specifically, our concern is focused on its likely or otherwise marginalization or peripheralization, two terms that can be used interchangeably in our context.

At the outset, it bears emphasizing that the geographical position of Hong Kong vis-a-vis mainland China in their relation to the world has changed dramatically over the past quarter century when the country embarked on a bold journey of openness and reform in 1978. Between 1949 and 1978, Hong Kong was China's only door to the outside world, for the acquisition of information, foreign exchange and the import of certain key commodities. As China's southern gateway, Hong Kong's formerly unrivalled position no
longer holds. There is now a plethora of cities along the China coast as well as elsewhere that can effectively perform that role. One might argue, at least for the time being, that Hong Kong still performs that function of reaching out to the world better than any city on the mainland, but the gap is being rapidly narrowed. Hong Kong's status as the world's leading airport in handling air cargo and as the busiest container port amply testifies to its achievements and unique strengths.

At this juncture it is apposite to reflect on the rise and relative fall of cities historically, a record that may reveal some lessons for Hong Kong on its growing community concern of being marginalized. On virtually every continent, examples abound on how cities grew and then, somehow through technological innovations, changing transport modes, political change or other factors, they went into relative decline. In Europe, Venice and Genoa, then Servile, Bruges, and Amsterdam, and later London successively rose in importance as they become significant centres of trade and industry. In the United States, New York replaced Philadelphia as the financial capital of the nation in the 1880s, but New York’s rise began with the opening of the Erie Canal in 1825, paving the city's access to Buffalo, the Great Lakes and beyond. In the Midwest, Cleveland grew in a century on its industrial prowess to be the 6th largest city in the country in 1910, but began to decline since the 1930s as businesses moved out and internal social fragmentation dragged the city down. Likewise, the fortunes of Baghdad, Cairo, Constantinople, Malacca, and Hangzhou waxed and waned according to the importance they commanded in trade and economic production. Even the bright lights of Shanghai, the foremost city in China, and arguably in Asia, in the early decades of the 20th century, were dimmed after 1949 when a new regime came to power in China. Only after Pudong was declared a new open area for experimentation and growth in 1990 was Shanghai able since to find the energy and spark that have engineered its spectacular economic growth and cultural renaissance.

The above brief reference to the rise and then relative decline of cities in different geographical and political settings at different times has highlighted the fact that the
enduring success of a city has to depend on a host of supporting economic and political factors. When the mix of supporting factors alters, a city is subject to pressure and even decline. However, the case of Shanghai has demonstrated that, for some cities, their geographical location may endow them with almost intrinsic strengths. Its location at the mouth of the Yangtze River and in relative proximity to Japan and the Korean Peninsula has enabled Shanghai to rise to prominence again after 1990, when policy changes were made in its favour.

Having reviewed conceptually the term marginalization and its meaning and the lessons of the rise and fall of cities, where does Hong Kong stand in terms of marginalization? Several statements may be made at this point.

First, two key dates need to be mentioned: 1978 and 1997, both associated with landmark events that radically altered Hong Kong’s position vis-à-vis the mainland. The year 1978 marked the beginning of the reform period in China, the path to rapid economic growth that has shaken the world. From its three decades of self-imposed isolation, China in 1978 had to go through a crash course on capitalism and learn how it works to win the global market. Hong Kong, with its many years of rich experience in global capitalism, played the role of a teacher, providing at the same time capital, market know-how and modern management methods. It was the “centre” towards which mainland cities readily looked for advice and investment. As a centre to learn capitalist ways of conducting business, there was no rival to Hong Kong in China. Despite its being on the geographical periphery of China, Hong Kong was, in reality, its functional centre to reconnect it to the world. From this standpoint, Hong Kong was at the height of its utility to China, to assist the nation to look out and for other nations to peep into the still somewhat mysterious Middle Kingdom. Hong Kong was playing a middleman role par excellence, more vital than any time in its past. In the process, both China and Hong Kong derived significant benefits in the symbiotic relationship. In 1997, with its return to Chinese sovereignty, Hong Kong became part of a large country. Under “one country, two systems,” Hong Kong’s way of life is guaranteed by the Basic Law for 50 years. It has entered a period of
fresh mainland relations, in which different levels of government had to experiment in their dealings with Hong Kong. In the initial years, both global/regional factors and internal problems within Hong Kong led to a rocky working relationship with the mainland until 2001. With China’s accession to the WTO (World Trade Organization) in that year, Hong Kong-mainland relations greatly improved. Favourable policies enunciated in 2003, such as CEPA (Closer Economic Partnership Arrangement) and the individual travel scheme, further advanced the integration of Hong Kong with the mainland.

Second, with closer integration and especially with the rapid rise of mainland cities as robust economic entities, Hong Kong has lost some of its special luster and unique characteristics. It is no longer China’s only door to the world. Many cities have grown rapidly and have markedly raised their economic profile. Beijing, Shanghai and Guangzhou are aspiring world cities, although, strictly speaking, Hong Kong is the only Chinese city that truly earns that label, as judged by academics in the field. The widely acclaimed development model of “front shop, rear factory” emphasizing the dovetailed complementarity between Hong Kong and the PRD, has been increasingly questioned as to its relevance to the present situation. After more than two decades of a mutually beneficial relationship, many cities in the PRD have now become “shops” in their own right as they have acquired the requisite technical and market expertise to reach out to foreign markets. To be sure, the “front shop, rear factory” model is in a state of flux, but Hong Kong no longer enjoys the “centre” role it used to dominate the PRD business and trade as in the early days of China’s opening.

Third, in the mainland’s parlance of economic leadership in a region in China, a recognized centre is sometimes called a dragon head, such as Shanghai being duly referred to as the dragon head of the YRD. Within the PRD, three cities – Hong Kong, Guangzhou and Shenzhen – are often viewed as potential dragon heads. With Hong Kong being a part of China since 1997, it has been considered along with the other two cities as potential leaders to lead the PRD to a higher level of growth and development. In truth, Hong Kong
has the necessary wherewithal in some spheres for it to lead the delta region, but it has chosen to be silent on the issue, for appropriate political reasons. On the other hand, although not explicit about it, Guangzhou has been planning its future to be a transport, communication and economic centre, with many of these links to the delta cities. Consequently, many cities in the PRD converge upon Guangzhou, reinforcing its centre status. At a practical level, little purpose will be served for the three leading cities to vie for the dragon head status of the PRD. A more realistic approach is to underscore cooperation among them for the collective good and the overall competitiveness of the region.

Fourth, as infrastructure construction has been proceeding apace in the PRD and elsewhere along the China coast, a direct question has often been posed. It is whether Hong Kong is being or has been marginalized. This question needs the support of data and trends analysis and will be tackled in a succeeding part of this report.

Lastly, the question of Hong Kong facing the risk of marginalization has to be addressed in terms of timing. Is marginalization already happening, or is it a possibility that will become real if Hong Kong chose to live on its past laurels? Also, marginalization can be a fiction of the mind, a collective perception of the community, which may or may not be borne out by facts and reality. This study intends to get to the bottom of the truth and reveals what, in fact, Hong Kong is facing in terms of competition. After all, a timely wake-up call can energize Hong Kong to a sense of crisis and redouble its efforts to strengthen its traditional and will-recognized advantages to better compete with mainland rivals and rediscover its “centre” roles in certain sectors and its overall status. In this report, the focus is to review the 11th FYP in the Bohai region, Shanghai, Guangdong, Guangzhou and Shenzhen and their implications to Hong Kong in terms of opportunities and challenges.
1.3. The contextual background of the 11th FYP

A major goal of national development, set by the 16th Chinese Communist Party Congress in 2000, is to build China, by 2020, into a moderately well-off (xiaokang) society, in which economic prosperity can provide most of the population with comfortable means. The time line to achieve this goal consists of two stages: the first stage covers the 10th and 11th FYP periods (2000-2010) and the second covers 2010-2020.

During the 10th FYP, the starting period to build a xiaokang society, the Chinese economy had a remarkable achievement and per capita income substantially increased, making China one of the world’s giant economies. However, economic growth was extensive in nature, depending much on high investment especially FDI (Foreign Direct Investment), export of low value-added products, low-labour cost and high consumption of natural resources rather than on technology and productivity. In other words, it was a typical case of Paul Krugman’s depiction of the Asian economy of being high on perspiration and low on inspiration. In 2004, China’s GDP accounted for only 4 percent of the world total, but its consumption of primary energy sources made up 12 percent of the world total, 15 percent freshwater, 25 percent aluminum oxide, 28 percent rolled steel and 50 percent cement.\footnote{People’s Daily on line, accessed 9 October 2005.} It is clear from this set of figures that despite China’s rapid economic growth, it was achieved at a disproportionately high input of natural and material resources. Its growth machine was far from efficient, leaving large room for improvement.

Spatially, national development has been concentrated in several city-regions along the Pacific coast during the past two decades, with the result that regional disparities between the coastal and interior/western regions have been much widened. In 2004, three economic spearheads, namely the PRD region, the YRD region and the Bohai Rim region, accounted for 54 percent of the national GDP, 79 percent of its foreign trade and 85 percent of its total inward FDI.\footnote{National Bureau of Statistics, \textit{China Statistical Yearbook 2005}. Beijing: China Statistics Press, 2005.
The 11\textsuperscript{th} FYP period seems pivotal for a new round of development, because during this period China will attempt to promote intensive development on a sustainable basis, while maintaining considerable economic growth and narrowing down regional disparities. Such new development trend will be characterized by changes in the concept of development, a transition of traditional industrialization, and coordinated regional development. The achievement of development goals in the 11\textsuperscript{th} FYP will be based on optimizing and upgrading economic structure, growing productivity resulting from progress in science and technology, enhancing the efficiency of resource utilization, and coordinating and incorporating regional development.

As highlighted in a major address in Hong Kong, four characteristics may be associated with the 11\textsuperscript{th} FYP.\footnote{Professor Hsu Jialu’s keynote address at the Forum on China’s 11\textsuperscript{th} Five-year Plan: Hong Kong’s Perspective, Hong Kong, 20 March 2006. See Mainland-Hong Kong Academic Exchange, No. 69, March 2006, p. 7-13.} First is the urgency of the need to resolve the many problems, conflicts and pressures arising from more than two decades of rapid economic development and openness. Second, economic growth has to change in substance, from an extensive and broad-based mode to one that is resources conserving, high value-added and more technology-intensive. Third, apart from the traditional emphases on economy, politics and culture, there is the need to pay heed to society. Fourth and finally, the new plan must be erected on six cardinal principles: an expanded domestic market, an improved production structure, resources conservation and environmental protection, strengthened self-generated ability to innovate, deepened openness and reform, and a people-based philosophy. On this basis, the following quantitative targets have been set for the Plan period (Table 1.1).
<table>
<thead>
<tr>
<th>Indicators</th>
<th>2005</th>
<th>2010</th>
<th>Annual growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (trillion RMB)</td>
<td>18.2</td>
<td>26.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Per capita GDP (RMB)</td>
<td>13,985</td>
<td>19,270</td>
<td>6.6</td>
</tr>
<tr>
<td>Relative value added in service industry (%)</td>
<td>40.3</td>
<td>43.3</td>
<td>[3]</td>
</tr>
<tr>
<td>Level of urbanization (%)</td>
<td>43</td>
<td>47</td>
<td>[4]</td>
</tr>
<tr>
<td>Total population (million)</td>
<td>1,307.56</td>
<td>1,360.00</td>
<td>&lt;8‰</td>
</tr>
<tr>
<td>Reduction in energy consumption in domestic unit production</td>
<td>[20]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in water consumption in domestic industrial production</td>
<td>[30]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New urban employment in five years (million)</td>
<td>[45]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average per capita urban disposal income (RMB)</td>
<td>10,493</td>
<td>13,395</td>
<td>5</td>
</tr>
<tr>
<td>Average per capita net rural income (RMB)</td>
<td>3,255</td>
<td>4,150</td>
<td>5</td>
</tr>
</tbody>
</table>

Note: Total value of domestic production and urban/rural income are based on 2005 prices; bracketed numbers denote five-year accumulated figures.

Given the current development level as well as the natural and human resources of development, China’s road to modernization in the 11th FYP is set to be continued industrialization and urbanization, with changing modes of economic growth and spreading development gains from the more developed to the less developed region. However, the new development will be confronted with tougher energy, resource and environmental constraints, along with severe competition from the world market.

Development plans in cities concerned are generally in line with national planning set by the central government. However, as those cities are already economically stronger than most parts of the country, they are expected to play a leading role in China’s modernization. Their development will, to a certain degree, go one or more steps ahead of the general development of the country. The major goals of socio-economic development in Beijing, Guangdong and Guangzhou are outlined in Table 1.2.
<table>
<thead>
<tr>
<th>Table 1.2. Main goals of socioeconomic development in the 11th FYP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beijing</strong></td>
</tr>
<tr>
<td><strong>GDP</strong></td>
</tr>
<tr>
<td><strong>Economic structure</strong></td>
</tr>
<tr>
<td><strong>Urban unemployment rate</strong></td>
</tr>
<tr>
<td><strong>Key industries/sectors</strong></td>
</tr>
</tbody>
</table>

Two major observations may be made as a result of the short overview of the 11th FYP that has been undertaken so far. First is the changing mode of economic growth. Maintaining a certain speed of economic growth without compromising on efficiency is upheld as a major path to building a xiaokang society. It is emphasized that economic growth will rely more on the contribution made by scientific and technological progress and improved productivity. Some of these new emphases will provide room for Hong Kong’s participation and contribution, as it has been noted for its efficiency, management and international experiences, certainly in financial, logistics and producer services.

Second, industrialization is still a dominant lever to employ towards achieving economic restructuring. This is to say that industrialization will undergo expansion in both its general scale and its contribution to the overall economy. Judging from key industrial projects in selected cities, one can conclude that the key initiative to upgrade economic structure is to set heavy and high value-added industries in the process of industrialization. Under the new development priorities set for the 11th FYP as outlined above, sectors with great development potential will include the following:

- heavy and technology-intensive industries (automobile industry, equipment manufacturing, new petrochemical materials)
- creative industry
- urban real estate sector
- urban infrastructure and transportation links within and between city-regions
- logistics sector
- recycling economy

Again, Hong Kong has excelled in some of these sectors. There is, therefore, a wide scope for Hong Kong firms to partake of opportunities offered in the new Plan, especially under the further opening of the mainland market under CEPA III announced in June 2006.
Chapter 2
Components of the 11th FYP Affecting Hong Kong

2.1 Review of the 11th FYP of the Bohai region

Beijing-Tianjin-Hebei urban region is one of the three fastest growing urban regions in coastal China. Currently, the National Development and Reform Commission is making the regional plan for Beijing-Tianjin-Hebei urban region, in order to upgrade industries, improve functional division of various cities and coordinate regional development. In this region, the development of Tianjin Binhai New District (TBND) has become a national development strategy, serving as a new growth pole in the regional development. Therefore, this section will highlight the 11th FYP of TBND and its impacts on Hong Kong.

**Beijing:** Relying on hosting 2008 Olympics, Beijing will actively interact and cooperate with other countries and its status in the world system will be greatly enhanced. Positioning as the national capital, international city, historical city and amenity city, Beijing will pursue the steady economic growth and improve urban construction and management in the period of 11th FYP. Beijing will put emphasis on developing modern service industries, including financial industry, culture and creative industries, tourism and convention industry, real estate and logistics industry. Development of high tech industry is also a major task in the 11th FYP. These high tech industries cover software, R&D, information, mobile communication, computer, internet, IC, optical/electronic display industries and bio-industry. Beijing will develop the following manufacturing industries selectively: automobile, equipment manufacturing, new petrochemical materials, medicine and urban industries.

**Tianjin:** In the period of 11th FYP, Tianjin aims to become an international port metropolis and an important economic centre in North China. Tianjin will speed up the
development and opening of TBND, establish more advanced socialist market economy and become one of the first regions to achieve initial modernization in the country. The advantageous industries in Tianjin’s economy including electronics and information, automobile, chemical, metal, bio-industry and modern medicine, new energy and environment conservation, and textile industries will be further enhanced. These industries will be strongly supported. Equipment manufacturing industry will be revitalized to become an advantageous industry by upgrading its structure. Developing high tech industry is a new direction of economic development. These high tech industries include IC, bio-industry, environment and energy conservation, new materials (such as nano material), oceanic technology and aviation technology. Development of IC, GM medicine and IT industries will be speeded up. For service industry, the development focus is on modern logistics, leisure and tourism, financial service, science and technology and information service industries.

Hebei: The highest priority of the Hebei government is to upgrade industrial structure. Development focus is on ten pillar industries, including iron and steel, equipment manufacturing, petrochemical, food, medicine, building materials and construction, textile and garment industry, electronics and information, logistics and tourism. To enhance industry competitiveness, Hebei will build big industrial bases and big industrial parks, and attract big projects. In addition, to support high tech industry development, some high-tech industrial bases and parks will be established in the period of 11th FYP.

(1) Plan outline: strategic objectives and development directions

In the national 11th FYP, it is the first time that the development of TBND has been formally listed in the national agenda, becoming a national development strategy. Several months later, the State Council designated TBND as an experimental area of comprehensive reform. This implies that TBND will become a new growth pole in
regional development, after Shenzhen Special Economic Zone and Shanghai Pudong New Area.

The Central Government designates TBND as “one base, two centres and one new district”. This is to say that based on Beijing-Tianjin-Hebei region, serving Bohai Rim region, north China and north-east Asia, TBND will be built into a gateway of North China to the world, R&D and advanced manufacturing base, international shipping centre and international logistic centre in northern China, a new urban district with prosperous economy, harmonious society and beautiful environment.

During the period of 11th FYP, TBND has the following strategic objectives. TBND will achieve rapid and steady economic growth. Its average annual growth rates of GDP and fiscal revenue will reach 17 percent and 20 percent respectively. The contribution of high tech industry to the total industrial output will account for over 50 percent and the total value of import and export will reach US$ 200 billion. There will be significant improvement in the efficiency of resource use with the energy consumption per unit of GDP to be reduced by over 20% from the level in 10th FYP.

(2) Developing advanced manufacturing industry

Advanced manufacturing industry is a pillar of TBND’s development. In further development, TBND will adopt high technology to upgrade industrial structure. TBND will further develop advantageous industries including electronics and information,
oceanic and petrochemical, automobile and equipment manufacturing, quality steel and steel pipes, bio industry and medicine, new energy and materials, and environment conservation industries. TBND also aims to develop high-tech industries and form high-tech driven industrial clusters. TBND will implement the “key projects” strategy and establish many industrial bases in the period of 11th FYP, including national petrochemical industry base, important ocean chemical base, automobile and equipment manufacturing base, steel pipe and quality steel processing base, advanced electronics industry base and biomedicine base. In addition, TBND encourages the vertical division of labour, extension of production chains, development of complementary products and large enterprises that have leading positions in the country or brand name well-known in the world.

(3) International Logistics

Through upgrading and modernizing ports and airport, TBND will improve transportation networks and become international shipping centre and international logistics centre in north China.

**Ports:** TBND will build six port areas with different functions, including Beijiang container port, Nanjiang energy and bulk cargo port, port-base industrial park, Beitang port, Haihe river port and Hangu fishery port. In the period of 11th FYP, a shipping channel that can accommodate sea vessels of 150,000 tonnage will be built. In addition, TBND is preparing to build a shipping channel that can accommodate sea vessels of 250,000 tonnage and an island-type petrol-berth that can accommodate vessels of 300,000 tonnage. By 2010, the cargo handling capacity will reach 300 million tonnes and the throughput of containers will reach 10 million TEUs. By improving the cargo handling capacity for various kinds of vessels and goods, Tianjin port will become the biggest bulk cargo port in north China and the international container hub port in north-east Asia.
**Functional areas of logistics:** TBND will build or upgrade six logistics centres, including Tianjin port container logistics centre, bulk cargo logistics centre, export processing zone sea and air logistics base, economic development zone industrial logistics base, Tanggu commercial logistics base, lower Haihe river trade logistics base. These logistics centres are complementary and their cargo handling capacities will be improved greatly to enhance their competitiveness. To build a free trade area, it is necessary to integrate export processing zone and Tianjin Port in further development.

**Inter-modal links:** TBND will build the second line of Jigang railway and Bohai rim railway in Hebei to connect with the port strategically. The north section of the second Beijing-Tianjin-Tangshan expressway, Tianjin-Shanxi expressway and coastal highway are under construction; Beijing-Tianjin-Tangshan expressway will be extended to the port. It is clear that the position of TBND as the transportation hub in north China and Bohai rim will be enhanced, and logistics industry will benefit from transportation improvements.

**Customs inspection systems:** In order to facilitate customs inspections, TBND will implement “electronic customs” scheme and improve service provision. In addition, Tianjin port attempts to extend area for through transportation across different customs areas to neighbouring provinces and cities. TBND also take a positive stance to integrate the custom services in Tianjin airport with Beijing airport, in order to upgrade the function of Tianjin Coastal International Airport.

(4) **New directions of development**

**TBND experimental area for comprehensive reform:** The central government approved TBND as an experimental area of comprehensive reform in 2006. Through developing and opening TBND, TBND will function as a grow pole to promote regional development. TBND will focus on the following tasks in the period of 11th FYP.
**Table 2.1 Selected key projects in TBND**

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dongjiang District of Tianjin port</strong></td>
<td>The total area is 30 km², including Dongjiang Export Processing Port. 10 km² and 4.85 km seacoast will be developed in phase one. 5.3 km² is container handling zone and 4.7 km² is logistics zone.</td>
</tr>
<tr>
<td><strong>Port-based Industrial Park</strong></td>
<td>The total investment reached RMB 30 billion in the first half of 2006 and reclamation land reached 14 km². FDI with intention for investment reached RMB 40 billion. Contracted FDI reached RMB 21 billion.</td>
</tr>
<tr>
<td><strong>Beijing-Tianjin intercity railway</strong></td>
<td>The total length is 115 km, with investment of RMB 13.3 billion. It is expected that the project will be completed in 2007 and begin operation in August 2008.</td>
</tr>
<tr>
<td><strong>Second Beijing-Tianjin-Tangshan Expressway (Tianjin part)</strong></td>
<td>The total length is 144 km, with investment of about RMB 10.5 billion.</td>
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</table>


**Financial reform**: TBND is an experimental area for financial reform. Therefore, various important initiatives will be introduced first in TBND to reform financial firms, financial business, financial market and financial service, etc. According to the principles of controllable risk and rationality, TBND attempts to adopt many measures to reform financial policies, involving industrial investment funds, venture funds, comprehensive financial business, multi-ownership financial firms, foreign exchange policy and offshore financial services.

**Land administration reform**: In order to improve efficiency of land use and save land resources, TBND is entitled to reform land administration and optimize land use structure. Several initiatives are introduced to land reform in TBND, including the transfer policy of rural collectively-owned construction land (nongcun jiti tudi liuzhuan), redistribution scheme of land revenue and enhancement of local government’s controlling capacity on land supply.
Tianjin Dongjiang Export Processing Port: To achieve the goals of an international shipping centre and an international logistic centre in North China, Tianjin Dongjiang Export Processing Port is under construction. The development of the processing port will focus on international transfer, international distribution, international buying, re-export and export processing industry. In addition, TBND seeks to reform custom administration to link with other custom areas, in order to promote regional integration.

Favourable revenue and fiscal policies: TBND enjoys many favourable revenue and fiscal policies from the central government. High-tech firms in TBND can enjoy the profit tax rate of 15 percent. Using the same preferable policies for Northeast China old industrial base, the base line of income tax is increased for staff in domestic firms. Favourable policies on fast depreciation of fixed asset and intangible asset are implemented. Under the existing fiscal and revenue system, the central government will strongly support TBND development by offering special subsidies and financial assistances.

(5) Implications and impacts on Hong Kong: opportunities and challenges (TBND)

TBND is a core area of Bohai rim, which has a broad hinterland, sound locational advantage and industrial strength. It is a gateway of China to participate in world economy and has been serving an engine for regional integration. The development and opening of TBND will accelerate regional economic development, enhancing regional competitiveness and realizing “go international” strategy.

The development of TBND is part of the national strategy of coordinating regional development. After over ten years’ development, TBND’s economy and service function have been strengthened. It has become a new growth pole in China, after Shenzhen Special Economic Zone and Shanghai Pudong New District. The development of TBND will accelerate the modernization of the eastern region of China and stimulate the
development of central and western China, especially the development of Northwest, North and Northeast China.

The development of TBND is a new regional development model in the new round of development. In today’s globalization and regionalization era, as well as the changing domestic development climate (building well-off and socialist harmonious society), the development of TBND should depend on new thoughts and development road, with aims of sustainable development and regional innovation.

**Opportunities**

The development of TBND is part of the national regional economic development strategy. The growing TBND will play a positive role in the development of Bohai rim, even for the whole North China.

Compared with PRD region and YRD region, Bohai rim region is a developing region in the country. Therefore, there are many problems that occur in the initial stage of economic development in Bohai rim region. For example, the progress of regional integration is slow. There is a lack of closer economic ties among jurisdictions. Market consciousness and mechanism in North China are not as sophisticated as in South China due to the strong impact of the planned economy. This implies that the development of TBND and Bohai rim region cannot pose direct challenges to Hong Kong immediately. For Hong Kong, there are more opportunities than challenges.

Advanced manufacturing industry is the focus of TBND development. But the financial industry and producer service do not have dominant positions in TBND development agenda. This is to say that there is complementarity between Hong Kong and TBND in terms of industrial development. The development of advanced manufacturing industry in TBND will surely need financial service and producer service to support. This provides Hong Kong with opportunities to develop financial and
producer services. Hong Kong should participate in TBND and Bohai rim development, and strengthen its economic influence on North China. On the other hand, Bohai rim is a resource-abundant region in China. There are cheap constructible land, rich oil, natural gas, salt and marine resources in abundance. This provides Hong Kong investors with more opportunities. Hong Kong should cooperate with TBND to create favourable development environment for Hong Kong investors, especially in energy industry.

**Challenges**

The objectives of Tianjin are to become an international shipping centre and an international logistics centre in North China. This may pose indirect challenges either for YRD region or PRD region in the future. Tianjin port not only serves North, Northeast and Northwest China, but also functions as the gateway for some landlocked countries, such as Mongolia and Kazakhstan. Tianjin port is the fastest growing port in North China. The container throughput increased from 490 thousand TEUs in 1993 to 3.01 million TEUs in 2003, with an increase of 2.52 million TEUs during the 10-year period and an average growth rate of 22 percent. As they serve different hinterlands, Tianjin port is not a direct competitor to Hong Kong container port. However, Tianjin’s growth in international shipping and logistics centre may have negative effects on Hong Kong to a certain degree in the long run. As such, Hong Kong should work together with Tianjin port and Shanghai Yangshan port, to achieve win-win situation and avoid zero-sum competition.

As an experimental area of comprehensive reform, TBND is entitled to enjoy many preferable policies, such as land, finance and technology policies. These preferable policies, as well as human resource strength, make TBND more attractive for foreign investors. Therefore, manufacturing industry will be developed and consolidated in TBND. Manufacturing sector development in Bohai rim region will threaten PRD’s advantages as a manufacturing centre, which is the hinterland of Hong Kong. For example, Airbus Corporation has selected the city of Tianjin as the site for its China
A320 family Final Assembly Line, instead of PRD region and Shanghai. As a result, this will pose challenges to Hong Kong’s development.

2.2. Review of the 11th FYP of the Yangzi River Delta

(1) Plan outline: strategic objectives and development directions

In the period of 10th FYP, Shanghai’s GDP grew by 11.5% a year. During the last 14 years, it has experienced astonishing growth with double-digit growth rates. It is expected that Shanghai’s total GDP will reach RMB912.5 billion and per capita GDP, RMB50 thousand in 2005.

According to the strategic position assigned by the central government, Shanghai will become four international centres, i.e., international economic, financial, trade and shipping centres, and a socialist global city by 2020. The strategic objectives of social and economic development in the period of 11th FYP are to host successfully the coming world Expo; to stimulate social and economic development, to form a basic framework of the four international centres; and to gear up development to a higher stage to make Shanghai an international city, forming a solid foundation for further development in the period 2011-2020.

It is expected that the total population will reach about 19 million in the whole city by 2020. During the period of 11th FYP, Shanghai government will put emphasis on optimization of economic structure, efficiency improvement and resource saving. In 2010, it is expected that the total GDP will reach RMB1,500 billion, with an average annual growth rate of above 9%. For economic structural change, there will be a large proportional increase in the tertiary industry and simultaneous declines in the share of primary and secondary industries, forming a service-based economy.
To accelerate the development of a multi-functional financial market and financial institutions, thereby improving the financial environment. Shanghai should further enhance its position as a domestic financial centre, becoming eventually one of the most influential financial centres in the world;

To establish Yangshan Deep-water Port and Shanghai Aviation Centre;

To diversify trade development, Shanghai will put emphasis on developing both domestic and foreign trade, cargo trade and service industry in the near future;

To integrate the functions of financial, shipping and trade centres, Shanghai’s range of radiation will be significantly extended.

**Table 2.2. Planning indicators of Shanghai in the 11th FYP**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of fund raising from financial market in total fund raising</td>
<td>%</td>
<td>About 25</td>
</tr>
<tr>
<td>Export and import value</td>
<td>US$ billion</td>
<td>+550</td>
</tr>
<tr>
<td>Throughput of container</td>
<td>Million TEUs</td>
<td>+24</td>
</tr>
<tr>
<td>Passengers by air</td>
<td>Million</td>
<td>+80</td>
</tr>
<tr>
<td>Operated rail transit</td>
<td>Km</td>
<td>400</td>
</tr>
<tr>
<td>Internet penetration</td>
<td>%</td>
<td>68</td>
</tr>
</tbody>
</table>

The 11th FYP proposes the following principles to guide social and economic development:
---- To keep to rules of scientific development to ensure steady and rapid economic growth. It should be pointed that growth quality and economic efficiency loom large in the government agenda in further development. In addition, the increase in domestic demand, especially for consuming demand, will become a major driver to stimulate economic growth.

---- Advances in science and technology will serve as engines of economic and social development, and innovation capacities must be enhanced.

---- Changing the mode of economic growth to enhance industrial competitiveness. Innovation-driven development mode will become a new direction of economic development, which will accelerate economic structural upgrade.

---- To ensure that most of the population can benefit from economic prosperity. Promote urban cohesion.

---- Making use of the experimental role of Pudong New District to introduce innovative development framework and mechanism.

---- Making use of the opportunity of hosting the World Expo, Shanghai should consolidate its service functions and create a civilized development environment.

**High-tech industry and industrial restructuring**

**Shanghai:** The highest priority of the Shanghai government is to develop an advanced manufacturing sector. Improvement of innovation capacity is a core task for high-tech industry development and industrial restructuring. In the new round of development, Shanghai needs to carry out new policies to foster industrial clusters, relying on big industries (da chanye), big projects (da xiangmu) and big manufacturing bases (da jidi). In addition, high technology, advanced equipment and new methods are encouraged in industrial development and restructuring. According to above general strategies, Shanghai adopts three measures for different industries.
First, for advantageous industries in Shanghai’s economy, more efforts will be made to improve industrial competitiveness. These industries include automobile and equipment manufacturing industries. Second, biochemical industry, medicine, new energy resources and materials, shipbuilding and aerospace industries are highly competitive areas. These industries will be highly supported. Third, more efforts are still made to improve and adjust basic industries, such as petrochemical industry, iron and steel industry. As a major service centre in YRD, manufacturing development in Jiangsu and Zhejiang has an important impact on the development of Shanghai.

**Jiangsu:** A major development goal of Jiangsu is to build Jiangsu into an international centre of advanced manufacturing industry. To achieve this goal, the Jiangsu provincial government proposes to build an industry belt along the Yangtze River, making Jiangsu attractive for investors. High-tech industry will play a leading role in the new round of development. A large proportion of output will be generated by high-tech industry, especially by electronics and information, biochemical industry, new medicine and new materials industry. More efforts are also made to enhance automobile, shipbuilding, petrochemical, metal and energy industries. For traditional industries, growing productivity using high-tech is thought to be a crucial strategy for upgrading the economic structure. These include textile, garment and food industries. Apart from above industries, some industries with great development potential or that may play strategic roles in future development are encouraged, including bio-energy, new environment and internet-based household appliance industries. For enterprise development, the “big enterprise” strategy has been introduced to enhance enterprises’ competitiveness. It is emphasized that big enterprise development will rely more on specialization, innovation and brand name. Meanwhile, those small and middle-sized enterprises with great development potential will be actively supported.

**Zhejiang:** High-tech industry, which serves as a driver of economic development, will be highly supported in the 11th FYP period. Under this industry development strategy, sectors with higher development priorities include 3G mobile communication products,
the new-generation internet and digital TV, biomedicine, therapeutic appliance and new pesticide. For those traditional and advantageous industries, their further development depends on technology innovation and industry upgrade, in order to maintain and enhance their dominant roles in the national economy. These industries include textile, garment, leather, hardware, paper making and advanced petrochemical industry. In addition, port-based heavy petrochemical, shipbuilding and automobile industries are major industries and new development directions in Zhejiang’s economy.

(2) Development planning of financial services, trading and logistics, producer services and tourism

Financial industry

Focusing on building an international financial centre, Shanghai will continue to develop and improve its financial institutions, financial market, financial service and financial management system. The following efforts will be made: integrating financial institutions and establishing new financial institutions in order to improve Shanghai’s development environment to attract financial companies and talents; creating innovation centre for financial products, forming sound capital, money, foreign exchange, futures, gold and property markets; improving financial services infrastructure for trust function, transaction and clearance, enhancing ties among financial markets; implementing stock reform to improve the quality of listed companies; establishing and improving the credit system. In addition, Lujiazui Financial Centre will be the development focus of the international financial centre that functions as an experimentation area for national financial reform.

International trading and logistics
Changing the mode of export is essential for international trading and logistics development. In the future, the main exports of Shanghai will be high value-added and high-tech products. Relying on the Yangshan Bonded Port, Shanghai will extend its scope of services and develop re-export trade.

In logistics development, the superb condition brought about by a deep-water port, an aviation hub and highway networks will provide opportunities for Shanghai’s logistics development. With the aim of establishing an international transportation hub, a modern logistics centre is emerging in this globalizing city.

**Port:** an international shipping centre is one of goals in Shanghai’s the 11th FYP. In order to enhance its position in international shipping, Shanghai will build Yangshan Port (phase II) and prepare the plan for the three port areas, including Yangshan, Waigaoqiao and Luojing port. In addition, shipping services will be improved and upgraded in some areas such as north bund (Beiwaitan).

**Airport:** Shanghai international aviation centre consists really of two airports - Pudong and Hongqiao airports. In the light of the 11th FYP, Shanghai airport aims to become an important international airport in the Asia-Pacific region. During the 11th FYP period, Shanghai intends to extend Pudong International Airport (phase II) and rebuild Hongqiao Airport. It is expected that an aerial network will be formed and its freight throughput may reach 5 millions tonnes by 2010. Apart from infrastructure development, the operation mode of airline companies based in Shanghai will be reformed, towards a mode of hub-spoke. In order to develop an airport-based logistics industry, some logistics parks will be built in the near future.

**Tourism and services**
Convention industry, tourism, professional services and community service are new and growing industries in Shanghai’s economy. To create a good development environment, many incentives are introduced, such as setting up brand name for the convention and exhibition industry, developing tourism infrastructure and special tourism products. In addition, tourism and other industries, such as commerce and real estate industries, will be developed in an integrative way. Stable growth of trade and real estate industry will be ensured.

(3) Development planning of innovation system and infrastructure

According to the principles of independent innovation, focusing on key areas, supporting development and looking ahead, an innovation system combining producing, learning and research will be established, in which enterprises will play leading roles under market regulation. There are three levels in such innovation system, namely original innovation, innovation by integration and innovation after learning. It is expected that R&D input will account for more than 2.8 percent of the total GDP, the contribution of progress in science and technology to productivity will reach about 65 percent. A large number of enterprises with independent innovation capacity, brand name and competitiveness will emerge in the 11th FYP period. Competitiveness in science and technology aims to be on top in the whole country.

In line with the National Long & Short Term Plan of Science and Technology Development, more attention should be paid to key innovation fields. Therefore, Shanghai places emphasis on biology and medical sciences, electronics and information, materials and chemical industries, oceanic and environment industries, and aerospace industry. For infrastructure development, many large comprehensive projects are under construction, including the Science Park of World Expo, intelligent new harbour town and Chongming eco-island. A technology innovation system combining manufacturers, universities and research institutes will be established. By 2010, it is expected that R&D
input from enterprises will account for over 65 percent of the total input. For those key enterprises, the ratio of R&D input to sales income will increase to over 5 percent. To create a favourable atmosphere for innovation, more efforts will be made for the protection of intellectual property rights.

Attracting quality human resource is part of Shanghai’s development strategy. By 2010, talents and professionals will account for 45 persons per 10 thousands; the number of senior enterprise managers will reach about 250 thousands; resident foreign experts and professionals will reach 150 thousands; talents and professionals returned after studying overseas will reach 80 thousands.

**Infrastructure**

To enhance the position of Shanghai as a railway hub in the national transportation system, Shanghai intends to build inter-city railways between Shanghai and Nanjing, Hu-Za-Jia railway in Shanghai, inter-city railways between Shanghai and Hangzhou and Shanghai-Nantong railway. There are three major railway stations in Shanghai -- Shanghai station, South Shanghai station and Hongqiao station, in which Hongqiao is a transportation hub. The highest priority of infrastructure development has been given to develop rail transport (*guidao jiaotong*). By 2010, the length of railway will reach 400 km.

The projects of the Beijing-Shanghai high speed railway and the Shanghai-Hangzhou maglev railway have been approved by the Central State in March 2006. The length of Shanghai-Hangzhou maglev rail, linking Shanghai, Jiaxing and Hangzhou, is about 175 km, involving an investment of about RMB35 billion. According to the plan, the maglev rail will pass through suburban Shanghai. Its regular speed would reach 450 km per hour. However, its speed does not exceed 200 km per hour when the train runs in the city proper. It is expected that the project of Shanghai-Hangzhou maglev railway will be completed by 2008 and the railway will operate before 2010 World Expo is opened.
At that time, it will take just half an hour to reach Hangzhou from Shanghai by the maglev railway and the transportation efficiency will be greatly improved.

(4) New directions of development

Culture and related industries

Culture industry is a new development direction. In the 11th FYP period, creative industry, including animated cartoon industry and film, TV and media industry, are the focus of culture industry development. To promote creative industry development, many digital cultural content industrial bases and parks will be established. In addition, development of education, training, the medical care system, sports and performing arts has a positive impact on the strategy of developing culture industry. It is expected that the value added in culture and culture-related industry will reach about 7 percent of the total GDP.

The World Expo 2010 Shanghai, China

According the National 11th FYP, Expo 2010 Shanghai provides Shanghai and the whole country with good opportunities on the one hand to exchange with other countries and, on the other, to showcase Chinese economic development. The Expo 2010 Shanghai will be held from 1 May to 31 October 2010, with the total of 184 days. During the Expo, it is expected that over 200 counties and organizations will come to Shanghai and visitors to the Expo are estimated to reach 70 million. The theme of Expo is “better city, better life.” Under this theme, there are five sub-themes – urban multi-culture interaction, urban economic prosperity, urban science and technology innovation, urban community restructuring and urban-rural interaction. To make Expo 2010 successful, the Central Government established the Shanghai World Expo Organizing Committee and Executive Committee. Under this governance structure, Shanghai formed the Coordination Bureau of Shanghai World Expo, which is in charge of Expo affairs.
According to the National 11th FYP, Pudong New District is still playing a leading role in regional development. In June 2005, the State Council designated Shanghai Pudong New District as an experimental area of comprehensive reform in its 96th meeting of the standing committee. The designation of experimental area for comprehensive reform is viewed as heralding in a new round of reform. This has
provided Shanghai with incentives and opportunities to speed up its development. Reforms in Pudong will concentrate on the transition of government function, changing the mode of economic growth, reconstructing urban and rural dual economic and social structure. Based on these aims, Shanghai implements Three-year Action Plan, focusing on improving the socialist market economy, streamlining various regulations to be consistent with international standards, and creating a sound institutional environment. Reforms in the Pudong experimental area will provide insights and experience for the country’s reform and development.

(5) Implications and impacts on Hong Kong: opportunities and challenges (Shanghai)

The implementation of the 11th FYP of Shanghai, Jiangsu and Zhejiang will stimulate economic development and regional integration in the YRD region. To be sure, Shanghai and the YRD region’s competitiveness is enhancing, nationally as well as globally, and their positions in the national economy have also been greatly consolidated. Currently, the YRD region is aggressive to become “the 6th metropolitan region” in the world with international influence. The formation of “four centres” of Shanghai is an ongoing process, in which Shanghai must adjust itself to the trend of global economic restructuring and the international division of labour. The implementation of the “science and technology strategy” of Shanghai will accelerate the development of service and advanced manufacturing industries, with Shanghai’s radiation influence further extended. It should be pointed out that the realization of Shanghai’s “four centres” must depend on the economic development and support of the YRD region. Of course, Shanghai will also provide great development opportunities for the YRD region, even for the Yangtze River Economic Region.

Due to their advantageous location and adequate resources, the condition of industrial development is favourable in Shanghai, Jiangsu and Zhejiang. In addition, with better infrastructure and a thriving market environment, there is sufficient industry
interaction and a reasonable division of labour in the YRD region. Shanghai concentrates on capital-intensive industry and high-tech industry, especially on automobile, equipment, biomedicine, new energy resource and materials, shipbuilding and aerospace industries. For Jiangsu, it focuses on export-oriented industries by attracting FDI and absorbing advanced technology, especially on communication equipment, electronics and information, biochemical industries. In the coming five years, Jiangsu will continue to select and attract some high-end processing industries, and in the meantime support domestic enterprise development. Unlike Jiangsu and Shanghai, private enterprises, small and middle-sized enterprises are the biggest contributors to Zhejiang’s manufacturing industry. Textile, garment, leather and electronic industries command a good reputation in the world and they are pillar industries in Zhejiang’s economy. For these industries, the “bigger enterprise with better performance” (zuoda zuoqiang) strategy has been implemented to upgrade these enterprises in order to overcome weaknesses of small firms and low value-added products. According to the national 11th FYP, an independent innovation system will be established in China, shifting from “made in China” to “Chinese innovation”. Therefore, heavy and high-tech industries will play a dominating role in economic development. Accompanying this tendency, manufacturing industry is rapidly growing and a lot of highly competitive industries with international influence are rising in the region.

An advanced transportation network is extending in the YRD region, which promotes transportation integration of the region. Super highways, railways, airports and ports form a multi-mode transportation system, making transportation efficient, comfortable, safe and convenient.

In the ports of the YRD region, Shanghai port is the principal port, playing a leading role in the region. There are many ports in Jiangsu and Zhejiang. These ports are supplementary to the Shanghai international port. Based on these ports, a waterborne network is formed, playing an important role in the transportation system. According to the 11th FYP, ports are divided into three levels – main port, regional port and local port.
Main ports include Shanghai port, Suzhou port and Zhoushan port; regional ports include ports in Lianyungang, Nantong, Nanjing, Zhenjiang and Wenzhou; the reminder ports are local ports, which function as feeding ports. To avoid and alleviate problems caused by port competition, Shanghai, Zhejiang and Jiangsu will coordinate port development in the region, with the aim of achieving a win-win situation. For functional division, Shanghai port positions as a container port; the goal of Zhoushan port is to become a bulk cargo port to transfer ore and crude oil; Nanjing port and other ports along the Yangtze River act as sea-river ports.

Airports in the YRD region fall into four levels, including international airport, regional airport, local airport and other airport. To speed up the modernization of the Shanghai Pudong International airport, Shanghai is in the process of extending the airport. In addition, opening air traffic rights progresses at a rapid rate. It is expected that Shanghai airport will become an international hub in western Pacific rim.

Regional integration of the YRD region is ahead of other regions in China. Shanghai is the dragon head of the delta with the support of Jiangsu and Zhejiang. However, problems caused by an unreasonable industrial division of labour are still serious and this has to be addressed in the future.

Opportunities

In the period of 10th five-year plan, Shanghai’s GDP grew by 11.5 percent a year. Its total GDP reached RMB913 billion, about 70 percent of HK’s GDP. GDP per capita was RMB50,000 in 2005. Shanghai is larger in area than Shenzhen or Guangzhou. Its population will reach 19 million by 2010. In the same year, its total GDP will reach RMB1,500 billion, close to Hong Kong’s GDP at that time.

In the national economy, Shanghai is designated to become four international centres, i.e., international economic, financial, trade and shipping centres, by 2020. Other
than an advanced manufacturing sector, Shanghai’s economic function is similar to that of Hong Kong, but at different levels. Hong Kong is more advanced and internationalized than Shanghai. Shanghai is rapidly becoming a major economic centre. To a certain degree, Shanghai and Hong Kong may compete to be the leading economic centre in China. In other words, Shanghai will provide more and more financial, trade and logistics services in the mainland economy that once was served by Hong Kong. With the growing economy and demand in the mainland, this does not necessarily threaten Hong Kong’s leading position. Indeed, a strong Shanghai will ensure a strong mainland economy that will create more and more demands for advanced services from Hong Kong. On the other hand, Hong Kong’s immediate hinterland is the PRD and there is no direct competition with Shanghai in this region. The majority of re-export trade of Hong Kong comes from the PRD where large-scale outward processing takes place.

To Hong Kong, Shanghai is an important place for investment and Shanghai benefits from such investment and the presence of Hong Kong investors. Thus further economic growth of Shanghai will provide ample opportunities for Hong Kong investors. The two cities can work together to provide advanced services to the mainland economy. Their strength could complement with each other. Shanghai’s advanced R&D capacity and advanced manufacturing sector will be important in supporting manufacturing activities in the rest of China. Its international shipping services could serve the eastern part of China. Hong Kong’s advanced financial services and international connections will help Chinese firms to raise capital and engage in overseas investment.

There are both opportunities and challenges. Hong Kong needs to position itself to adjust its role in the mainland economy and consolidate its core advantages.

**Direct competition**

Shanghai’s advanced manufacturing sector (Hong Kong does not have this) and the international shipping services (with different hinterlands) do not constitute direct
competition with Hong Kong. The most important concern about the competition between Hong Kong and Shanghai is the international financial services.

**Impacts on the position of Hong Kong international financial centre**

To a certain degree, the rise of Shanghai as an international financial centre and China’s accession to the WTO may prevent some mainland enterprises from entering the Hong Kong stock market and investing in Hong Kong. However, generally speaking, Shanghai’s financial services are still weaker than Hong Kong. There is a wide gap between them in financial development. For example, the amount of foreign exchange reached RMB200 trillion in Hong Kong in 2004. It is much higher than that of Shanghai. In addition, compared with Shanghai, the development environment in Hong Kong, in terms of institutions and international networks, is superior. In this sense, the position of Hong Kong as an international financial centre will be further consolidated, instead of being weakened. Under the framework of CEPA, Hong Kong has the scope to extend its financial services and improve its service capacities through cooperation with mainland’s financial institutions. Therefore, there is no immediate threat to Hong Kong’s position as an international financial centre.

The development of Shanghai’s international financial services is constrained by a low degree of internationalization, lack of a reputable regulative system and the inconvertibility of RMB. It is expected that RMB may become fully convertible in the medium term. In the long term, Shanghai could be a serious competitor in terms of international financial services. Hong Kong’s financial sector should further consolidate its strength and even cooperate with Shanghai’s financial sector closely.

**Indirect challenges**

In recent years, the YRD led by Shanghai have performed much better than PRD in terms of attracting foreign investment, manufacturing and economic growth. The
difference in economic performance of the two deltas will have implications on the further development of two leading cities in the delta: Shanghai and Hong Kong. In the PRD region, Hong Kong’s leading role is not as secure as Shanghai in the YRD. The emergence of Guangzhou and Shenzhen has an important impact on Hong Kong’s leading position, especially in logistics and producer and consumer services. Hong Kong can do little to change the PRD’s economic performance unless the cities in Great PRD cooperate closely.

Furthermore, Shanghai’s economic base is wider than Hong Kong’s. It has a fully-fledged and leading manufacturing sector, supported by a large R&D sector engaged in innovation. Hong Kong is relatively weak in terms of R&D and manufacturing technologies. Shanghai is expected to experience steady economic growth while Hong Kong’s economy is more sensitive to its performance in the financial sector, trading relations with the PRD and the international market. Hong Kong lacks economic drivers to stimulate the economic development of the city and/or its hinterland.

**Impacts on manufacturing industry in Hong Kong and PRD region**

As production cost in Hong Kong is much higher than that in the mainland, Hong Kong’s low value-added products and labour-intensive industry had been transferring to the mainland during the past two decades. Meanwhile, the implementation of the 11th FYP, as well as the strength in human resources and its industrial base, makes the YRD region more attractive to foreign investors. Its position as an international manufacturing centre will be further enhanced.

The PRD region is the hinterland of Hong Kong, which readily accepted the spilling off of Hong Kong’s manufacturing industry. In recent years, manufacturing industry development in the YRD has been growing faster, which threatens the PRD’s position as a manufacturing centre. In addition, as the PRD region concentrates on low-value added and labour-intensive industries, its strength in manufacturing development
has increasingly been weakening. The operational mode of the division of labour in the Hong Kong – PRD links, popularly known as “front shop, rear factory” (qiandian houchang), has been increasingly questioned as to its relevance to the present situation. For the above reasons, PRD development and restructuring, especially in the manufacturing industry sector, will generate tremendous pressure on producer service development of Hong Kong.

**Impacts on logistic centre of Hong Kong**

Shanghai as an international shipping centre is progressing rapidly in the past several years. It is astonishing that throughput reached 7,000 containers per day during the first five months of the opening of Yangshan port. By April 2006, 1.06 million TEUs were handled in total and berthed international ships reached 1195. At the end of 2006, the phase II project of port will be completed and begin operation. By that time, it is expected that throughput will reach 3 million TEUs. According to the planning of the Yangshan port, there will be over 50 huge container berths, with a throughput of 25 million TEUs per year. In the long run, Shanghai as an international shipping centre will catch up and will likely take over the leading position of Hong Kong's premier status. But Shanghai's growth in international shipping will not be at the expense of Hong Kong, i.e., diverting container traffic away from Hong Kong to Shanghai. Indeed, as international shipping centres, Shanghai and Hong Kong serve different hinterlands. The more direct competition to Hong Kong's container port comes from Shenzhen instead of Shanghai.

Shanghai has also become a hot place for talents and professionals from home and abroad. It has designed special policies to attract human resources. Hong Kong needs to adopt similar policies to maintain its competitiveness in human resources.

Finally, Shanghai is weaker than Hong Kong currently in government regulation and institutional environment for business. Nevertheless, Shanghai’s Pudong district, together with Tianjin coastal area and Shenzhen, has been chosen to implement a new
round of comprehensive reform. Such reform may address the weakness as outlined above and narrow the gap between Shanghai and Hong Kong.

Policy implications for Hong Kong-Mainland cooperation

Due to its economic prosperity, a sound investment environment and solid infrastructure, Shanghai is the national economic centre with international influence. Compared with other parts of China, Shanghai is closest to Hong Kong in terms of economic development. Therefore, Shanghai and Hong Kong share more similarities and nicely complement each other, making cooperation easier. As a global city, Hong Kong can provide experiences for Shanghai to implement its “four centres” strategy. In addition, advanced institutions and strengths in its service industry in Hong Kong can serve as drivers to promote cooperation between Hong Kong and Shanghai. Cooperation with Hong Kong provides Shanghai with more opportunities to upgrade its industrial structure and stimulate economic development. For Hong Kong, it implies that more resources can be mobilized and the scope of its services is further broadened.

Jiangsu and Zhejiang are major parts of the YRD region, which have grown rapidly during the reform era. This implies that Hong Kong has an opportunity to extend its hinterland to the YRD region, to overcome the constraints of a limited hinterland. Of course, the increasing impacts of Hong Kong on capital and technology will further stimulate development in the YRD region.

Hong Kong should strive to enhance its position of an international finance centre in China and the world. It should also provide more and more RMB business while safeguarding the financial security of China.

Hong Kong needs to take measures to improve its education system and to attract talents and professionals. The living environment and quality of life should be improved
continuously. Keeping quality human resources in place is vital to enhancing Hong Kong as a leading economic centre.

Other than international financial services and professional services, Hong Kong is also strong in basic research and higher education. More cooperation should be sought between Hong Kong and the mainland so that Hong Kong can play an important role in raising the overall quality of basic research and higher education of China.

2.3. Review of the 11th FYP of Guangdong and Guangzhou

(1) Social and economic development in the 10th FYP period

The 11th FYPs of Guangdong and Guangzhou are major plans that direct the long-term development of the province and the city. It is also an important move to raise both the international and domestic economic and social status of Guangdong and Guangzhou. By the end of the 10th FYP, Guangdong and Guangzhou achieved substantial growth in economic and social development.

**New height of the overall economic strength.** In 2005, the GDP in Guangdong made a new record and reached RMB2,170.13 billion, accounting for 11.9% of the country. The average growth rate over the five-year period was 13% (Table 2.3). At present, Guangdong is the engine of China’s economic development and it is leading all provinces in many fields (Table 2.4).

**Rapid development of agriculture and the rural economy.** A new breakthrough has been found in the prefecture-level economy, which contributed to the robust economic growth of rural areas and agriculture. The government implemented strict policies on farmland protection and resulted in a steady growth of grain production over the past two years. The agricultural restructuring benefited the development of effective agriculture, special agriculture, as well as forestry and livestock rearing.
Table 2.3. Major indicators of Guangdong during the 10th FYP period

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>2005</th>
<th></th>
<th>Average growth rate during the 10th FYP Period (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (at current price)</td>
<td>Billion RMB</td>
<td>2170.13</td>
<td>18232.1</td>
<td>11.9</td>
</tr>
<tr>
<td>Investment in fixed assets by the whole society</td>
<td>Billion RMB</td>
<td>695.74</td>
<td>8860.4</td>
<td>7.9</td>
</tr>
<tr>
<td>Total Retail Sales of Consumer Goods</td>
<td>Billion RMB</td>
<td>788.26</td>
<td>6717.7</td>
<td>11.7</td>
</tr>
<tr>
<td>General Local Budgetary Financial Revenue</td>
<td>Billion RMB</td>
<td>180.66</td>
<td>1487.55</td>
<td>12.1</td>
</tr>
<tr>
<td>Total Exports</td>
<td>Billion US$</td>
<td>238.16</td>
<td>762.0</td>
<td>31.3</td>
</tr>
<tr>
<td>Total Imports</td>
<td>Billion US$</td>
<td>189.82</td>
<td>660.1</td>
<td>28.8</td>
</tr>
<tr>
<td>Utilized FDI</td>
<td>Billion US$</td>
<td>12.68</td>
<td>60.3</td>
<td>21.0</td>
</tr>
</tbody>
</table>

Table 2.4. Guangdong's leading economy in the country

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Proportion of China</th>
<th>Indicator</th>
<th>Proportion of China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Strength</td>
<td>1/9</td>
<td>Value-added of the Tertiary Industry</td>
<td>1/7</td>
</tr>
<tr>
<td>Total Exports</td>
<td>1/3</td>
<td>Received Foreign Investment</td>
<td>1/5</td>
</tr>
<tr>
<td>Export of High-Tech Products</td>
<td>2/5</td>
<td>Total Retail Sales of Consumer Goods</td>
<td>1/9</td>
</tr>
<tr>
<td>Financial Revenue</td>
<td>1/7</td>
<td>Savings Deposit</td>
<td>1/7</td>
</tr>
<tr>
<td>Industrial Value-added</td>
<td>1/8</td>
<td>Patent Applications Granted</td>
<td>1/5</td>
</tr>
</tbody>
</table>

Source: Feng, Xiaoyun (Jinan University, 2006)

(2) Development objectives of Guangdong’s 11th FYP

Guangdong is going to maintain a rapid and steady economic development by targeting an annual growth rate of GDP at 9% or above, and the per capita GDP in 2010
to be double that of 2000. Moreover, Guangdong plans to change and raise the quality and benefit of economic growth by lowering the per unit GDP energy consumption at 13% compared to that at the end of the 10th FYP period. The economic structure will be more rational, with a rising level of self-initiated innovation, increasing industrial and urban competitiveness and a new breakthrough in the urban-rural coordinated development. On the other hand, externally, Guangdong tries to reach a new level of openness and regional cooperation, and to establish a better socially-oriented economic system. Internally, the government will develop all-round social services and consolidate spiritual civilization and a democratic legal system. At the same time, the government will improve the ecology of the province, which in turn will help build a stronger capability in enforcing sustainable development. Furthermore, the government tries to establish a stable employment environment and improve the social security system. A better public order and industrial safety, a harmonious society, and a moderate well-off (xiaokang) living standard are going to be achieved.

**Development strategies of major industries**

A major goal is dedicated to the restructuring of industries. Nine major industries and high-tech industry have been identified to raise their competitiveness. The pillar industries of electronic information and petrol-chemical industries will be expanded. Vehicle and equipment manufacturing will become leading industries. Strategic industries such as bioengineering, new materials and new energy resources should be actively promoted. Meanwhile, traditional industries like textile and garments, foodstuff and beverage, and building material should be upgraded.

**Developing modern agriculture**

Further restructuring of the agricultural sector will be carried out. Guangdong aims to develop leading agricultural sectors with local uniqueness, regional advantages and high competitiveness. Agriculture with high specialty and high ecological value is
encouraged at the same time to raise the overall productivity. The government will provide new infrastructure in the farmlands and improve those low yielding farmlands. On the other hand, Guangdong will expand fisheries and aquaculture industries, and foster the development of maritime industry.

**Accelerating the upgrading of industries**

Guangdong is going to develop the pillar industries of electronic information, petrol-chemical, and household appliances. For electronic information, the pace of restructuring will be increased. For petrol-chemical industry, oil-refining and ethylene are selected as the emphases to enhance the integration of refining and chemical industries. Guangdong aims to become a major petrol-chemical base in Asia. For household appliances, product adjustment and technological advancement are the keys to increase the share of high-tech products. On the other hand, vehicle and equipment manufacturing, and iron and steel industries have been chosen as leading industries. Guangdong is going to develop an all-round supporting system for the vehicles industry in order to enhance the product development capability and the core competitiveness of the enterprises. Guangdong aims to become a major vehicle manufacturing base in the country by 2010.

**Enhancing the modern service sector**

Guangdong’s strong tourism industry, information services industry, real estate sector, and wholesaling and retailing businesses will be further strengthened. Focus will also be put on the financial sector, by encouraging the innovation of financial services, the provision of integrated and derivative financial services, the growth of insurance industry, the expansion of financial management, credit services for personal consumption, as well as e-banking services. Moreover, Guangdong is planning high-standard financial business districts in Guangzhou and Shenzhen to establish regional financial centres, and to strengthen their radiation function.
Fully adapting to the information age

With the application of information technology, society and the national economy are moving to the information age. By 2010, throughout the province, widespread application of information technology, rational use of information resources and information system covering various economic and social sectors well should be achieved. Under this basic condition, the internet penetration rate would reach 60% or above in cities and towns, and digital broadcast of TV and radio will be introduced.

(3) Development objectives of Guangzhou’s 11th FYP

Guangzhou’s the 10th FYP period was full of challenges in economic and social development with great achievement in reform, opening and modernization. With Guangzhou’s rapid, pioneering and coordinated development, its 10th FYP objectives were achieved earlier than expected and the progress of establishing a modernized metropolis reached a new stage, a solid basis for the 11th FYP development.

Table 2.5. Major indicators of Guangzhou during the 10th FYP period

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Annual growth rate</th>
<th>Absolute value (2004)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>14.0%</td>
<td>RMB411.58 billion</td>
</tr>
<tr>
<td>Gross Value of Industrial Output</td>
<td>18.9%</td>
<td>RMB574.95 billion</td>
</tr>
<tr>
<td>Gross Value of Agricultural Output</td>
<td>4.1%</td>
<td>RMB20.14 billion</td>
</tr>
<tr>
<td>Total Retail Sales of Consumer Goods</td>
<td>10.5%</td>
<td>RMB167.51 billion</td>
</tr>
<tr>
<td>General Local Budgetary Financial Revenue</td>
<td>18.7%</td>
<td>RMB30.28 billion</td>
</tr>
<tr>
<td>Per capita GDP</td>
<td></td>
<td>US$6,800</td>
</tr>
</tbody>
</table>

During the 10th FYP period, the annual growth rate of Guangzhou’s GDP was 13.8%, 1.8% higher than the targeted rate, and the general local budgetary financial revenue increased at 16.8% per annum, on the basis of comparable coverage. In 2005, the per capita GDP was US$8,393, or US$6,520, based on the population of permanent
household registration and population of usual residents, respectively. These already reached a medium level of developed countries/regions. The energy consumption per million GDP had been lowered from 91 tonnes SCE (Standard Coal Equivalent) in 2000 to 78 tonnes SCE in 2004, a positive sign of sustainable economic development.

**Development objectives of Guangzhou in the 11th FYP period**

Aiming to build a modern metropolis, Guangzhou needs further development in the economy and society and improvement in urban construction and management. On economic development, by 2010, the per capita GDP should reach US$10,000, a medium level of developed countries/regions, or double that of 2002. On urban construction, a series of modernization works will create a brand new Guangzhou for hosting the 16th Asian Games in 2010. Foreseeing Guangzhou 2020, there would be a 100% increase in per capita GDP from that of 2010, which should be able to hit the mark of developed countries/regions. The new Guangzhou metropolis would be stronger in furthering the development of Guangdong, and radiating its influences to South China and Southeast Asian countries. According to FYP, Guangzhou should have six urban functions:

1. An economic centre: GDP of the city will grow at 12% per annum, strengthening its unrivalled position as a regional centre of manufacturing, finance, technology, and business and trade. An economic centre with strong radiation and absorption abilities is taking shape.

2. An international metropolis: A vigorous and charming Guangzhou with extensive international influence.

3. An ecological city: A new spatial planning of Guangzhou with a better natural layout – emphasizing “mountain, water, city, farmland, sea,” changing Guangzhou from a riverside city to a modernized coastal city. Guangzhou will become an ecological city with the integration of Lingnan natural landscapes and human landscapes.

4. A famous cultural city: Being a cultural city that enables a mixture of traditional culture and contemporary culture, Chinese culture and Western culture, and Lingnan culture and modern culture.
5. A city for starting enterprises: With clear characteristics as a learning city, Guangzhou will become a city for starting enterprises in the PPRD (Pan Pearl River Delta) region and Southeast Asia.

6. A harmonious Guangzhou: Building Guangzhou a moderate well-off (xiaokang) society that people should be able to live happily with a higher living standard, forming a harmonious society.

(4) Implications and impacts on Hong Kong: opportunities and challenges

One overarching viewpoint is that new developments on the mainland can generate opportunities for Hong Kong and will not necessarily jeopardize Hong Kong's prosperity. Whether Hong Kong can reap real benefits from China's new developments and to avoid the situation of being marginalized depends largely on Hong Kong's performance to adjust its relationship with the mainland, especially the PRD and Guangdong.

Guangdong's economy itself is increasingly playing an active role in the regional economic situation. Guangdong is reconsidering the role of Hong Kong's manufacturing enterprises within its borders and their possible relocation on its own road to modernization.

The economic relationship between Hong Kong and the mainland, especially with the PRD, has been changing rapidly during the past two decades. In the 1980s and the early 1990s, Guangdong's development used to benefit from the operational mode of the division of labour in the Hong Kong-PRD linkage, popularly known as "front shop, rear factory" to highlight the dovetailed complementarity between them. While the PRD acted as the factory to manufacture products, Hong Kong functioned as the shop to market products. During the last two decades of the 20th century, the integration model well matched the comparative advantages on both sides. The results have been mutually beneficial.
After more than two decades of robust economic growth, Guangdong's economic aggregation expanded rapidly. Guangdong has developed a relatively comprehensive industrial setup that is in sharp contrast to Hong Kong, which has been industrially hollowed out consequent upon its massive industrial relocation to the PRD since the early 1980s. With the dramatic expansion of its economic capacity and a larger GDP than Hong Kong, Guangdong now has a stronger capability to mobilize resources to implement its own development agenda. In line with the new development goals, Guangdong becomes more interested in high-tech and high value-added projects invested by world-class giant multinational corporations. Guangdong is no longer passively accepting the 90,000 foreign enterprises from Hong Kong and Macau, out of a total of 120,000, accounting for US$290 billion out of a total FDI of US$420 billion. This trend is demonstrated by a decrease in the share of Hong Kong's investment in Guangdong. The implication to be drawn is that Hong Kong's labour-intensive and low-end processing industries, especially those that are polluting and generate negative economic externalities, will not longer enjoy a favourable operating environment as before. They are already subject to the pressure of relocation in the more developed areas of Guangdong and the process is being set afoot.

In the 11th FYP period, Guangdong will undertake new policies to cope with the increasing constraints and bottlenecks it has found itself having to confront. It will raise its level of self-initiated innovation, strive to increase its comprehensive competitiveness, promote a coordinated externally- and internally-oriented economy, and extend its level of openness. With these initiatives, Guangdong will be in a position to lure the Fortune 500 enterprises to set up R&D centres in Guangdong, not only as centres for labour accretion but, with Guangdong and Guangzhou, to chart their future development directions. Guangdong will no longer pursue pure economic growth, the chase of annual GDP growth at 15 percent or more. Structural adjustment and building an ecological

balanced, socially harmonious and economically sustainable development is far more important.

**Opportunities**

The industrial relocation as alluded to will provide Hong Kong with opportunities to play an increasing role in China's peripheral regions, in particular within the PPRD regional cooperation framework. However, the relocation would be constrained by the increasing geographical distance, which makes the profit of labour-intensive processing industry more marginal in viability. The relocation is also challenged by the relatively under-developed markets in peripheral regions that are not conducive to conducting business.

The continued export growth and massive demand for imports in Guangdong caused by economic restructuring and the pursuit of a xiaokang society will increase opportunities for Hong Kong to sustain its gateway status.

Hong Kong's uniquely favourable geographical location in the Asia-Pacific region, excellent port conditions and status as a free port, and special political and economic relations with mainland China have sustained Hong Kong's monopoly as the major gateway for imports and exports from South China, especially since 1978 and likely for decades into the future.

Guangdong’s economy has increasingly integrated with the global economy. Imports and exports accounted for a large share of its GDP. In 2004, Guangdong’s imports and exports accounted for 30.5 percent and 34.3 percent of the national total, respectively. With the robust economic growth and increased consumption, but inadequate per capita resource reserves, Guangdong will become more dependent on the

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international market for energy sources, raw materials and other resource-based products. Guangdong's increasing dependence on importing resources from the outside bodes well for Hong Kong's international logistics industry and supply chain management.

Whether Hong Kong can continue to be South China's key conduit for international trade is an indication of the interrelationship between Hong Kong and Guangdong. It is an increasingly complex set of relationships because, while Hong Kong and Guangdong in the guise of Guangzhou and other cities in the PRD can complement one another, they are also realistically to compete. In the overall interest of all concerned, cooperation and collaboration is the name of the game when, in the age of globalization, their collective strengths will much better position themselves to garner a greater share of the global market.

**Competition and challenges**

As the internationalization of Guangdong's economy will continue to rise during the 11th FYP, competition pressure and risks will grow as well. Guangdong needs help for its "go international" strategy under the pressure of international competition.

Guangdong has maintained a large volume of export, but its international competitiveness is still weak. During the 11th FYP, Guangdong's industrial enterprises are encouraged to invest and diversify their operations overseas as well as domestically. As a developing economy by international standards, Guangdong is still at a disadvantageous position in the international market in terms of the overall economic and technological foundation and competitiveness. Currently, the growth of foreign trade is largely contributed by the processing trade with low added values rather than by products with their own ownership of property rights and brand names. In the processing trade, Guangdong has also to face competition from other developing countries. Whether Hong Kong can act as an important platform for Chinese enterprises to be internationalized is an indicator of enhanced integration between Hong Kong and the mainland, especially
Guangdong. In this regard, the Hong Kong stock exchange provides a vital financial market for mainland firms to raise capital and to go international.

Hong Kong has a wide economic network with different regions and countries, in which any city on the mainland is quite a distance behind. As an indication of its degree of globalization, Hong Kong is a world-class financial centre. A sophisticated financial sector and good business environment have made Hong Kong one of the best locations for regional headquarters for high-level management, finance and R&D. Hong Kong is today the ranking centre for regional headquarters of multinational corporations in the Asia-Pacific region. There are about 7,000 multinational headquarters, regional offices and local offices in Hong Kong. In addition, it hosts 107 consulates and consulates-general offices.

Hong Kong's international-standard business infrastructure is one attraction for mainland enterprises to support the implementation of their "go international" strategy. A convergence of competitive mainland enterprises and the regional headquarters of multinational corporations provide Hong Kong with opportunities to develop its "headquarters economy."

As developed regions in China are upgrading their economic structures, Hong Kong's enterprises with outdated technologies and low value-added operations are losing their relative advantages. Currently, Hong Kong's service sector is unable to provide effective support or very attractive conditions for helping the economic restructuring in China's developed regions. The market is there for Hong Kong professionals to tap and it is a challenge for them to learn more and to effectively respond.

Hong Kong is widely recognized as a free economy, in which the government does not establish the usual macro-management mechanism common to other market economies, such as industrial policy and monetary policy to intervene in the market. Such market setting is in sharp contrast to that of the mainland where local governments play a
decisive role in shaping development. It can be said that, for the time being, the existing economic integration between both sides has been undertaken primarily with negotiation between local governments on the mainland and Hong Kong's enterprises. The implication is that coordination of government's policies on both sides cannot be easily achieved, particularly with respect to policies related to cross-boundary projects. On the Hong Kong side, any government initiative/policy likely becomes a subject of strenuous debate, given Hong Kong's current political climate in which party politics dominate the Legislative Council. Hong Kong's political system more often than not makes the process of decision-making unacceptably and unnecessarily long.

During the 11th FYP period, the relationship between Hong Kong and Guangzhou will enter a new phase of competition and cooperation. With plans being made to consolidate Guangzhou as a financial, transport and industrial hub of the province, it has emerged as a growing rival of Hong Kong. While Hong Kong's traditional strengths are still well recognized, it should capitalize on the next few years to develop new comparative advantages to sharpen its competitiveness and to be on the lookout for new avenues to further cooperation.

2.4. Review of the 11th FYP of Shenzhen

(1) Plan outline: strategic objectives and development strategies

According to the 11th FYP, Shenzhen aims to become an international metropolis within fifteen years. With this goal in mind, Shenzhen will implement its “go international” strategy, building Shenzhen, by 2020, into an international high-tech centre, international logistic centre, international finance, trade and convention centre, international culture and information centre and international tourism city, with important position in the Asia-Pacific region.

By 2010, Shenzhen’s total GDP will reach RMB 900 billion, with an average
annual growth rate of about 13 percent. Its per capita GDP will reach about US$ 12 thousands. To realize the above objectives, an “industry-driven development” strategy will be implemented with the aim of upgrading its economic structure and adjusting its industry location. It is expected that the tertiary sector will grow rapidly, accounting for 50 percent of the total GDP in the future.

In 2015, it is expected that the total GDP will reach RMB 1,500 billion, with an average annual growth rate of about 10 percent in the period 2011-2015. Its per capita GDP will increase to about US$ 15 thousands. By 2020, the total GDP will increase to RMB 2,000 billion with average annual growth rate of about 8 percent in the period 2016-2020, the GDP per capita will reach US$ 20 thousands.

In addition, “building an innovation city” is also a major goal of Shenzhen. In line with the national “independent innovation” strategy, Shenzhen will place emphasis on those industries that may play a strategic role in future development or have advanced technology. These industries include electronics and information, heavy manufacturing and modern service industries. Shenzhen will speed up the development of four pillar industries, i.e., high-tech, financial, logistics and culture industries.

**High-tech industry and industrial restructuring**

**Consolidating advantageous high-tech industry.** Shenzhen should create a more favourable atmosphere for the development of an industry cluster in order to enhance the competitiveness of its high-tech industry. For those advantageous industries, IT industry (computer, digital products, software), electronics, equipment and communication industries are selected to be supported by the government. It is expected that the output from high-tech industry will account for 35 percent of the total GDP.
Supporting burgeoning high-tech industry development. In order to achieve leap-frog development in its high-tech industry, Shenzhen will highly support the following strategic industries: bio-technology, new materials and new energy resource. Automobile electronics industry, IC industry, synthetic conduct, medicine, environment conservation, high-tech agricultural and oceanic industries will be encouraged for development. Apart from supporting industrial development, more attention is paid to those small and medium-sized high-tech firms with great development potential to accelerate their development.

Breeding high-tech enterprises with brand name. Shenzhen attempts to reform high-tech enterprises, adopting modern enterprise’s institution and management experiences. Developing multinational corporations is a new development direction in the government’s agenda. Multinational corporations will play leading roles in high-tech development. It is expected that there will be 3 to 5 industrial brand names with national/international fame by 2020.

Industrial restructuring. With the aim of upgrading its economic structure, Shenzhen implements an industrial restructuring strategy, especially upgrading processing industries and sanlaiyibu industries. In addition, electronic communications, digital industries and consumer industry are key fields to form industrial clusters.

There are four new directions in industrial restructuring, namely, enhancing industrial linkages, forming industrial clusters, developing heavy industries and independent innovation. Based on these new directions, Shenzhen is attempting to shift its growth model from the export of low value-added products and labour-intensive industries to high-tech industries, technology and capital-intensive industries. Shenzhen will highlight the following industries in the 11th FYP period: transportation equipment, medical equipment, instrument, modelling, logistics equipment, environment conservation, sophisticated machine etc. In addition, some industries, such as automobile
accessories, automobile electronics and electronic vehicles are also highly supported to break new grounds. Meanwhile, Shenzhen will speed up the construction of fine chemical industry parks.

To stimulate traditional industrial development and form new industrial clusters, it is curial to upgrade traditional industries, adopting high-tech and advanced technologies. Relying on building new industrial bases, Shenzhen will further enhance its industry strength. It is expected that Shenzhen will invest about RMB 40 billion in building industry bases for clustering in the coming five years and will generate production scale of RMB 100 billion in total. These industry bases will specialize in nine industries, including furniture, clocks, modelling, garment, underwear, gold and jewel, automobile electronics, modern household appliance and new-style bicycle industry.

(2) Development planning of financial services, trading and logistics, producer services and tourism

Consolidating financial industry

**Developing regional financial centre.** In line with the national financial reform, Shenzhen will focus on financial product innovation and financial market development. Shenzhen and Hong Kong will establish close relationships on financial industry development in order to benefit each other. Many incentives are to be introduced by Shenzhen government to attract Hong Kong’s financial institutions to establish branches in Shenzhen. It is thought that Hong Kong’s advanced experiences and international networks and environment in financial service would be positive for Shenzhen’s financial service development. Shenzhen aims to become the first-class regional financial centre in the country. It is expected that the contribution of the financial industry to the total GDP will be over 15 percent, and the total asset of the financial industry will reach RMB 1,800 billion by 2020.
Developing banking and insurance industries. Money market is closely related to other markets. Therefore, it is essential to improve secondary markets of bonds and credit. To develop off-shore financial services, Shenzhen attempts to attract Hong Kong’s banking industries to set up branches in Shenzhen. In addition, in order to attract more insurance companies or their branches, Shenzhen will standardize and extend its insurance market to create a more favourable development climate for insurance companies. In 2010, it is expected that the number of insurance companies will be over 15, with the total income of RMB 20 billion.

Establishing multi-level capital markets. Shenzhen is enhancing its stock market position in regional capital markets by improving service provision. For those local enterprises with good performance, they are encouraged to list in the stock market. In addition, more attention will be devoted to attracting financial agencies and institutional investors to operate in Shenzhen. Strategic collaborators and investors will be introduced selectively from home and abroad.

Improving foreign exchange market and gold market. It is a national policy to improve the free exchange of RMB for current account and move steadily towards the free exchange of RMB for capital account. This will greatly benefit multinational companies in their internal capital deployment and foreign exchange transfer. Insurance and social security organizations based in China are allowed to invest in foreign bonds and securities. Domestic enterprises can raise capital by listing in foreign stock markets and retain such capital overseas for investment. Shenzhen attempts to develop gold markets by improving its function of a backup centre for gold transactions and using Hong Kong’s advantages in gold market. Shenzhen will introduce the import and export of gold and other gold related business and products. Shenzhen will consolidate the gold and jewel industries, extending the production chain from processing to R&D, design and exhibition for sale promotion. Shenzhen also aims to become the biggest manufacturing base of noble metal coinage in Asia.
Building financial security zone. Shenzhen will establish a risk management system based on mainly financial firms monitoring index system and detection and evaluation system of financial risks. Financial regulating system will be improved in Shenzhen, focusing on capital adequacy, capital quality and degree of risks. By 2010, the ratio of capital adequacy will be higher than 8 percent and the ratio of nonperforming loan will be lower than 4 percent.

Logistics industry development

Breeding large logistics enterprises and establishing logistics system. The major aim of logistics industry development is to breed large logistics enterprises and establish a logistics system. Large logistics enterprises are pillars of the logistics system, which is supported by the third and fourth party logistics companies and supply chain management enterprises. Shenzhen attempts to be the logistics headquarters of logistics enterprises’ nationwide operation in China and encourages them to set up branches in other cities. Shenzhen will support joint development of logistics enterprises, in order to become the main supply chain service base in South China and an important logistics centre in the Asia-Pacific region. By 2010, it is expected that the contribution of the logistics industries to the total GDP will increase to 12 percent.

Port and airport. To further enhance its position as a major port in the country, Shenzhen maintains a “port-based development” and a “two ports driven development” strategies. Shenzhen will speed up the construction of Yantian port, Shekou port and Dachanwan port etc. and a large-scale container port is emerging in South China. For airport development, Baoan International Airport will be expanded to meet increasing demands. At a regional scale, to avoid airport competition and optimize airport system for the PPRD region, Shenzhen airport will enhance ties with airports in Hong Kong and Guangzhou. During the 11th FYP period, Shenzhen has planned to invest RMB 49.5 billion in ports and airport construction, of which RMB 6.5 billion will come from the
local government. By 2010, 20 new container berths for 50,000-DWT vessel or above will be built in Shenzhen Port, increasing design capacity of 13 million TEUs.

**Port and airport-based logistics industries.** Shenzhen will develop port and airport-based logistics industries, by extending logistics services to the international market. According to FYP, Shenzhen port will be a multi-modal transportation hub and a major container port in South China. Regarding its airport, it is expected that more domestic and foreign airline companies will be attracted to Shenzhen to set up their branches and establish new flight routes. In the future, Shenzhen should closely cooperate with other cities in the PPRD region to extend its hinterlands, by developing sea-railway transportation, river-sea transportation and international transfer services. Shenzhen and Hong Kong will work together to simplify customs procedures to improve the logistics development environment. It is expected that the container throughput will reach 25 million TEUs, and freight throughput will reach 1.2 million tonnes by 2010.

**Information service for logistics.** Shenzhen will concentrate on building an information centre for logistics in South China. A data bank on logistics services will be constructed, with the aim of integrating customs management and quarantine. In addition, infrastructure for electronic business is under construction, shifting from traditional trade to electronic trade.

**Six logistics parks.** Preferable transportation infrastructure provides good opportunities for logistics development. Accompanying urban renewal and industrial restructuring, Shenzhen will develop the following six logistics parks: Sungang Qingshuihe Logistic Park, Yantian Free Trade Zone, Qianhaiwan Modern Logistic Park, Airport Free Trade Zone, Pinghu Modern Logistic Park and Longhua Modern Logistic Park.

**Service industry development**
Service industries cover financial services, logistics, convention and tourism industries, of which financial and logistics industries are two strategic industries in Shenzhen. Shenzhen will continue to implement its strategy of “building regional financial and logistic centres”, which acts as drivers of industry development. Commerce, tourism, culture, catering and hotel, and real estate are the main parts of modern service industries in Shenzhen’s economy. In addition, Shenzhen will develop five burgeoning industries, including convention, business services, information, technology and community services.

Developing a headquarters economy is one important aspect of service industry development. Shenzhen will seek ways to stimulate local enterprise development, especially big enterprises with good performance. Through implementing a “go international” strategy, many multinational corporations will emerge and function as driving forces of developing the headquarter economy. In addition, by improving on a sound development environment, Shenzhen attempts to attract more multinational corporations to set up branches. According to the ambitious goals of Shenzhen in developing a headquarter economy, it is expected that many Shenzhen based corporations will rank among the Fortune 500, others rank among top 500 world specialty corporations, and many more rank among the top 500 of China in 2010.

(3) Development planning of innovation system and infrastructure

Creating a sound innovation environment

Developing infrastructure for innovation. Shenzhen will establish six national level high-tech bases, including Shenzhen National High-tech Product Export Base, National Software Base, Software Base of China Torch Project, Shenzhen Base of National IC design, National Biotechnical Base and National Semiconductor Illumination Base. To breed more high-tech enterprises, many incentives will be introduced to attract
talents and professionals returned after studying overseas to establish business in special overseas student park. In addition, Shenzhen also supports small and medium-sized enterprises and post-doctoral stations to form partnerships in innovation. IT firm incubators and experimental bases for post-doctoral research will be established.

**Implementing independent innovation plan.** In the 11th FYP period, the total investment in R&D will reach RMB 100 billion, of which about RMB 10 billion are from the municipal government and district governments. More efforts will be made on building innovation platform, tackling key high tech problems and common problems, applied basic research, innovative small and medium-sized enterprise development, universities and institutes. In addition, Shenzhen will establish five innovation platforms to support incubator development. A new science hall and China (South China) International Technology Property Right Transaction Centre will be erected. In the meantime, Shenzhen will explore the possibility of establishing a new polytechnic college (or university of science and technology, school of innovation and research).

**Improving technology service and innovation platform system.** Key laboratories and engineering centres will be the core of innovation platform system. They are playing vital roles in innovation. Shenzhen will highly support the development of local key laboratories and breed national key laboratories. Shenzhen will establish technology and service platforms for innovation activities, including public technology platform for upgrading traditional industries using high-tech; public service platform for independent innovation in industrial design; public testing platform; platform for science and technology information; and platform for public interest focusing on environment monitoring and conservation, energy saving, urban public security and electronic government services. Relying on multi-level capital markets of Shenzhen Stock Market, Shenzhen will improve its venture capital investment system and create a technology property rights transaction centre, making Shenzhen a national centre of venture capital investment.
Enhancing intellectual property rights protection. To enhance intellectual property rights protection, Shenzhen supports the development of service agencies for science and technology, which function as key players in intellectual service industries. The system of intellectual property rights protection will be established to protect patents, trade marks, copyright and business secret.

Enhancing the position of enterprises as key players in innovation system. Enterprises play leading roles in innovation. Therefore, Shenzhen encourages enterprises to set up R&D units and increase investment in R&D. Shenzhen also plans to take measures to nurture innovative enterprise clusters.

Transportation infrastructure

Developing urban rail transport. Shenzhen is implementing the “Short-term Plan of Shenzhen Urban Rail Transportation.” According to the plan, the projects of subway No.1-5 will be completed by 2010. A total of RMB 38.5 billion will be invested in subway projects, of which the municipal government will invest about RMB 17.7 billion. The total length of subways will reach 140 km, providing 20% of public transport.

Developing regional transportation infrastructure. To integrate with Hong Kong, Shenzhen will speed up building the west and east corridors to link Hong Kong. Shenzhen is also building a river-side expressway to connect with western Dongguan and Guangzhou. For the railway development, Guangzhou-Shenzhen part of National Beijing-Guangzhou-Shenzhen Passenger Railway and Xiamen-Shenzhen part of Hangzhou-Fuzhou-Shenzhen Passenger Railway are under construction. Longhua New Railway Station and Pinghu Container Station are proposed in the plan. Inter-city passenger railway linking Guangzhou, Hong Kong and Shenzhen, inter-city railway between Guangzhou-Shenzhen, and the fourth rail track of Guangzhou-Shenzhen railway will be constructed. In the 11th FYP period, it is expected that about RMB 16.3 billion
will be invested in railways and stations, of which Shenzhen government will invest about RMB 4.3 billion. The length of railway will be increased by 88 km.

**Improving intra-city transportation infrastructure.** According to “Comprehensive Transportation Plan of Shenzhen,” Shenzhen will build transportation trunk network with “eight roads from east to west, eight roads from north to south and three ring roads”, based on the current highway networks. It is expected that the length of expressway will increase by 167 km, and urban highway will increase by 280 km in the coming five years. In the 11th FYP period, the length of new or upgraded sub-main roads or above in urban districts will be 1,760 km. The total investment will be RMB 111.3 billion, of which RMB 57.4 billion are from the city government.

(4) **New development directions**

**Developing culture industry**

**Implementing culture-driven development strategy.** To implement the culture industry development planning outline, Shenzhen focuses on family culture, compatible culture, innovative culture and legal culture. With accelerated growth, culture industry will become a pillar industry in Shenzhen’s economy in the future. The contribution of culture industry to the total GDP will reach over 10 percent. At that time, Shenzhen will realize its dream as a famous cultural city in the world.

**Developing culture and creative industry.** Aiming to develop a diversified culture industry, Shenzhen will further consolidate strengths in its printing industry, culture tourism and arts industry; support development of media, publishing, film-making, animated game, performing arts and entertainment industries; breed new industries such as creative design industries, digital movie industry and art training industry. It should be pointed out that interactions among government and private sectors will play important
roles in culture and creative industry development. Culture Expo and closer regional cooperation are helpful for a “go international” culture strategy. In the 11th FYP period, Shenzhen will build one or two culture industry parks.

**Developing a recycling economy**

To achieve sustainable development, Shenzhen will develop a recycling economy, changing the mode of economic growth.

**Establishing the mode of recycling production.** To upgrade economic industry and change the mode of economic growth, Shenzhen will attempt to develop energy-saving industries and environment-friendly industries. At the same time, the city government will strictly control industries with high energy and water consumption. For those industries that may cause environmental pollution, they will be winkled out. To develop energy saving transportation, electronic and energy saving vehicles will be popularized gradually. In order to develop a recycling economy, city government will initiate a large number of energy-saving and new-technique projects.

Advance in science and technology is a driving force for developing a recycling economy, shifting the mode of economic growth from high-energy consumption, pollution and low value-added products to lower-energy consumption, high value-added products and environment-friendly industries. In the 11th FYP period, power and water consumption in domestic industrial production will be reduced by 7 percent and 5 percent, respectively.

**Advocating and developing the mode of recycling in consumption.** Shenzhen advocates the mode of recycling in consumption and resource-saving activities. Power, water, food and energy saving and the reduction in the use of un-durable products will be achieved. Shenzhen will implement water-saving scheme to efficiently use water resources. In the 11th FYP period, residential water usage per person will be reduced by
25 percent, and the ratio of recycling industrial water will reach over 75 percent. At that time, Shenzhen will become a water-saving city in the country.

**Developing clean energy and renewable energy.** Hydro power, wind, solar and bio-energies are renewable energies, which are new energies in the future. Shenzhen will attempt to make use of wind and tidal energy for power generation. Through government procurement and bidding, Shenzhen will develop solar energy industries. In addition, solid waste and refuse will be used for power generation.

**Establishing collection and utilization system for renewable resources.** Shenzhen will support the development of renewable resource industries, by adopting new technology, new process, new equipment and new materials. By 2010, the recycling rate of renewable resources will increase to 98 percent; the reusing rate of living garbage will reach 45 percent; the reusing rate of sewage water will reach 20 percent.

(5) **Enhancing Hong Kong-Shenzhen cooperation**

**Establishing strategic partnership between Hong Kong and Shenzhen.** Based on the “one country, two system” formula, Hong Kong and Shenzhen will further enhance cooperation under the framework of CEPA, PPRD cooperation and “one plus eight” cooperation agreement between Shenzhen and Hong Kong. According to cooperation directions and fields in the Shenzhen Scheme of Integrating with the PPRD Region, Shenzhen will implement joint projects by Hong Kong and Shenzhen in line with its master planning, focused on infrastructure, environment conservation, airport and port, border area development. In addition, the two cities will also enhance cooperation on education and human resources, with the aim of building a Shenzhen-Hong Kong urban region.

**Supporting Hong Kong development.** Shenzhen will actively support Hong Kong to enhance its position as international financial, trade and shipping centres.
Through cooperation with Hong Kong, Shenzhen will become a bridge between Hong Kong and the mainland. Based on CEPA, Shenzhen will actively help Hong Kong to promote Disneyland, stimulate tourism and retailing development for both cities. To a certain degree, the development of manufacturing industry in Shenzhen can serve as an engine for Hong Kong’s economic development. For Shenzhen, it can also benefit from Hong Kong’s service industry development. To stimulate service industry development, Shenzhen attempts to attract more Hong Kong’s service companies to invest in Shenzhen, including financial, accounting and auditing, legal, management consultation and marketing services.

**Facilitating border crossing and implementing one stop two checks.** To facilitate border crossing, Shenzhen will build more check points along the border, including Shenzhen Bay, Futian, Liantang, Dachan Bay, Shayuchong, Nanao and Longhua. In line with Hong Kong development strategy, Shenzhen and Hong Kong will jointly formulate development plan for the border region. For service provision, Shenzhen will speed up to build electronic check points to simplify procedures and extend services to logistic service. To integrate ports and check points, Shenzhen will improve infrastructure and service provision in Huanggang (Lok Ma Chau) check point, Wenjindu (Man Kam To) check point and Shatoujiao (Sha Tau Kok) check point. Checking procedures will also be simplified for border-crossing. In addition, Shenzhen and Hong Kong will improve service provision and cooperate on airports and ports. “One stop two checks” will be implemented by the two cities, making border crossing convenient.

(6) Implications and impacts on Hong Kong: opportunities and challenges

(Shenzhen)

**Opportunities**
Shenzhen as a new and large city in China has emerged rapidly in the past 26 years. Its total GDP reached RMB493 billion in 2005 with an annual growth rate of 16.3% in the period 2001-2005. According to the 11th five-year plan, its GDP will reach RMB900 billion in 2010 with an annual growth rate of 13%. GDP per capita will reach US$12,000. Compared to Hong Kong’s GDP (HK$1382 million) and GDP per capita (HK$199,261/US$25,546) in 2005, the gap between Hong Kong and Shenzhen will be further narrowed.

An economically more advanced neighbouring economy such as mainland China and Shenzhen will generate more economic opportunities generally. More affluent residents as well as companies will demand more services in various aspects from Hong Kong. Thus further economic development in mainland China and Shenzhen would be positive for further economic development in Hong Kong. The only issue is to upgrade Hong Kong’s economic structure to be able to provide better services to growing demands in mainland China. Hong Kong’s existing advantages such as its institutional environment, international networks and education should be further consolidated to keep ahead of those followers. It is likely that Hong Kong will continue to have advantages in financial services, also a key industry in Shenzhen. There is much room for cooperation in financial services. Hong Kong and Shenzhen may have less competition in cultural industries and tourism.

With an estimated population of 12 million and limited land available for further development, Shenzhen will attempt to control further population growth by upgrading industries towards hi-tech and value-added industries. Further development will pay attention to economic efficiency, environmental conservation and resources saving. All these developments are in line with Hong Kong’s agenda of sustainable development. It is expected that the environmental quality in PRD will be improved in the near future. Shenzhen will make further investment in transport infrastructure. This will improve the transport efficiency in the region and benefit Hong Kong’s investors and residents.
The functional division between Hong Kong and Shenzhen is characterized by “front shop and rear factory”. However, it is difficult for Hong Kong to play adequately a role in regional integration due to differences in the institution. Hong Kong’s role and position in regional integration are recognized in the national 11th FYP. Finally, in the 11th FYP, Shenzhen emphasizes Hong Kong-Shenzhen cooperation. For example, Shenzhen proposes to build “Shenzhen-Hong Kong urban region” and “half an hour innovation urban region” during the 11th FYP period. Policies favour close integration and convenient cross-border movement of goods and people would be easy to implement. There is much room for the two cities to cooperate closely in cross-border infrastructure and services. Closer cooperation between Hong Kong and Shenzhen will open a new prospect to Hong Kong and its competitiveness will be enhanced greatly.

Direct competition

The expanding economy in mainland China and Shenzhen will generate greater demand for goods and services from the outside. In the past two decades, Hong Kong’s economy grew along with the mainland economy. There is clear complementarity between Hong Kong and the mainland. Hong Kong has advantages in providing capital, knowledge of international market and various kinds of trade, logistics and producer services. In the 1980s and 1990s, Shenzhen and other mainland cities were not able to offer these services. Since the late 1990s, the division of labour between Hong Kong and Shenzhen has changed gradually. While Hong Kong still has advantages in financial and producer services, Shenzhen is catching up Hong Kong rapidly in the international shipping services. There is a trend that the expanding pie will be divided between Hong Kong and other mainland cities like Shenzhen. In some areas, Hong Kong will face direct competition such as trading, container port and airport services. As a result, unless dramatic measures are taken on the Hong Kong side, Hong Kong may only achieve slow growth in these aspects while Shenzhen will have rapid expansion in these areas especially in container throughput. The construction of Hong Kong-Zhuhai/Macau
Bridge and de-regulation in the aviation rights of Hong Kong International Airports may help to enhance Hong Kong’s competitiveness in container port and airport services.

**Indirect challenges**

As mentioned before, the gap in GDP and per capita GDP will narrow between Hong Kong and Shenzhen in the future. This will change the economic relationship between the two cities. The economic relation between two large and advanced economies is different from that between a large advanced economy and a small, less advanced economy. Shenzhen’s 11\(^{th}\) FYP has an ambitious plan to upgrade its R&D capacity, enhance its high-tech industry, improve infrastructure and develop financial services, producer services, logistics and tourism. There will also be significant improvement in the institutional environment for business. All these will constitute indirect challenges to Hong Kong so that Hong Kong’s share will not grow as fast as Shenzhen. It is likely that Shenzhen has advantages in high-tech industries while its logistics, as mentioned before, will compete directly with Hong Kong.

For example, Shenzhen’s manufacturing industry will shift to high-tech industries and heavy industries at the expense of labour-intensive industries. The growing and clustering of advanced manufacturing in Shenzhen may achieve a high level of international competitiveness. What role Hong Kong can play and how Hong Kong could benefit from this growth clearly need detailed investigation. Some labour-intensive industries owned by Hong Kong investors will be affected and this will affect the re-export trade of Hong Kong which relies heavily on labour-intensive outward processing industries. The economic relation between Hong Kong and Shenzhen will be restructured and it may become less close as before under the model of “front shop, rear factory”.

**Policy implications for Hong Kong-mainland cooperation**
While economic development in mainland China and Shenzhen will provide more market opportunities for Hong Kong, the economic relation between Hong Kong and Shenzhen will be changed dramatically in the future. The gap between Hong Kong and Shenzhen will be further narrowed and the economic link between two cities will become loose as Shenzhen becomes more self-reliant. Hong Kong government must invest more in R&D to help upgrading the manufacturing technologies in labour-intensive industries in Shenzhen and PRD in general. New venues for economic cooperation should also be sought.

Other than financial services, Shenzhen is catching up Hong Kong quickly in various aspects. It is likely that Shenzhen will improve greatly its human resources, R&D capacities, government services and institutional environment. If there is no progress in Hong Kong, then the gap between two cities will be narrowed. To face the emerging challenges, Hong Kong must adopt innovative measures to increase the competitiveness of airport and container port, raising service quality and reducing operation costs. Hong Kong must consolidate and enhance in its core advantages such as clean government, high efficiency, international connection and quality of human resources.

With a population of almost 7 million, Hong Kong clearly cannot simply rely on only financial services for its entire economy. It should seek new economic directions such as R&D, education services and cultural industries.

In the era of globalization and urban competition, Hong Kong should seek solutions from within the city instead of trying to influence other cities’ development choice. The business sector, the government and residents must take their own actions to enhance Hong Kong’s core competitiveness by investment in education, R&D and infrastructure, improving internationalization (such as English proficiency among its labour force) and nurturing new industries. Some decisions have to be made quickly as opportunities will disappear as time goes by. The current stagnancy in a number of key projects such as Hong Kong-Zhuhai/Macau Bridge, the regional express railway, the new
container terminal and the West Kowloon cultural district certainly affects Hong Kong’s further prosperity. If we stop moving ahead, we will be caught up by fast later comers.
Chapter 3

Relationship between Hong Kong and Guangdong

3.1 The model of “front shop and rear factory”

The opening and reform policy implemented in China since 1978 have resulted in close economic relations between Hong Kong and Mainland China, particularly between Hong Kong and the PRD. The famous model of “front shop, rear factory” soon emerged, driving regional economic growth. Due to PRD’s comparative advantages in cheap labour and incentive policies, Hong Kong has transferred the majority of its manufacturing to the PRD. The PRD has become the production base (rear factory) of Hong Kong. Due to its experiences of international market and advantages in producer services such as management, international trade and financial services, Hong Kong has become a prominent service centre specializing in designing, acquisition of technology and raw materials, and marketing, functioning as the front shop of the PRD. According to a survey conducted by the Federation of Hong Kong Industries in 2002, there were 63,000 Hong Kong-based manufacturing factories in Mainland China and 53,000 factories were located in the PRD. In Guangdong province, over 10 million workers were directly or indirectly employed by Hong Kong manufacturing firms, of which 6.6 million workers were in Shenzhen and Dongguan, accounting for two third of total employment (Table 3.1). In addition, these manufacturing firms also directly or indirectly created 1.5 million job openings for Hong Kong residents. This is to say that every 23 job openings in the PRD generated one job opening in supporting operations for Hong Kong residents.

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Table 3.1 Spatial distribution of Hong Kong-based manufacturing investment in the PRD (2002)

<table>
<thead>
<tr>
<th>City</th>
<th>Number of Firms</th>
<th>Share in total (%)</th>
<th>Employment (million)</th>
<th>Share in total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dongguan</td>
<td>18100</td>
<td>34.0</td>
<td>4.02</td>
<td>38.9</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>15700</td>
<td>29.5</td>
<td>2.58</td>
<td>25.0</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>4900</td>
<td>9.2</td>
<td>0.92</td>
<td>8.9</td>
</tr>
<tr>
<td>Huizhou</td>
<td>3500</td>
<td>6.6</td>
<td>0.87</td>
<td>8.4</td>
</tr>
<tr>
<td>Zhongshan</td>
<td>3000</td>
<td>5.6</td>
<td>0.61</td>
<td>5.9</td>
</tr>
<tr>
<td>Others</td>
<td>8100</td>
<td>15.2</td>
<td>1.34</td>
<td>13.0</td>
</tr>
<tr>
<td>Total</td>
<td>53300</td>
<td>100.0</td>
<td>10.34</td>
<td>100.0</td>
</tr>
</tbody>
</table>


After over two decades’ development, the PRD has become a celebrated world factory. Many manufacturing products in Guangdong account for over 25 percent in the total of country. These products include refrigerator, fan, television, fax machine, bicycle, personal computer, etc. Meanwhile, Hong Kong has been transferred from an export-oriented manufacturing economy to a service-based economy. The share of the employment in the manufacturing sector to total employment had decreased significantly from 45.9 percent in 1980 to 8.9 percent in 2001 in Hong Kong, and its contribution to total GDP also dropped from 25 percent to 5.2 percent in the same period. Compared with the decline of the manufacturing sector, the service sector grew rapidly, and its employment and GDP contributions increased to over 90 percent.10

“Front shop, rear factory” is a main characteristic of the spatial division of labour between Hong Kong and the PRD. Due to such economic complementarities and comparative advantages, the regional economy was growing rapidly. Hong Kong had been playing a great role in the economic development of Mainland China. It is worth noting that the relationship between Hong Kong and Mainland China was dominated by Hong Kong’s investors.11 In addition, because Hong Kong was a British colony before

1997, there was little interaction among governments and NGOs across the border, let alone political and cultural exchange.

3.2 The changing development environment of Hong Kong

After Hong Kong’s handover in 1997, Hong Kong has begun to face many internal problems and external challenges brought by the 1997 Asian financial crisis and competition from the PRD. Hong Kong’s development environment has changed, and the model of “front shop, rear factory” has become problematic. There are some new changes and trends in Hong Kong’s development environment that are outlined as follows.

(1) Economic and political crisis of Hong Kong

After the return of Hong Kong to China in 1997, the Asian financial crisis occurred. Many problems were thus caused by the crisis, such as declining prices in the real estate and stock markets, salary reduction, high rate of unemployment and serious problem of negative equity. During 2003 and 2004, financial deficit was a major problem faced by the HKSAR government. Moreover, the outbreak of severe acute respiratory syndrome (SARS) in the first half of 2003, which caused 299 deaths, further deepened Hong Kong’s crisis.\(^\text{12}\)

On HKSAR’s internal administration, there were also many problems. The housing policy was not flexible to solve the problem of oversupply. The policy of building 85,000 flats a year, despite its good intentions, was rebuked as the main factor causing the price decline in real estate. In 1998, the scheme on mother-tongue teaching was introduced in Hong Kong except 100 English schools. This was resisted by many schools and residents in Hong Kong. Moreover, the procedure to introduce Article 23 of the Basic Law was too

\(^{12}\) Yeung Yue-man and Shen Jianfa. “the Pan Pearl River Delta Cooperation and Opportunities for Hong Kong”, in Yeung Yue-man and Shen Jianfa (eds). *The Pan Pearl River Delta and Hong Kong’s Development*. Hong Kong Institute of Asia-Pacific Studies. 2005.
hurried that spurred civic dissatisfaction, causing the demonstration of 500,000 protestors on 1 July 2003.

In order to help Hong Kong to overcome economic and political crises, the central government introduced many new policies favourable to Hong Kong. In 2003, Hong Kong and mainland signed the CEPA (Closer Economic Partnership Arrangement) and the individual travel scheme was also introduced. These policies not only helped to turn the tide and enabled Hong Kong to achieve economic recovery and social stability, but also were instrumental to form a new relationship between Hong Kong and the mainland, accelerating regional integration (the details will be discussed in section 3.3).

(2) The changing development environment and the growth model

After almost three decades of development, the development environment of the PRD, which is the direct hinterland of Hong Kong, is quite different from that of the early reform era. In addition, the growth model of the PRD has also changed. Therefore, it is necessary to re-examine the division of labour in the “front shop, rear factory” model. First, the rising costs of labour, land and materials are challenges for Hong Kong-invested, labour intensive manufacturing firms, forming a bottleneck for their further development. This forces many Hong Kong invested manufacturing firms to upgrade their industries or to relocate their operations. According to government statistics, about 80,000 middle and small-sized firms are affected by the rising production cost.

Second, the “rear factory” needs to be re-evaluated, as Guangdong implements the policy of upgrading its industrial structure. According to “Guangdong’s Scheme of Upgrading Industrial Structure,” Guangdong increased requirements on the criteria on the environment and security for investment, and proposed to transfer 75 kinds of polluting and low value-added industries out of the PRD. In 2005, the scheme was revised to add an additional 63 kinds of industries including telephone, electronic toys and beverages. In addition, Guangdong also introduced the policy of “industrial parks for industrial
relocation” as a new model of regional economic cooperation in the province. The recipient cities will establish industrial parks. The governments of PRD cities will take charge of organizing, planning, investing, developing and promoting of industrial parks. The cities involved will share benefits generated from joint industrial parks. Up to now, there are 6 provincial level joint industrial parks in Guangdong.

Third, heavy industries and high-tech industries are new directions of industrial development in Guangdong, instead of low value-added and energy consuming industries. According to the 11th FYP of Guangdong, it is implementing the new industrialization strategy, focusing on electronics and information industry, petrochemical industry, automobile industry, equipment manufacturing, steel industry. Biochemical industry, new energy and new material industries will also be nurtured. This shift in industrialization implies that Guangdong is no longer satisfied with its current position as the “rear factory” of Hong Kong. The economic ties between Hong Kong and the PRD’s new industries will not be as close as before.

(3) Competition from mainland cities

Due to Hong Kong’s advantages in financial services, sophisticated market experience and international connections, it functioned as the gateway and the window of the mainland to the world for a long time. However, with economic development of the mainland, along with deep reform and the open policy, Hong Kong is no longer the only pacemaker for China. Considering macro regions, the growing YRD and Beijing-Tianjin-Hebei regions, especially the emergence of Shanghai international shipping centre and international financial centre, will challenge the position of Hong Kong as an international logistics centre to some degree. In the long run, Hong Kong’s role as an international financial centre will also be challenged by the rise of Shanghai as an international financial centre. In the PRD, Shenzhen and Guangzhou may not position themselves just as the “rear factory” of Hong Kong, but rather aim at building themselves as international cities in the region and develop high-tech industry. Shenzhen even
proposes to develop the headquarters economy, building a regional financial centre and a logistics centre in Asia-Pacific region. Cities in the PRD have the ability to bring their manufactured products, such as Shenzhen’s optical products to the international market on their own. To a certain degree, this results in competition with the “front shop” of Hong Kong.

In short, the PRD, the hinterland of Hong Kong, has changed since the return of Hong Kong to China. The growth of the PRD and the changing development environment have raised the questions relevance of the model of “front shop, rear factory” that has dominated regional development since the 1980s. Regional integration, a new relationship between Hong Kong and the mainland beyond this model is emerging in the region.

3.3 New trend of regional integration in Hong Kong-PRD relation

Before the 1990s, Hong Kong-PRD relation was characterized by the model of “front shop, rear factory” dominated by Hong Kong investors. After the return of Hong Kong to China, the cross-border interaction has intensified. Notably since 2000, rapid economic growth in the PRD has led the governments and people in Hong Kong to seek close cooperation with the PRD. In Hong Kong, closer cross-border cooperation has consistently formed a theme of successive policy addresses of the Chief Executive. In recent years, cooperation between Hong Kong and the PRD has entered a new phase of all-round integration, broadening to all levels, from the central, provincial and city governments, to non-government institutions like universities and other organizations.

(1) The central government and the regional integration

CEPA was introduced by the central government in 2003. Such institutional arrangement not only supported Hong Kong in crisis in economic and political terms, but also promoted Hong Kong-mainland economic integration. CEPA consists of three
parts – trade in goods, trade in services, and trade and investment facilitation. In terms of trade in goods, almost all Hong Kong domestic exports to the mainland would enjoy zero tariff. In terms of trade in services, a total of eighteen service sectors of Hong Kong would have priority in accessing the mainland market with lower thresholds. Since 2004, CEPA has been extended and added more preferential items for Hong Kong.

Apart from CEPA, the individual travel scheme was also introduced in 2003. Prior to the scheme, mainland residents usually could only travel to Hong Kong on business visas or in group tours. Under this scheme, mainland travellers are allowed to visit Hong Kong on an individual basis. By the mid-2006, the scheme was extended to 43 cities on the mainland which has become the biggest source of tourists for Hong Kong. In 2004, the number of visitors under the scheme reached 13.52 million. The tourism industry in Hong Kong thus benefited tremendously from the scheme. Tourist income generated by the scheme reached over HK$ 60 billion, accounting for 55 percent of the total income of the industry. In addition, Hong Kong has been allowed to conduct RMB business since November 2003. Many mainland firms have come to Hong Kong to raise capital or to be listed in the Hong Kong stock market, they will stimulate trade, investment, consumption and export in Hong Kong. The introduction of these policies has accelerated the economic integration between Hong Kong and mainland China, especially Hong Kong and the PRD.

(2) The Pan-PRD cooperation

In 2004, the Pan-PRD Regional Cooperation Framework was established. This cooperative framework involves nine provinces and two Special Administration Regions (SARs)(9 plus 2), namely, Guangdong, Fujian, Jiangxi, Hunan, Guangxi, Hainan, Sichuan, Guizhou, Yunnan, Hong Kong SAR and Macau SAR. The framework established three regional cooperative mechanisms. First, the joint conference of provincial governors/chief executives has been introduced. The aims of this institution are to enhance communication and coordination among member provinces and SARs, to
discuss the planning of regional cooperation, and to solve crucial matters concerned. Second, the joint meeting of secretary-generals has been established to take charge of key cooperative matters and thematic cooperative planning. Third, in order to fulfil cooperative tasks, a sector-based cooperative mechanism is also introduced. Along with these cooperative mechanisms, there are two regional cooperative platforms – the Pan-PRD Regional Cooperation & Development Forum and the Pan-PRD Regional Economic and Trade Fair. The forum and trade fair will be held regularly every year, with the aim of enhancing ties among local governments and the business sector in the Pan-PRD.

Under the Pan-PRD cooperative framework, regional cooperation focuses on infrastructure, industry and investment, business and trade, tourism, agriculture, labour export, science, education and culture, information infrastructure, environment conservation, health, etc. Meanwhile, with the deepening of cooperation, provinces and SARs also formulated thematic cooperation planning, involving regional energy cooperation, integrated transport infrastructure coordination, environment conservation, technology and innovation cooperation, etc. It is clear that the Pan-PRD has made great progress in regional cooperation.

Since the very beginning of the Pan-PRD cooperation, Hong Kong has taken a positive stance towards regional cooperation. At the government level, Hong Kong has signed agreements with provincial governments for cooperation in commerce, environmental protection and technological development. In the business sector, Hong Kong entrepreneurs have utilized the new platform to seek new business opportunities for investment. In 2004 Pan-PRD Regional Economic and Trade Fair, there were 847 contracted projects, with the total investment of RMB 292.6 billion, of which 313 projects were invested by Hong Kong entrepreneurs, with the total investment of HK$ 56.3. Many provinces and cities have also come to Hong Kong to do investment promotion and hold trade exhibition. Quite clearly, such cooperation has enhanced

13 Mingpao, 2004-7-8
economic integration between Hong Kong and the mainland. The Pan-PRD also offers many opportunities for Hong Kong.

(3) Hong Kong-Guangdong cooperation

Hong Kong and Guangdong have sought closer cooperation in the opening and reform era. In 1998, the Joint Conference for Guangdong-Hong Kong Cooperation was initiated. Up to now, the joint conference has been held nine times and played a leading role in Hong Kong-Guangdong integration and coordination.

Tracing the process of Hong Kong-Guangdong integration, there are three stages in regional integration, namely, information exchange, thematic cooperation and regional integration. Information exchange is the first stage of Hong Kong-Guangdong cooperation, covering the first and second joint conferences. At this stage, the tie between Hong Kong and Guangdong was enhanced, and some potential cooperation fields were identified. The second stage is thematic cooperation. After sufficient information exchange, Hong Kong and Guangdong began to cooperate in some thematic fields, such as border crossings, infrastructure, tourism, etc. Some working groups were formed for regional cooperation. These are formal institution arrangements for Hong Kong-Guangdong cooperation. The introduction of CEPA in 2003 heralded a new stage of regional cooperation – regional integration. In this stage, many institution arrangements were formed, such as the upgrading of joint conference to be led by the provincial governor and the chief executive, the establishment of liaison offices and many working groups on Hong Kong and Guangdong cooperation, giving rise to multilevel governance in Hong Kong-PRD region (Table 3.2). A new situation has been unfolding for both sides to seek deeper cooperation and integration for mutual benefits.

The Joint Conference for Guangdong-Hong Kong Cooperation is a kind of working relationship between Hong Kong SAR government and Guangdong government, which stimulates Hong Kong and Guangdong integration. Currently, Hong Kong is cooperating
<table>
<thead>
<tr>
<th>Cooperation stages</th>
<th>Time span</th>
<th>Cooperation fields</th>
<th>Institution arrangement</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information exchange</td>
<td>Prior to 2000 (1st and 2nd joint conferences)</td>
<td>Information exchange. Achieving six cooperation intentions: information networking, border crossing, cross-border environment conservation, tourism cooperation, investment facilitation and technology cooperation</td>
<td>Vice provincial governor-chief secretary level conference. Establishing research group to enhance regional cooperation</td>
<td></td>
</tr>
<tr>
<td>Thematic cooperation</td>
<td>2000 to 2002 (3rd to 5th joint conferences)</td>
<td>Thematic cooperation on environment conservation, border crossing, tourism, infrastructure, etc. For example, extension of boundary crossings hours</td>
<td>Establishing working group on sustainable development and environment cooperation, working group on Guangzhou-Shenzhen-Hong Kong high-speed railway planning, and specialist working group on ports and logistics.</td>
<td></td>
</tr>
<tr>
<td>Regional integration</td>
<td>After 2003 (after 6th joint conference)</td>
<td>The cooperation is deepening and broadening. 12 cooperation fields, including service industry, border crossing, infrastructure, high-tech industry, education, etc.</td>
<td>Multilevel governance is emerging. In 2003, the joint conference was upgraded to the provincial governor-chief executive level. 15 cooperation working groups were established.</td>
<td>CEPA induced a new phase of all-round integration</td>
</tr>
</tbody>
</table>
with Guangdong in many aspects, including infrastructure, tourism, education, logistics, environment conservation, etc. A new phase of all-round integration is emerging in Hong Kong-PRD region.

(4) Hong Kong-Shenzhen cooperation

Under the “one country two system” principle, cooperation between Hong Kong and Shenzhen has focused mainly on economic issues. There has been no interaction and communication mechanism between the two cities until recently. After the introduction of CEPA and the deepening Hong Kong-Guangdong cooperation, Hong Kong-Shenzhen cooperation entered a new phase.

In June 2004, Hong Kong and Shenzhen signed the “Memorandum of Enhancing Hong Kong-Shenzhen Cooperation.” In the memorandum, Shenzhen clearly recognized “the leading role of Hong Kong in the PRD and the dragon head of the Pan-PRD.” Shenzhen also indicated its intention to cooperate and integrate with Hong Kong much more closely. The memorandum has specified six main areas for the two governments to explore and actively follow up:

- Border crossing and cross-border infrastructure
- Economic cooperation (including service, tourism and financial industries)
- Logistics development
- Environment conservation
- Communication and cooperation between the two city governments
- Education and culture cooperation

In addition to above memorandum, eight agreements were also signed by the government departments of the two cities, such as science and technology, tourism and investment promotion. This indicates a new trend of regional integration far beyond the model of “front shop, rear factory” in this border region.
Apart from the governments’ initiatives in Hong Kong-Shenzhen cooperation, some NGOs, such as universities, are also playing positive role in Hong Kong-Shenzhen integration. In fact, Shenzhen has become an important R&D base of Hong Kong’s universities. Five universities in Hong Kong, including the University of Hong Kong and Hong Kong University of Science and Technology, have signed agreements on cooperation in science and technology with Shenzhen government. In addition, four universities, such as Hong Kong Polytechnic University and the City University of Hong Kong, have intentions to set up branches in the Shenzhen National University and Technology Park. Moreover, Hong Kong’s universities have formed partnerships with high-tech enterprises in Shenzhen to transfer and apply new technology to production system. For example, ZTE Corporation (Shenzhen Zhongxin Technology Corporation) has formed strategic partnership for cooperation in information technology and industry with Hong Kong University of Science and Technology.

Although “front shop, rear factory” is still the major characteristic of the Hong Kong-PRD regional production system, the change in development environment has resulted in many new changes, as mentioned before, in the Hong Kong-PRD relation. The all-round integration is taking place in the Hong Kong-PRD region, in which the business sector, governments and NGOs are major actors in the regionalization.

Hong Kong and Shenzhen share a common boundary and have close relationships. In order to advance Hong Kong-Shenzhen cooperation, some suggestions are proposed on several important topics as follows.

Development of Hong Kong-Shenzhen as one city

The implementation of CEPA has offered opportunities for Hong Kong-Shenzhen integration. In the era of globalization, Hong Kong should recognize that integration with Shenzhen can effectively strengthen its competitiveness in the world economy. However, it is not feasible to abolish the boundary between Hong Kong and Shenzhen completely.
under the framework of “one country two systems”. Therefore, we suggest that Hong Kong and Shenzhen can first achieve economic integration. Under the CEPA framework, Hong Kong and Shenzhen can jointly develop a free trade zone and implementing zero tariff. More specifically, we can re-define functions of the first boundary and the second boundary. The present first boundary will function as the boundary of Hong Kong and Shenzhen for border-crossing inspection of people but not goods. The second boundary will be the custom boundary between the Hong Kong-Shenzhen Free Trade Zone and the rest of the mainland for inspection of goods. Of course, the first boundary may be eased in the future after due consideration of possibilities and development needs.

In addition, to facilitate the travel of Shenzhen hukou residents to Hong Kong, more efforts need to be made. For example, a special IC travel permit, valid for 1-10 years, may be issued to Shenzhen hukou residents jointly by Hong Kong and mainland authorities. Shenzhen hukou residents can use such permits to come to Hong Kong freely without the need to apply for travel permits from time to time. Moreover, they may also use e-channels for border crossing.

The river loop area development

Developing the river loop area is of keen concern to both sides. Officials from Hong Kong and Shenzhen have intensively discussed the river loop area development and are investigating development feasibility. We suggest that Hong Kong and Shenzhen can jointly build the Hong Kong-Shenzhen Science and Technology Park in the river loop area. In this area, the two cities can cooperate to build high-tech R&D centre and university science park, which will provide a better platform for Hong Kong-Shenzhen technology cooperation. Also, Hong Kong can develop its high technology and education industries, providing training and education services for the mainland. In addition, the Hong Kong-Shenzhen Science and Technology Park will minimize environment pollution in the Mai Po wetland.
Because of the separation of ownership and administration right in the river loop area, the area should be designated an experimental borderless area for Hong Kong-Shenzhen. For example, workers and staff in the river loop area can travel freely between Hong Kong and Shenzhen. Therefore, Hong Kong and Shenzhen should investigate the feasibility of issuing special travel permits and establishing checkpoints for the river loop area development.

**Responses to Shenzhen 2030 Urban Development Strategy**

The plan of “Shenzhen 2003 Urban Development Strategy (Shenzhen 2003)” was approved by the Standing Committee of Shenzhen People’s Congress in July 2006. Shenzhen’s vision is to become a pioneering global city with sustainable development. To realize the objective of becoming a world-class city, Shenzhen proposes some new measures to achieve efficient and smart growth, such as upgrading infrastructure, enhancing innovation, industrial upgrading and improving environment conservation.

Meanwhile, Shenzhen emphasizes close cooperation with Hong Kong—“jointly developing an international metropolis with Hong Kong”. In Shenzhen 2030, Shenzhen has great interests to cooperate closely with Hong Kong in logistics, high-tech industry, service industry, infrastructure, etc. For urban spatial structure, “strengthening the city centre and extending two wings” is proposed. More specifically, Luohu and Futian will become the CBD of Shenzhen, and Longgang and Baoan will be sub-centres in the east and west, respectively. In addition, infrastructure construction and modernization are major tasks in the coming years. Many large projects are given priorities in Shenzhen 2030, including Yantian port, Dachanwan port, Shenzhen airport, two railway stations and two railways (Longhua passenger railway station, Pinghu container railway station, Hangzhou-Fuzhou-Shenzhen railway and Beijing-Guangzhou-Shenzhen railway).

Since Hong Kong has started the process of long-term forward planning, “Hong Kong 2030,” well ahead of Shenzhen, how should Hong Kong respond to the "Shenzhen 2030"
plan? We have the following suggestions. First, Shenzhen’s objective to build a pioneering global city with sustainable development is a challenge to Hong Kong to some degree. Therefore, Hong Kong should clearly define its position and development directions so as to respond to “Shenzhen 2030”. Second, in line with the future spatial structure of Shenzhen -- “strengthening the city centre and extending two wings”, Hong Kong should actively involve itself in Shenzhen’s development, especially for its western centre development. Western Shenzhen is the centre of Shenzhen’s manufacturing and high-tech industries. Thus, Hong Kong and Shenzhen should jointly establish a producer service centre in the western city, using Hong Kong’s producer service advantages. Through cooperation with Shenzhen, Hong Kong can make use of Shenzhen to serve the whole country. Third, Hong Kong should further consider potential effects of Shenzhen’s large infrastructure projects on Hong Kong. We suggest that “Hong Kong 2030” should consider coordinating with Shenzhen in transportation networks, ports and logistics, to streamline the two cities’ planning, especially for large projects – Longhua passenger railway station, Pinghu container railway station, the estuary bridge of the Pearl River, Yantian port, Dachanwan port, etc. Fourth, to build a common economic entity and a single city with Shenzhen, Hong Kong should seek opportunities to integrate with Shenzhen in border crossings and service industry.

**Border crossings cooperation**

Up to now, there are four highway border crossings, Lok Ma Chau (Huanggang), Man Kam To (Wenjindu), Sha Tau Kok (Shatoujiao), Western Corridor (under construction), and two railway border crossings, Luohu and Lok Ma Chau (under construction), between Hong Kong and Shenzhen. Nowadays, the proposal to build a new Liantang border crossing is an issue of keen concern in Hong Kong society. However, the existing border crossings can meet the current needs of border crossings. The operation of newly-added Western Corridor and Lok Ma Chau check points will further improve the efficiency of border crossings. In addition, as most cargoes are transferred to Hong Kong Kwai Chung container port by highway border crossings, the newly added Liantang check point, if at
all realized, will bring traffic pressure in Tai Po highway. Therefore, the most feasible
measure in the short term is to improve the carrying capacity of the Western Corridor and
facilitate border crossings. In the long run, we should consider the establishment of the
Liantang check point.

3.4 The Changing relationship of Hong Kong-PRD and the marginalization of Hong
Kong

After the introduction of reforms and the opening policy in 1978 in China, the model
of “front shop, rear factory” emerged in the Hong Kong-PRD region. During the past three
decades, Hong Kong has transferred its labour-intensive manufacturing industries to the
PRD and has itself become an international financial and service centre. The PRD also
developed into a world factory. Overall, the model of “front shop, rear factory” was a
useful depiction of the Hong Kong-PRD relation, which contributed to the PRD and China
in their economic take-off.

Although “front shop, rear factory” is still a major feature of the Hong Kong-PRD
relation, the environment has been rapidly changing after the rise of the PRD and the
return of Hong Kong. The changing situation includes preferable policies for regional
integration, changes in the growth model of the PRD, competition from cities in the delta,
and new development orientations. Under such a new situation, integration of Hong Kong-
PRD has made great significant progress, giving rising to an all-round integration with the
involvement of governments, the business sector and NGOs.

Is Hong Kong being marginalized? After tracing the evolution of Hong Kong-PRD
relationship, it has become easier to understand the problem of Hong Kong’s
marginalization. Hong Kong functioned as the gateway of China and played a leading role
in China’s economic development in the past. However, with the rapid rise of China’s
economy, the role of Hong Kong has relatively declined. In addition, infrastructure
development and changes in the growth model in neighbouring cities indeed have brought
challenges to Hong Kong. Although Hong Kong still maintains its position as the economic centre in the Pan-PRD and South China (such as Shenzhen), its dominating role in the region is being threatened by the rise of neighbouring cities. Therefore, the problem of Hong Kong’s marginalization is a crisis arising from the fading of its former pre-eminent status in the face of a new round of development and competition. Under the new circumstance, Hong Kong must transform itself and actively integrate with the mainland, seeking new development opportunities. Fortunately, Hong Kong is attempting to enhance ties with cities and provinces in the mainland, achieving development through regionalization and the development of the region. Relying on Pan-PRD cooperation framework, Guangdong-Hong Kong cooperation framework and Hong Kong-Shenzhen cooperation mechanism, Hong Kong should actively involve in national development and enhance its pre-eminent position. We suggest that, in addition to CEPA, Hong Kong should investigate more cooperation ventures within the Pan-PRD, especially in logistics, financial service, producer service and trade. This will really extend Hong Kong’s hinterland to the Pan-PRD and will revitalize Hong Kong’s economy.

Hong Kong is still well placed to avoid being marginalized by positively developing new comparative strengths and to integrate itself with an ever larger part of China. The enduring strength of Hong Kong is its being a world city with extensive global networks and rich experience in global capitalism.
Ten large infrastructure and other projects have been selected in respect of their potential to adversely affect the competitiveness of Hong Kong and international status of Hong Kong. They are concentrated in the three most developed coastal regions of China and are mostly infrastructure projects.

4.1 Shenzhen port

Do the Shenzhen ports pose any threat to Hong Kong? The Shenzhen ports have witnessed exceptionally rapid growth since 2003, becoming the world’s fourth busiest container terminal after Hong Kong, Singapore and Shanghai. The Shenzhen ports are divided into two major zones. The Yantian port, located in the eastern part of Shenzhen, is the largest container port in Shenzhen. In the west, there are Chiwan and Shekou ports. The Daichan port is under construction. The container throughput has reached 16.19 million TEUs in 2005. The gap in container throughput between Hong Kong and Shenzhen has continued to narrow (Table 4.1). The extraordinary high growth of throughput has resulted in a situation of the port being overloaded. Since 1999, a wide gap has existed between the actual throughput and the designed capacity. The Shenzhen government has increased the number of berths, deepening and lengthening the berth area to meet increasing cargoes. During the 11th FYP period, Shenzhen will construct twenty 100,000-ton-plus berths with an overall capacity over 13 billion TEUs in 6 port zones. Four 100,000-ton-plus berths under Yantian Phase III development have been completed and are equipped with 18 post-Panamax quay cranes. Improvement can also be found in the management of cargo flows and the port system. Learning from Hong Kong, world-class electronic and automation systems have been introduced, making the Shenzhen ports to be world-class ones.
Table 4.1 Shenzhen, Shanghai and Hong Kong ports’ throughput (2001-2005)

<table>
<thead>
<tr>
<th>Year</th>
<th>Shenzhen</th>
<th>Shanghai</th>
<th>Hong Kong</th>
<th>Difference between Shanghai and Shenzhen</th>
<th>Difference between Hong Kong and Shenzhen</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>5.07</td>
<td>6.34</td>
<td>17.82</td>
<td>1.27</td>
<td>12.75</td>
</tr>
<tr>
<td>2002</td>
<td>7.61</td>
<td>8.61</td>
<td>19.14</td>
<td>1.00</td>
<td>11.53</td>
</tr>
<tr>
<td>2003</td>
<td>10.65</td>
<td>11.28</td>
<td>20.44</td>
<td>0.63</td>
<td>9.79</td>
</tr>
<tr>
<td>2004</td>
<td>13.65</td>
<td>14.55</td>
<td>21.98</td>
<td>0.90</td>
<td>8.33</td>
</tr>
<tr>
<td>2005</td>
<td>16.19</td>
<td>18.08</td>
<td>22.60</td>
<td>1.89</td>
<td>6.41</td>
</tr>
</tbody>
</table>

Source: www.szport.net

It is expected that the rapid growth of the Shenzhen ports will continue and their container throughput will surpass Hong Kong in 5 to 10 years’ time. However, it is not a simple zero-sum game between Hong Kong and Shenzhen ports. First, there is an increasing volume of export goods, complemented by increasing demands for export services in the hinterland. Therefore, the increasing capacity and number of shipping routes of the Shenzhen ports will not weaken the role of Hong Kong as a world-class port. Hong Kong alone does not have a sufficient capacity to handle the increasing demands. Second, there is a gap in cost between Hong Kong and Shenzhen ports, but the gap is narrowing. However, a simple decrease in the charges cannot ease the threat that Hong Kong is facing. The real threat to Hong Kong comes from relevant government policy and the absence of a coordinated development strategy between Hong Kong and Shenzhen.

To ease the threat, a regional approach should be adopted in formulating strategies and policies. The improvement of the cross-border infrastructure is necessary. What is more, a strategic plan is believed to be crucial for Hong Kong and Shenzhen ports’ future. We suggest making a Hong Kong-Shenzhen port group master plan, to study the details of integration and coordination of ports in the two cities. Examples of successful port integration can be found in Fujian and Shanghai-Zhejiang.

A potential threat for Hong Kong and Shenzhen ports also comes from the rising Pan-Pearl River Delta (PPRD) ports. The new road and railway networks to be built in the
next 15 years will increase the competitiveness of the ports in Fujian and Guangxi. The expansion of the hinterland of these ports may result in Hong Kong and Shenzhen ports losing some goods from their hinterland. Strategies for developing the hinterland and capturing more goods should be formulated for Hong Kong-Shenzhen ports in order to maintain their leading position.

4.2-4.3 Guangzhou Baiyun International Airport and Shenzhen Baoan International Airport

Within a diameter of 140 km of the Greater Pearl River Delta (GPRD) region, there are five large airports. For the time being, the performance of Hong Kong International Airport is the best, but Guangzhou and Shenzhen airports are catching up fast.

Since the relocation in August 2004, Guangzhou Baiyun airport has made impressive growth. The number of passengers handled and cargo processed in 2005 reached 23.56 million and 600,600 tonnes, respectively. Projects for capacity expansion have been carried out recently. A total of RMB30 billion has been invested on a new apron, a passenger lounge and the third runway. A mega air cargo terminal by FedEx is also under construction and is scheduled for completion by 2008. At present, there are 91 domestic routes and 38 international routes (15 new international routes added since the relocation). The airport authority is liaising with different airlines to set up more international routes. By 2010, the Baiyun airport should have over 50 international routes, three runways and a new cargo terminal. It will be able to handle 38-40 million passengers and 1.6-2.0 million tonnes of cargo annually. It would become a new aviation hub in the Pacific-Asia region. The ultimate goal is to handle, by 2030, 90 million passengers and 3 million tonnes of cargo annually. It is a wake-up call for Hong Kong.

Since its opening in 1991, the Shenzhen airport has become the fourth busiest airport in China, after Guangzhou in the PRD region. In 2005, the airport handled 16.28 million passengers and 466.5 thousand tonnes of cargo, respectively. The Shenzhen airport
is the airport in China with the highest input-output ratio. In 2005 its revenue accounted for 25% of the total airport revenue in China. The designed handling capacity (16 million passengers) has been fully filled and the airport authority has invested over RMB10 billion in the construction of the second runway and other expansion works. The new runway will be in use by 2008. The authority also cooperates with other airlines in establishing more international routes, making Shenzhen airport an international passenger aviation centre. The Shenzhen airport has now 30 plus international routes.

Are the two airports posing a direct threat to Hong Kong? How should Hong Kong deal with the challenges of the development of new air cargo terminal in Guangzhou and the increasing number of Hong Kong passengers using Shenzhen airport? The Hong Kong airport has made actions to enhance its own strength, such as the rental of Zhuhai airport as Hong Kong’s third runway and the improvement of water connection with PRD cities. From the standpoint of regional development, the existence of five airports may not necessarily generate vicious competition. The leading role of Hong Kong airport may not necessarily be reduced. Dr Michael Fung, from the Aviation Policy and Research Centre of CUHK, has pointed out that, except for the Zhuhai airport, the throughput of four airports in the GPRD region has surpassed or is very close to the designed handling capacity. The additional capacity of Guangzhou and Hong Kong airports in the coming years can be mostly consumed by the estimated growth of throughput. Moreover, the rising of income in the PRD will create further demand for air traffic. As the “cake” is getting bigger, the argument of vicious competition is apparently not well grounded.

There are two ways that Hong Kong should go in order to improve the regional cooperation with the other four airports. First, it is the cooperation and coordination in air space. As bigger and more planes have come into service, the air space has become increasingly crowded. The crowding of air space has adversely affected route choices. We

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recommend the Hong Kong Airport Authority to approach and actively liaise with the national civil authority and concerned bodies to begin a discussion of how to improve and rationalize on the air space of the three cities of Hong Kong, Zhuhai and Guangzhou. A possible way to enhance air space management is to combine the three into one. Currently, separate authorities and poor coordination have been found in the management of airport and air space. It is necessary to have a well-organized management system and a clear working procedure. This would be an important step to enhance the efficiency of air services and lower operation cost.

Second, a closer cooperation and coordination among the five airports should be encouraged. The integrated management of the five airports provides a better operation of civil aviation in the GPRD region. Complementary roles can be found between Hong Kong and Shenzhen airports in the domestic routes and international routes. As Shenzhen government has proposed the notion of “Hong Kong – Shenzhen as one city” in the Shenzhen 2030 recently, the co-development of two airports can be a pioneer in the co-development of the five airports. Strengthened cooperation of the five airports can enhance overall competitiveness of the GPRD.

There are many examples worldwide in transport cooperation. The Port Authority (PA) of New York and New Jersey is a relevant case worth being studied. Five airports in New York and New Jersey are under the management of PA. Presently, the five airports in the GPRD region are governed by five different authorities/companies. Taking PA as an example, an institution, such as the GPRD Airport Authority, can be established. Alternatively, a joint venture company consisting of the present five authorities/companies can be established to take charge over all airport management, air space management and development plans.

Despite the potential threat caused by neighbouring airports, Hong Kong should view the five large airports within the PRD as an entity and strives for coordinated development
so that, collectively, the aviation business in the region will scale another level of development and success.

4.4 Hong Kong-Zhuhai-Macau Bridge

A bridge spanning the Pearl River Mouth has been in discussion for two decades. However, the planning of the bridge is yet to be finalized. Two major reasons can explain the ups and downs of planning the development of the bridge.

1. The risk of huge investment. Various proposals have been made and the estimated investment is about RMB 30 billion to RMB 60 billion. It is a huge outlay regardless of funding sources. Many uncertainties exist, such as the rate of return, the operation period and the toll charge. Because of these uncertainties, governments concerned have not finalized the investment plan yet.

2. The conflict of stakeholder interests. Hong Kong-Zhuhai-Macau bridge is a cross-border project involving stakeholders in three cities. Every stakeholder has tried his/her best to maximize his/her interests. To this end, every stakeholder tends to neglect the interests of the others, in the hope that others can make sacrifice. They lack a vision of regional long-term benefits and regional coordination.

The Hong Kong-Zhuhai-Macau bridge is a strategic infrastructure connecting Hong Kong to western PRD and, further, to western Guangdong and southwestern China. It can expand Hong Kong’s hinterland, facilitate the connection of Hong Kong and Zhuhai, enhance the flows and investment to western PRD, western Guangdong and beyond. It would be good for all stakeholders if the project can be completed as soon as possible.

The bridge can also be an extended part of the national highway network connecting to Hong Kong. Heading west from Hong Kong, Zhuhai and western Guangdong can be easily reached by the bridge. Through Guangxi, Vietnam and other ASEAN countries can
also be reached by trucks. However, heading northeast, there is a missing link between the bridge (Lantau) and Shenzhen. If Hong Kong government does not position the bridge as a local project, a direct highway from Lantau Island to the Shenzhen should be considered.

Nevertheless, the significance of the bridge on the regional economy is well recognized. Hong Kong government has been actively involved in this project. In fact, together with the business sector, Hong Kong can further initiate regional coordination to implement the project as soon as possible and take regional integration to a new stage.

4.5 Guangzhou-Shenzhen-Hong Kong High-speed Railroad

The present railway linkage between mainland China and Hong Kong lags behind economic development and flows. An increase in the through-train service has seriously affected the East Rail service. The speed of the through-train service has been constrained by the shared-tracks situation. It is necessary to have a new regional railway to strengthen the cross-border rail service and relieve the burden on East Rail as well.

The central government approved the Guangzhou-Shenzhen-Hong Kong High-speed Railroad project in 2005. The Guangdong part has been under construction and is scheduled for completion by 2010. However, the construction of the Hong Kong part is still an open question. Despite the Executive Council in principle approved the project in February 2006, debates still dog the tracks issue. The shared-tracks proposal (Kowloon Southern Link, West Rail and Northern Link will use the same tracks) was made in April 2006. However, the “dedicated tracks” possibility has not been ruled out. Due to the debate, it is impossible that the Hong Kong part can be completed before 2013.

The “shared tracks” proposal has its economic justification. The government and KCRC need not bear the huge financial burden for building the new railway. To kick-start the project, we support the “shared tracks” proposal. However, we also hope the government to implement the “dedicated tracks” proposal soon. Guangzhou-Shenzhen-
Hong Kong High-speed Railroad is a part of the national mid- and long-term railway network plan. The dedicated tracks proposal can have several advantages. It allows a better connection to other national high-speed passenger railways, such as the Hangzhou-Shenzhen coastal line and the Wuhan-Guangzhou line. It allows the train to run at a speed 200-350 km/hour throughout the entire journey. It allows the use of standard passenger trains, a situation compatible with those used in other national passenger railways. Finally, Hong Kong can have better connection with other major mainland cities and gain a higher position and role in the national railway network. Since Kowloon Southern Link and Northern Link are two local lines as provided for construction in the *Railway Development Strategy 2000*, the implementation of both the “shared tracks” proposal and the “dedicated tracks” proposal will not lead to a problem of resource wastage.

The experience in Japan and Europe has amply shown that dedicated high-speed railways have facilitated the countries concerned to take off economically and realize many economic and social objectives. It is also a trend being actively implemented in China in high-growth areas between Beijing and Tianjin, Beijing and Shanghai, and Shanghai and Hangzhou. South Korea and Taiwan have similarly relied on high-speed railways to further their economic development. By not adopting the “dedicated tracks” approach, Hong Kong is running a real risk of not being compatible with mainstream rail development on the mainland and, as a result, being marginalized out of its own choice. What is more, the cost differential between the “shared tracks” and “dedicated tracks” solutions is merely $8 billion, considering the fact that the West Rail cost $46 billion to construct. Hong Kong can well afford the additional cost involved but it cannot afford to be marginalized. To add weight to the “dedicated tracks” solution, it is more straightforward to build requiring the same amount of time to construct as “shared tracks”, ready for use by 2013.

The completion time is another issue concerned. Under the current estimation, the completion time of the Hong Kong part will be three years later than the mainland part. In the cross-border transport infrastructure projects between two economic entities, such
situation is not uncommon. The Hong Kong decision-making system often makes infrastructure development a lengthy process. In cross-border projects like Guangzhou-Shenzhen-Hong Kong High-speed Railroad, the delayed completion on the Hong Kong side is highly unfavourable to Hong Kong. While Hong Kong should keep strict requirements on the quality of infrastructure and environmental protection, the period of decision-making should be shortened. The government should have a more flexible approach in dealing with such projects. For cross-border projects, “express procedures” should be introduced. Besides the necessary public consultation and environmental impact assessment, other procedures should be accelerated.

This case indicates that the Hong Kong system of decision-making with respect to major infrastructure projects points to the fact that Hong Kong lags behind its mainland counterparts. Although Hong Kong will not simply be marginalized by a single railway project, it is necessary for Hong Kong to connect to the national transport network, especially the GPRD network as soon as possible. The experience of Hong Kong in developing the Guangzhou-Shenzhen-Hong Kong High-speed Railroad should be seen as a strong indication of how fast Hong Kong should be adjusting to the rapid development of the GPRD.

4.6 Shanghai Yangshan Port

The construction of the Yangshan deep-water port in Shanghai is an important national project conceived to enhance Shanghai’s competitiveness, while speeding up its status as international economic, financial, trading and logistics centres.

According to the plan of Yangshan port, 30 berths will be constructed along an over 10 km coastline, increasing the container throughput capacity to 15 million TEUs by 2010. In the first phase of the Yangshan port construction, five berths that can accommodate 70 to 100-ton vessels will be built. Its container throughput capacity will reach 3 million TEUs. The East Sea Bridge is 32.5 km length with six tracks. The Luchaogang accessorial
area is located on the one end of East Sea Bridge, which will provide services for the deep-water port.

The Yangshan port is the only customs-free port in China approved by the central government. The port enjoys preferable policies of bonded zone, processing zone and bonded logistic zone. Taking its deep-water advantage, the port aims to concentrate its business on a wide range of value-added logistics services.

Apart from infrastructure construction, the Yangshan port also seeks to establish closer relationships with other ports in YRD and ports along the Yangzı River. In order to extend its service scope and facilitate sea-river transshipment, the Yangshan port has established partnerships with the Chongqing port, the Wuhan port and the Nanjing port. In addition, to avoid fierce competition and improve competitiveness, the regional planning of YRD has re-positioned all ports in YRD. These initiatives will further consolidate the position of Shanghai as an international logistics centre.

The rise of the Yangshan port will not pose a serious challenge for Hong Kong. The development of the Yangshan port has negative effects on Hong Kong to a certain degree, as it will greatly and directly restructure the port system in Northeast Asia. Currently, the Busan port in South Korea, the Kobe port in Japan and the Kaohsiung port in Taiwan are fiercely competing for the pivot port position in Northeast Asia. The rise of the Yangshan port will directly threaten the Busan port and the Kaohsiung port, and the role of the Busan port and the Kaohsiung port in trade transshipment will decline. Due to its advantages in river-sea connection and its extensive hinterland, the Yangshan port is more likely to become the international shipping centre in Northeast Asia. Because of their non-overlapping hinterlands, the Yangshan port and the Kwai Chung ports will not be directly competing with each other.

How should Hong Kong respond to possible challenges that may be posed by the Yangshan port? We suggest that Hong Kong should take positive stance to integrate ports
in the PRD, under both market regulation and government support. Hong Kong can investigate the port development strategy in other cities and formulate its own development plan. Under the framework of CEPA, Hong Kong and the PRD can establish a common logistics platform. In terms of port cooperation, Hong Kong and Shenzhen can serve an experimental case for establishing a commission of port coordination. Such institutional arrangement can enhance ties between Hong Kong and Shenzhen, and avoid undue competition. The close connection in trading and culture with ASEAN is an additional advantage of Hong Kong. Therefore, Hong Kong can consolidate its position as an international and logistics centre, by bridging China and ASEAN.

4.7 Shanghai Pudong international airport

Building an aviation hub in the Asia-Pacific region is one of the goals of Shanghai. Shanghai Pudong international airport was built in 1997 and opened in 1999. In 2006, the airport had a daily average of 560 landings and takeoffs, reaching 60 percent of its built capacity. There are 49 domestic and foreign airways in the airport, connecting with 73 international cities and 62 domestic cities. In 2004, the Pudong airport handled 21.02 million passengers and 1.87 million tonnes of cargo.

The objectives of the Shanghai international aviation hub are to improve aviation networks, and become an aviation hub in the Asia-Pacific region. The Shanghai international aviation hub consists of Pudong airport and Hongqiao airport, of which Pudong airport is the pivot airport and Hongqiao airport is the supporting airport.

To achieve above objectives, Shanghai proposes a timetable for aviation hub construction. According to the timetable, there are three phases in the aviation hub construction. The first phase is from 2005 to 2007. This phase concentrates on infrastructure construction. In the second phase from 2008 to 2010, the aviation hub will be preliminarily formed. The period of 2011-2015 is the third phase of construction, in which the aviation hub will fully established. Currently, Shanghai is concentrating the
following tasks to build the aviation hub: enlargement of Pudong airport, modernization of Hongqiao airport, improvement of aviation networks, enhancement of airport competitiveness, facilitation of border crossings, and improvement of intermodal links. Shanghai also seeks cooperation with other related partners to enlarge its service scope. By 2007, the Pudong and Hongqiao airports will have 49 million passengers and 2.5 million tonnes of cargo.

Despite its ambitious plan, the Pudong airport does not pose direct competition to Hong Kong. It serves primarily for the Yangzi River Delta (YRD). In addition, both Shanghai and Hong Kong’s airports are being overloaded. With growing demands, both Hong Kong and Shanghai will have to face more pressure on their handling capacities. The most important challenge Shanghai and Hong Kong are facing is how to improve their handling capacities to meet future needs.

Of course, we should keep in mind the advantages of Shanghai airport – Shanghai has the superior position in the YRD, which cannot be challenged or superseded by any city in the region. Unlike the situation of Shanghai airport in the YRD, Hong Kong must face competition from airports in neighbouring cities, such as Shenzhen airport and Guangzhou airport. Therefore, it is essential for Hong Kong airport to cooperate with Guangzhou airport and Shenzhen airport. With its strength in service, advanced management experience and global networks, Hong Kong should actively extend its services to the mainland, in addition to the expansion of its international market.

4.8 Tianjin Binhai New District

Tianjin Binhai New District is located in eastern Tianjin, consisting of three administrative districts (Tanggu, Hangu and Dagang) and other four functional districts (Tianjin Economic Development Zone, Tianjin Port Process Zone, Port District, and Dongli District). It has a planned area of 2270 sq km. Its GDP growth between 1994 and 2005 is spectacular, with an average annual growth rate of 20.6 percent. In 2005, its GDP
reached RMB160.8 billion; the actually used FDI reached RMB18.7 billion; 70 companies from the World Top 500 have invested in the District. The District is the fastest growing region in North China, functioning as a new growth pole.

The Binhai New District is positioned as a new host for advanced manufacturing and R&D bases, an international shipping centre, and an international logistics centre in North China. The rise of the District in the Bohai rim region does not threaten Hong Kong. However, with the strengthening of Tianjin’s position as a logistics and shipping centre, Hong Kong’s position as logistics and shipping centre may be adversely affected to a certain degree. The Tianjin port has grown rapidly since 1993. In 2003, its throughput of cargo and containers reached 162 million tonnes and 2.4 million TEUs, respectively. The District has been designated for national comprehensive reforms. It is expected that Tianjin will enter into a period of rapid growth and transformation.

Table 4.2 Comparison between Tianjin Binhai New District and Shanghai Pudong New District (January to May 2006)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Tianjin Binhai New District</th>
<th>Shanghai Pudong New District</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The total industrial output (current price)</td>
<td>Unit Absolute value ±%</td>
<td>Unit Absolute value ±%</td>
</tr>
<tr>
<td>RMB billion</td>
<td>201.7</td>
<td>183.8</td>
</tr>
<tr>
<td>2. Investment in fixed assets</td>
<td>RMB billion ±%</td>
<td>27.4</td>
</tr>
<tr>
<td>Primary industry RMB million</td>
<td>48</td>
<td>-40.0</td>
</tr>
<tr>
<td>Secondary industry RMB billion</td>
<td>18.3</td>
<td>41.8</td>
</tr>
<tr>
<td>Tertiary industry RMB billion</td>
<td>9.0</td>
<td>20.7</td>
</tr>
<tr>
<td>3. Retailing</td>
<td>RMB billion ±%</td>
<td>8.1</td>
</tr>
<tr>
<td>4. Export</td>
<td>US$ billion ±%</td>
<td>8.2</td>
</tr>
<tr>
<td>5. FDI actually used</td>
<td>US$ billion ±%</td>
<td>1.4</td>
</tr>
<tr>
<td>6. Contracts with domestic investors</td>
<td>Unit ±%</td>
<td>316</td>
</tr>
<tr>
<td>7. Revenue income of Districts and counties</td>
<td>RMB billion ±%</td>
<td>4.4</td>
</tr>
</tbody>
</table>
How can Hong Kong take advantage of opportunities in an emerging Tianjin? We have the following suggestions. First, Hong Kong should strengthen its influences in northern China. The Tianjin port has a very large hinterland, consisting of 8 provinces, two municipalities under administration of the central government (zhixiashi), and part of Henan and Shandong provinces. The area of its hinterland reaches 4.5 million sq km, or almost half of China. Such a spreading hinterland is very rare for any port in the world. Therefore, Hong Kong should establish ties with landlocked provinces such as Henan Shannxi, Shanxi through the Tianjin port, and seek to form partnerships with those energy-rich provinces. Second, the growth of manufacturing industries in the Bohai region may have negative effects on the PRD, Hong Kong’s direct hinterland. Hong Kong should actively participate in industrial upgrading and industrial restructuring in the PRD, in order to maintain the region’s competitiveness and its leading position in manufacturing industries.

4.9 Shenzhen’s innovative industries

High-technology industry in Shenzhen is at the forefront of the country. Shenzhen’s high-tech industry park is one of the best five in China. In 2005, the total industrial output of Shenzhen High-tech Industry Park reached RMB 136.8 billion, with the high-tech industrial output reaching RMB 132.4 billion. Export value reached US$8.7 billion.

In its 11th FYP, Shenzhen proposes to promote high-tech and innovative industries, especially in the following:

- Investing RMB100 billion in R & D, of which RMB10 billion will come from municipal and district governments. In the 11th FYP period, Shenzhen will focus on establishing an innovation platform, solving key problems in high technology, fostering innovative small-sized firms, building research institutes and universities, and training skilled workers and professionals.
Formulating a long-term plan for science and technology development and implementing innovation strategy;
• Establishing five new platforms for specific innovative technologies;
• Building a new science museum and investigating the feasibility of establishing a new science and technology university;
• Establishing a South China international exchange centre for technology patents;
• Setting up a new innovation fund and investigating the feasibility of establishing cross-sector working groups on innovation policy and consultation.

The implementation of an innovation strategy in Shenzhen will open up opportunities for Hong Kong-Shenzhen cooperation. Shenzhen has a strong high-tech industrial base, but it lacks celebrated local universities and research institutes. Hong Kong has universities with a good R&D base. There is much room for cooperation in the hi-tech and innovative industries between Hong Kong and Shenzhen.

We have the following three suggestions to enhance Hong Kong-Shenzhen innovation cooperation. First, under the framework of Hong Kong-Shenzhen science and technology cooperation, the two cities can seek concrete cooperation, especially in communication, IC, soft industries. Second, to respond to Shenzhen’s proposal to build a university, Hong Kong can negotiate with Shenzhen to investigate whether Hong Kong’s universities can set up new campuses in Shenzhen. Third, several universities from Hong Kong have already pursued cooperative projects or training ventures in Shenzhen. For example, Hong Kong University of Science and Technology, Shenzhen government and Peking University have jointly established PKU-HKUST Shenzhen-Hong Kong Institution. To realize the strategy of a Shenzhen-Hong Kong Innovation Region, Hong Kong and Shenzhen should discuss how to jointly develop high-tech industrial parks. We suggest that Hong Kong-Shenzhen can jointly develop the river-loop area into a platform for science, technology and education cooperation. Preferential policies should be considered for the river-loop area, making it a “special zone” in Shenzhen Special Economic Zone and a “small Shenzhen” in Hong Kong.
4.10 Shanghai and Shenzhen financial centres

To be an international financial centre by 2020 is one of the Shanghai’s development goals. In recent years, Shanghai has made tremendous efforts in developing its financial centre. Its financial sector has been growing rapidly and steadily. In 2005, the financial sector contributed RMB 69 billion to Shanghai’s GDP, accounting for 7.5 percent of the total GDP. Due to its rapid development, Shanghai has attracted more and more foreign and domestic financial institutes and organizations. By 2005, there were 84 foreign banks and financial companies, 24 foreign insurance companies, and 91 securities companies in Shanghai.

Shenzhen aspires to be a financial centre in South China. In 2003, Shenzhen implemented Some Regulations on Developing Financial Industry of Shenzhen, known as “18 points”. According to this regulation, Shenzhen will introduce many preferable policies for the development of its financial industry. In the 11th FYP, Shenzhen further emphasizes its objective of developing a regional financial centre. To realize this objective, Shenzhen has introduced a new policy – Some Suggestions on Financial Reform and Development of Shenzhen, specifying setting up several centres, namely an industrial financial centre, a financial innovation centre, a financial information centre and a financial service centre. Despite these developments, Shenzhen is willing to cooperate with Hong Kong in financial industry development, as it has fully recognized the potential benefits that can be derived from cooperating with Hong Kong.

In the long run, the establishment of the Shanghai international financial centre will pose challenges for Hong Kong. However, the rise of the Shenzhen regional centre means the coexistence of opportunities and challenges for Hong Kong. Opportunities lie in the prospect that cooperation between Hong Kong and Shenzhen enables Hong Kong and Shenzhen to stand on firmer ground to compete with Shanghai, achieving win-win situation. If Hong Kong and Shenzhen compete with each other, it will be a zero-sum
game, without any winners. Therefore, Hong Kong and Shenzhen should seek more channels to enhance cooperation on financial industries.

It is worth noting that Shenzhen had functioned as a bridge between Hong Kong and the mainland, and Hong Kong served as the gateway of China for a long time. With the deepening of opening and reforms, Shenzhen can directly connect itself to the outside world. For example, Shenzhen is cooperating with London in its financial development. Therefore, Hong Kong should seek new cooperation under the new circumstance. In our view, Hong Kong can establish closer and direct economic and financial ties with more mainland cities and provinces. Hong Kong is not only a financial centre of South China, but also a financial centre in the Asian-Pacific region.
Chapter 5
Hong Kong’s Competitiveness

5.1 Introduction

A central focus of this study is whether Hong Kong is being marginalized or is, willy-nilly, marginalizing itself. The principal feature of marginalization is that the traditional advantages of a city can no longer perform or support its development, and at the same time there are no new advantages to fill the gap. The city can no longer compete against others in the era of globalization and regionalization. In fact, Hong Kong is losing parts of its traditional strengths, but there are ways Hong Kong can reinvent itself. This chapter will elaborate the relevant issues and provide empirical evidence.

A simple background framework is used to explain the traditional core strengths of Hong Kong. Hong Kong’s competitiveness is derived from two sources. One is systemic effectiveness and well-oiled institutions, along with international networks, inherited from its colonial background. High flexibility and efficiency cultivated in international economic activities are Hong Kong’s strengths in participating in developing GPRD, Pan-PRD and other national economic activities. The other source stems from new opportunities that China’s openness has brought about for Hong Kong, thereby vastly elevating its competitiveness on a global basis. Hong Kong is highly competitive in four major aspects, namely the flow of goods, the flow and convergence of talents, the attraction and flow of capital, and the flow of information. These flows, in turn, encourage the development of different sectors such as export, finance, convention and exhibition, and arbitration services etc, and their continuing increase in strength.

5.2 Recognized strength and economic freedom

Since Hong Kong's handover in 1997, various international surveys have tracked Hong Kong's competitiveness. While the odd survey has shown worrisome signs of decline, by and large, most surveys have confirmed the high standings of Hong Kong's competitiveness, globally speaking. Hong Kong’s ranking in the GCI (Global Competitiveness Index) scoreboard, managed by the WEF (World Economic Forum),
dropped from 2nd in 1997 to 28th in 2005 (Table 5.1).\textsuperscript{16} The WEF pinpointed Hong Kong’s laggard technology, efficient public institutions and strong business competitiveness. On the other hand, there was concern over the government’s growing bureaucracy. Hong Kong’s macroeconomic environment is ranked 8th.

The WCI (World Competitiveness Index) by IMD (Institute for Management Development) revealed absolutely opposite results. Hong Kong rebounded from its global ranking of 14th in 2000 to 2nd in 2005 (Table 5.2).\textsuperscript{17} Hong Kong’s controlled government spending and high efficiency (1st) are major contributing factors. Hong Kong also has a high ranking in labour-related attributes. The results of GCI and WCI are diametrically opposed to each other, especially in government-related attributes. However, both indexes reflected the importance of the role of government in the competitiveness of a city. Government’s intervention or enhancement work is critical to an economy. Similarly, government’s efficiency and flexibility would strongly influence a city’s attractiveness.

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<tbody>
<tr>
<td>Hong Kong</td>
<td>2</td>
<td>7</td>
<td>13</td>
<td>17</td>
<td>22</td>
<td>24</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>Singapore</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>China</td>
<td>29</td>
<td>40</td>
<td>39</td>
<td>33</td>
<td>38</td>
<td>44</td>
<td>46</td>
<td>49</td>
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<tbody>
<tr>
<td>Hong Kong</td>
<td>3</td>
<td>14</td>
<td>6</td>
<td>9</td>
<td>10</td>
<td>6</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>China</td>
<td>27</td>
<td>31</td>
<td>33</td>
<td>31</td>
<td>29</td>
<td>24</td>
<td>31</td>
<td>19</td>
</tr>
</tbody>
</table>

Moreover, with the freedom of trade, capital inflow and foreign investment, and a mature legal system, Hong Kong has been voted the world’s freest economy by the Heritage Foundation for 12 year in a row. The Foundation commented that the “low level of government intervention” and “high degree of transparency” were Hong Kong’s


\textsuperscript{17} International Institute for Management Development (IMD). \textit{The World Competitiveness Yearbook}. Lausanne, Switzerland: IMD, various years (1997-2005). For the latest executive summary and ranking, please refer to the homepage of IMD http://www02.imd.ch/wcc/yearbook/
A similar research finding can be found in *Potential Competitiveness Ranking 2005* by JCER (Japan Centre for Economic Research). USA ceded her first place to Hong Kong in the ranking (Table 5.3 and 5.4). Hong Kong has been regarded the best in the sub-sectors of “Internationalization” and “Finance”, with the largest improvement in “Government” and “Science.” Another report by JCER even claimed that Hong Kong is “stronger than ever, rather than being buried.”

Last but not least, among 200 Chinese cities surveyed, Hong Kong ranked no.1 in the overall competitiveness of the *China Urban Competitiveness Study*. While Hong Kong’s “Scale” and “Efficiency” are the best among 200 cities, there is also a high ranking in “Structure” and “Quality,” except “Employment” and “Growth.” The competitiveness index of Hong Kong is 0.662, far higher than Taipei’s 0.505, Shanghai’s 0.455 and Beijing’s 0.414, which means that they are yet to catch up with Hong Kong in the short term. The Study pointed out that the core advantages of Hong Kong are its vitality of starting enterprises, integrity in dealings, ability to deal with a contingency, skills in operating a business, and the culture. The high competitiveness of the government departments, the efficiency of the market economic system, the extensive global economic network, and dynamic modern service industries are also attributes duly recognized.

Besides all the indexes cited above, Hong Kong has also gained very good rankings and comments in items concerning the business environment, cost, risk, etc.

| Table 5.3 Overall Ranking of the Potential Competitiveness |
|-------------|-------|-------|-------|-------|-------|
| Hong Kong   | 15 (59.0) | 3 (63.1) | 2 (68.6) | 3 (68.0) | 1 (71.3) |
| Singapore   | 4 (63.0) | 2 (64.8) | 3 (67.5) | 2 (68.3) | 2 (68.7) |
| China       | 40 (39.9) | 41 (39.7) | 37 (42.8) | 36 (43.3) | 35 (44.2) |

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Table 5.4 Japan Centre for Economic Research – Potential Competitiveness

<table>
<thead>
<tr>
<th>2005 (2002) ranking</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>1 (3)</td>
<td>2 (2)</td>
<td>3 (1)</td>
</tr>
<tr>
<td>Internationalization</td>
<td>1 (2)</td>
<td>3 (3)</td>
<td>2 (1)</td>
</tr>
<tr>
<td>Enterprise</td>
<td>8 (9)</td>
<td>6 (7)</td>
<td>7 (6)</td>
</tr>
<tr>
<td>Education</td>
<td>24 (15)</td>
<td>31 (32)</td>
<td>4 (3)</td>
</tr>
<tr>
<td>Finance</td>
<td>1 (1)</td>
<td>3 (3)</td>
<td>10 (11)</td>
</tr>
<tr>
<td>Government</td>
<td>14 (29)</td>
<td>1 (4)</td>
<td>23 (17)</td>
</tr>
<tr>
<td>Science</td>
<td>25 (36)</td>
<td>21 (22)</td>
<td>1 (1)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2 (2)</td>
<td>1 (1)</td>
<td>13 (13)</td>
</tr>
<tr>
<td>IT</td>
<td>7 (9)</td>
<td>12 (12)</td>
<td>1 (1)</td>
</tr>
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</table>

5.3 Outstanding performance

The reasons why Hong Kong can fare so well in all these comparisons and surveys can be traced to its excellence in the international market, internal condition and relationship with mainland China. They include:

- Increasing foreign direct investment that reached US$35.9 billion in 2005.
- In 2005, 1,167 regional headquarters and over 2,600 regional offices were established in Hong Kong.\(^{22}\)
- 281 international arbitration cases were dealt with in 2005 and the Hong Kong International Arbitration Centre ranked fourth in the world.\(^{23}\)
- In 2005, 292 major conventions and exhibitions were held and contributed 631 thousands visitors to Hong Kong. The success of the WTO 6th Ministerial Conference further confirmed Hong Kong’s ability in organizing major international events.\(^{24}\)
- Well-developed internal transportation and communication infrastructure. For example, the Hong Kong International Airport is an international air hub and handled over 40 million passengers and over 3.4 million tonnes of goods in 2005; Hong Kong

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container port, the strong rival of Singapore, processed 22.6 million TEUs in 2005 and has performed particularly well in processing the re-export goods to and from China.25

- Hong Kong Stock Market is among the global top 10 and keeps hitting new height in turnover (HK$4,498.1 billion in 2005 and ranked eighth in the world). Hong Kong’s warrants market is number one in the world (US$1.10.2 billion), and Hong Kong is an ideal market for capital raising (4 out of 10 largest capital raising events were in Hong Kong in 2005).

5.4 Hong Kong’s challenges

It is not easy to convince oneself that Hong Kong is being marginalized in the face of its stellar economic indicators and status, as shown in different studies referred to above. Nevertheless, is Hong Kong losing its advantages quietly, without being noticed while China continues its rapid economic development?

It is almost axiomatic that no city can keep an advantage forever, especially in today’s rapidly changing environment. In fact, Hong Kong has lost some advantages while others being severely challenged. For instance, Hong Kong’s advantages are being eroded by its serious pollution problems and high rental and labour costs. Many chambers of commerce have found from surveys of their members that they are highly dissatisfied with the air quality in Hong Kong and are considering either reducing their investment in Hong Kong or even withdrawing from the Hong Kong market. The surveys have also found that some employees are not willing to come to Hong Kong. Not surprisingly, the China Urban Competitiveness Study strongly suggested Hong Kong to improve both the

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environment and life quality, since Hong Kong ranked poorly in living environment (29), size of living space (51), leisure and entertainment (28) and sports facilities (53).²⁶

Given the above misgivings, one may ask if there is enough talents for the development of the headquarters economy? A recent report highlighted the mismatch of the job market in Hong Kong. While there is a big pool of highly qualified talents enough to fill posts, the supply of lowly qualified and lowly skilled workers has a surplus and remains to be exploited. The growing poverty gap and social unrest are critical factors that threaten to adversely affect Hong Kong’s development.

In the convention and exhibition (C&E) industry, Hong Kong is facing more challenges, including those from Guangzhou, Dongguan and Shenzhen. A large number of C&E centres have been built in these cities, and filled with an increasing number of C&E events in recent years. In western PRD, Macau is also developing along the same path with the coming of USA gaming enterprises. In addition, casinos, leisure and entertainment complexes, and C&E centres have also mushroomed in Macau.

With regard to infrastructure projects covered in the previous chapter, Hong Kong’s freight transport has grown strongly. Guangzhou Baiyun International Airport and Shenzhen Bao’an International Airport aspire to be a regional air hub and a regional centre, respectively and share a similar hinterland with Hong Kong. Their ambitious goals are reflected in their development strategies that can be read as a challenge to Hong Kong. On the other hand, Hong Kong’s maritime industry has entered a mature stage, in which a slower growth rate of its throughput can be expected. At the same time, Yantian port’s capacity and throughput are growing rapidly, chasing after Hong Kong. Singapore even displaced Hong Kong as the top container port in the world. Hong Kong has, therefore, found itself in a situation of facing challenges and pressure coming from more than one direction.

²⁶ See note 20
Changing factors

The above trends can be explained from a regional perspective. In the GPRD region, the dominant role of Hong Kong is giving way to a multi-centre situation, in which Guangzhou and Shenzhen have emerged as powerful entities able to set their own development agendas. It is an irreversible change. However, this change does not spell fortune or disaster to Hong Kong. What has happened is that the role of Hong Kong being South China’s gateway and spring board, thereby dominating in its re-export function, is being lost or on the wane. It is not a change that Hong Kong can possibly control.

What is more, Hong Kong is beset by internal factors. Two are worthy of mention here. First, there have been endless disputes that disrupted, even aborted, the normal progress of development projects. Apart from protracted discussions and detailed studies that are needed for highly controversial projects, they must go through the time-consuming funding application procedures in the LegCo. The tension is palpable between the HKSAR Government and LegCo members. Also, there are growing concerns over projects by some politicians and emerging NGOs, who often have their own axe to grind or throw spanner in the works, resulting in further delays. More often than not, Hong Kong has failed to timely respond to development opportunities, at a cost to Hong Kong’s competitiveness. By contrast, large-scale constructions and developments have been completed speedily in our neighbouring cities.

Second, there has been a loss of the traditional mindset of Hong Kong people. Instead of the former “never say die” and flexible attitude, what has emerged is a new kind of protectionism. As observed, the changes in Hong Kong’s economy in recent years and the rise of PRD cities have led people to fight for their vested interests, rather than seek to adapt and change, even to the extent of requesting the government to provide “assistance” when their stake is at risk. Even the government has been equally self-centred, because it is known to have made unreasonable demands on neighbouring cities without sufficient
regard of their interests. Consequently, Hong Kong has sadly failed to build harmonious relationships either within its own community or with its neighbouring cities.

**Adjust role and functions**

To be sure, such mindset is changing along the improved economy and the trend of regional development. Hong Kong, however, should not be passive and lag behind. To enhance its competitiveness, Hong Kong should rebuild a strong and dynamic society; find possible ways to cope with the regional and global development trends, followed by relevant policies.

First of all, Hong Kong should carefully study the changes and development in the PRD region and South China, and establish cordial relations with those emerging cities. Hong Kong should recognize that it has moved away from its former role of serving China for benefit and yet Hong Kong was detached from the mainland. Hong Kong has now transformed into a Chinese city serving South China and beyond. More importantly, it can lead the region, especially the PRD, to advance in regional development and competitiveness.

Second, we believe that the non-intervention policy implemented in the colonial time, and the related administrative procedures and the approach towards regional cooperation by then are no longer suitable or helpful to Hong Kong’s present development. More than governing, nowadays the HKSAR Government is running and promoting the city jointly with the business sector and civil society. Therefore, new and active policies are called for. The government must adjust its role and functions in order to run Hong Kong better. Based on what it has achieved, Hong Kong should have the strengths to develop the headquarters economy during the 11th FYP period and beyond. Hong Kong’s advantages in this sector do not shown any sign of weakening. Its most favourable geographical location and the new mainland-Hong Kong economic policies are still its strengths. We believe Headquarters Economy can become a key component of the future
of development of Hong Kong. Hong Kong should support the development of industries which can nourish the headquarters economy.

**5.5 Development of headquarters economy**

It is unrealistic for Hong Kong to be able to attract all kind of businesses to set up regional headquarters in Hong Kong. Based on its comparative advantages, Hong Kong should be able to attract relevant businesses and contribute to the headquarters economy.

In 2005, by major lines of business, the total number of local and regional offices, and regional headquarters of top four businesses are “wholesale, retail and import/export trades” (2,906), “business services” (1,408), “finance and banking” (742) and “transport and related services” (510). By country/territory of incorporation of the parent company, the USA, Japan and mainland China are the top three, with 1,263, 1,180 and 710 companies, respectively. For other European countries, they also set up a total of 994 companies of local and regional offices, and regional headquarters. 27

The figures cited above support the fact that Hong Kong is playing its role as the gateway of China and one of the most important business and trade cities in the world. Companies set up regional headquarters in Hong Kong to manage their businesses in China and the Pacific-Asia region, like trading between the country/territory of incorporation of the parent company and China, or between China and foreign countries. At the same time, a large share of companies provide various business services to the above companies, such as accounting, legal services, business management, capital raising and loans, and transportation and logistics and so on. All these services sectors are flourishing in Hong Kong.

It is our belief that the environment just described will not change quickly. Externally, Hong Kong is blessed with a favourable geographical advantage. Internally,

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the continuous development of China has created another advantage. Even though Shanghai, Guangzhou and Shenzhen have risen rapidly, they are still some distance from Hong Kong’s mature systems, high quality services and rich international networks in the short term, and they are limited by the political system in mainland China. It is unlikely that they will replace Hong Kong. On the other hand, with many Chinese firms that are likely to grow strong and large during the 11th FYP period, “going out” will be an overriding development strategy. They can either invest in foreign countries directly, or they can first invest in Hong Kong. They have found that Hong Kong can indeed facilitate their “going out” strategy by providing the all-round services they need.

At present, “wholesale, retail and import/export trades” is the largest industry among all regional headquarters and offices. However, along the increasing linkages between Chinese enterprises and foreign companies, there would be more kinds of industries, especially high-end services sectors to be found in Hong Kong. Therefore, Hong Kong's headquarters economy should emphasize not merely trade, but professional, financial, logistics and other high-end services as well.

The more the Chinese and foreign enterprises are established in Hong Kong, the better the interaction among all these enterprises will have. Given the difference between China and the international standard in accounting or legal systems, the increasing interaction will facilitate the recognition, standardization, even integration between systems. Such "East-meet-West" and unique business cultures have consolidated Hong Kong’s advantages and its indispensable role. Moreover, Hong Kong is the most important financial centre after Tokyo in Asia. The continued inflow of Chinese and foreign capital should be able to sustain the growth the financial and stock markets, as well as the banking sector. Thus, these sectors can provide a critical backdrop for the further development of the headquarters economy.

**Expanding Hong Kong’s hinterland**
In support of its headquarters economy, Hong Kong should continue to expand its hinterland. From the PRD region in the past to the present Pan-PRD region and the coming ACFTA (the ASEAN-China Free Trade Area), it is an enlarging hinterland for Hong Kong. To this end, enhanced infrastructure linkages and services, and practical regional cooperation are needed.

There are two specific directions. First, Hong Kong must review and improve on its record of falling behind in developing large-scale cross-border infrastructure projects, specifically in shortening the time used and simplifying the administrative procedures. In many joint projects, the mainland section was completed long before the Hong Kong section, which prevented better and more efficient flows of people, vehicles and goods between the mainland and Hong Kong. It is definitely not favourable to Hong Kong’s logistics industry. For example, the long awaited Hong Kong-Zhuhai-Macau bridge cannot provide any hope to be built for use before the end of 11\textsuperscript{th} FYP period. It is a disadvantage that Hong Kong cannot attract more goods and people from western PRD.

Second, Hong Kong must recognize the true contribution of regional cooperation to its economy, as well as its influence. For instance, many “Made in Hong Kong” goods and services have benefited under CEPA, as the mainland has opened up the market for them. However, according to the legal text, Hong Kong should reciprocate by opening its own market to the services from the mainland as well. But only the final decision has yet to take. The Hong Kong government should recognize the impact of this move. Will it bring Hong Kong an increased number of regional headquarters and enhanced business environment, or vice versa? On the other hand, we believe that Hong Kong has not fully explored the mainland market under the framework of CEPA. Attempts must be made to maximize its utility to Hong Kong, with the government and chambers of commerce providing the necessary market information and helping to facilitate investment. In addition, the central government and Hong Kong signed the arrangement for the avoidance of double taxation on personal income in August 2006, a move widely seen as an incentive
for foreign enterprises to set up companies in Hong Kong. They can enter the mainland market through Hong Kong and enjoy more favourable terms.

**Maintaining superior investment environment and all-round services**

Besides a potential market, society with a superior investment environment and all-round services is also important. Hong Kong is proud for its stable political situation, despite its frequent political disputes and demonstrations which are not aimed at overthrowing the government. On the contrary, they reflect a high degree of political freedom and civil rights enjoyed by the people in Hong Kong. As a consequence, both the government and the people are determined to safeguard Hong Kong’s free economy in attracting foreign investment, in contrast to the situation in neighbouring cities.

Nevertheless, raging societal controversies if not properly handled, will adversely affect Hong Kong’s overall strengths and attractiveness. As mentioned, several large-scale and icon-making construction projects, including Central reclamation, the West Kowloon cultural district, and the former Kai Tak site, have been unduly delayed because of persistent controversies. No matter who should take the responsibility, leaving aside the projects is detrimental to the people and the government of Hong Kong. For example, the delay of Central reclamation is going to lead to heavier traffic congestion from Central to Causeway Bay, economic losses, air pollution, as well as the cost to Hong Kong’s reputation as an efficient city. The restarting of the planning of the West Kowloon Cultural District project will be at the expense of Hong Kong people experiencing world class performances and arts, as well as hindrance to developing cultural industry. For the Kai Tak project, the development of the old airport and urban renewal of the peripheral districts have been held up for a long time. The original urban railway transport plan involving part of the site, new sports facilities and local tourism business in this district have also to be put off.
With regard to new policies, GST is definitely the hottest topic in town in recent months and many political parties and NGOs have said no to the proposal. It is not our intention to enter into a discussion of this important subject here, except to say that its pros and cons have to be skilfully balanced. It suffices to point out that whether the proposed tax reform by adding GST and lowering salaries tax and profits tax, may turn out to be an incentive or a disincentive to foreign investors remains to be ascertained. The effect of the new system on the amount of tax received from foreign companies, its influence on the traditional free economy and simple tax system, etc. are subjects worthy of investigation.

The large-scale infrastructure projects alluded to above constitute some of the major components of economic and social development of Hong Kong. In order to minimize the barriers the projects will face, in the light of foreign experiences, we suggest the following. In the preliminary phase of the project, the government should widely invite the participation of NGOs and affected citizens, say, to contribute to the planning committee or the consultancy group. The development goal should be in solving problems and satisfying the needs of people, instead of merely endorsing the official viewpoints. The government should invite, or request, the affected citizens and NGOs to ventilate their demands or make alternative plans. Then the government can combine all ideas and plans, and propose revised plans. The government should not provide scenarios/plans without going through public consultation, before letting people to make a choice. We believe these changes can contribute to successful large-scale infrastructure development projects. It is favourable for Hong Kong to provide a sequenced and rational environment for investment, to which all parties can contribute without any undue delay.

**Developing a new medical system**

Hong Kong's medical system is a major part of all-round services provided to Hong Kong people worthy of discussion here. A mature, efficient and reasonable medical system is not only a security to foreign workers’ health when they need treatment, it is also a guarantee to Hong Kongers who have the right to enjoy sustainable medical services.
When the official annual budget and expenditures on medical and welfare services are ever increasing, together with many more requests, the government has been facing many challenges in maintaining these services.

In the long-term, it is necessary to develop the medical services as a new industry. Presently, some private hospitals have already arranged medical services, coupled with sightseeing tours, to broaden sources of income. Actually, the development of this new type of medical service in Hong Kong falls behind many countries and territories. The high cost and charges are also putting Hong Kong at a disadvantage. The government must carry out policies to help the development of this industry, such as simplifying the entry formalities for those seeking treatment, devising a supervisory structure to ensure a proper balance be struck between satisfactory service and professional conduct, as well as balancing the service between local and foreign patients.

In addition, it is necessary to implement a compulsory medical insurance in Hong Kong as soon as possible. Similar to MPF, a certain amount of the salary will be allotted to medical insurance. While most workers can be protected and given medical services, the government can thus relieve of its heavy burden in providing medical services.

More comprehensive medical teaching, R&D and application should be carried out jointly by the government, universities, and medical and drug institutes. On the one hand, they are to train more people and specialists; on the other hand, they are to develop more new medical technologies and facilities, to consolidate the leading position of Hong Kong in medicine and medical services, and its competitiveness in the medical industry as well.

Cooperation between Hong Kong and the mainland in medical education and research is not new, as many local universities have carried out joint projects with different mainland research institutes. High-level exchanges and cooperation can be traced to incidents like SARS and bird flu. There are two ways Hong Kong can apparently go further. First, English is commonly used in this sector and the long history of medical
education in Hong Kong has earned it a high professional standard duly recognized internationally. Hong Kong can help as a bridge again, to facilitate the Chinese-spoken doctors and specialists to join in international exchange and R&D activities. Second, China is opening up the medical and dental services to Hong Kong under CEPA. Recently, the central government granted the right to three Hong Kong hospitals to carry out clinical tests for drugs to be used in China. More than an enhanced status, the expanded function of the three hospitals should be able to attract more pharmaceutical firms to conduct clinical trials in Hong Kong before drugs are put on the Chinese market. This would obviate the need to conduct similar trials in China.

Talents training

For any city in the globalization era, talents constitute a critical factor for its success. Competition for talents is a global game and is growing ever more intense. A large talents pool is an important factor for foreign enterprises setting up companies in Hong Kong. Hong Kong seems to face the problem of insufficient high-quality and skilled workers at present. How to nourish talents, attract and retain them should be a focus of our policy.

For education and training, increasing the capacity of our universities and special schools is one measure. At the tertiary level, universities must be in the position to attract and retain world-class academics for teaching and research, and make themselves attractive destinations for local, Chinese and overseas students to compete for entry; and to make Hong Kong a hub of talents and professions. The government should allow universities to admit more non-local students, increase funding for administrative management and R&D, and foster the application of research achievements. The Matching Grant Scheme is a very useful programme. The government should continue the scheme and increase the amount involved in the short-term. It is a move that helps universities to

gain a strong momentum in securing private donations, and to build up the philanthropic
culture of local and overseas entrepreneurs in the community. In the medium to long-term,
efforts should be made to lower the universities’ dependence on government budgets, and
establish resource-rich networks.

Local universities have become a favourite choice for mainland Chinese students,
especially research students. As Chinese youngsters are hungry for knowledge and
education in the present information society, it is timely for Hong Kong to tap this
growing market to nourish talents for itself and the mainland. If local universities are
allowed to admit more mainland students, especially undergraduate students, it can be a
sizeable source of income for the education industry.

Immigration policy can be employed as a key in admitting talents. As a
knowledge-based economy, the government should not put the focus on purely family
reunion. It has been found that, over the past few years, the low qualification and skills of
new immigrants could not satisfy the needs of the market, but rather resulted in a series of
welfare demands and social/family problems. For example, many social and family
problems that occurred in the Tin Shui Wai community are directly related to new
immigrants.

For the sake of Hong Kong’s future, the government should focus more sharply on
highly qualified and skilled immigrants; they can better fulfill the market demands and
contribute to Hong Kong’s economic development. The new Quality Migrant Admission
Scheme can be viewed as a positive step forward. We suggest relaxing the threshold
admission criteria; revising the scope of the scheme from time to time to tune to talents
Hong Kong needs; and simplifying the selection criteria so that more talents are attracted
to Hong Kong. In the long run, the dependence ratio of the population is expected to
increase while labour force ratio will decrease. In order to maintain Hong Kong’s
competitiveness and international metropolis status, it is necessary to adjust the population
and immigration policy from time to time. In view of Hong Kong’s large population
relative to its land and inter-personal relations ties in the PRD region, the regional approach should be adopted in formulating and adjusting its population and immigration policies.

5.6 Hong Kong cultural and creative industries

Cultural and creative industries can well support the headquarters economy and various economic activities. They include advertising, design and software industries etc. The film industry and sound recording production services, which are also under the terms of CEPA, are potential industries contributing to Hong Kong too.

Advertising, design and software industries

The government has carried out a research and analysis on these three industries, the choice of which we support. For all industries, especially those serving the public, software is needed for daily operation; unique and special advertisement and design are necessary, too, to attract consumers. Government research has found that the three industries make significant direct and indirect contribution to Hong Kong’s economy. There is a trend that the three industries are developing and expanding their businesses in China. The demand for creative services in China is increasing, and mainland companies are willing to use the services provided by Hong Kong companies. Hong Kong companies do have advantages in China.29

Challenges

Nevertheless, Hong Kong firms face many challenges. Internally, most companies in these industries are SME in scale. Although this condition is favourable for encouraging

internal competition, any changes of the highly competitive market, such as decreasing
demand, or in making investment decisions to China, the SMEs face difficulties in
manpower, capital and information.

Externally, Hong Kong service providers are facing competition, especially in the
lower-end market, from new indigenous service providers. Their service charges are much
lower. While China opens up its market under the WTO terms, foreign service providers
have become Hong Kong’s challenges, typically in the upper-end market. It is no longer a
must for foreign service providers to make use of Hong Kong, they can have partnerships
with mainland enterprises directly.

Audiovisual industries

Although the industries have experienced a serious recession influenced by the
economic downturn and illegal piracy activities, they have the ability to revive and expand
outside Hong Kong. Facing the mainland market, the use of the same language in the same
cultural setting is Hong Kong’s biggest advantage. Hong Kong’s agents and actors/singers
face no cultural and language barriers in the mainland market, especially in Cantonese-
spoken cities. The creativity and unique culture of Hong Kong agents, and their ingenious
thinking and flexibility are recognized and modeled by their Chinese partners. Hong Kong
and the mainland have a long history of cooperation in these industries, and more will
come under the CEPA terms. It is very successful no matter whether cooperation is in
jointly produced films, music or the Hong Kong-invested cinema theatres. Some jointly
produced films and music are also recognized in the international platform and by other
societies. To be sure, we still need to pay attention and put the focus on revitalizing the
local market and understanding the culture and requirements (like the inspection standard)
in the mainland market.

Policies
Training talents and create a favourable environment. As mentioned in the previous section, more relevant courses are needed in the university, college and training school. Not only they should teach the management of the industries, but also they should be encouraged to explore creative ideas and develop new technologies for the industries. Other attractions like an improved business environment, a preferential tax system, and a free environment for creative arts are incentives to both local and foreign companies and talents to come and stay in Hong Kong.

Strategic policies. Government’s short-term and appropriate policies pinpointing the growth or revival of each industry may help raise the competitiveness in the shortest time. For example, the South Korean government has carried out various short-term policies and has organized many promotion initiatives to revitalize the South Korean film industry, with very successful results so far.

For the enormous and fast-changing China market, the Hong Kong government must help industries understand the real situation, especially different market information and business requirements found in different regions. Hong Kong can negotiate with the central government for more appropriate and favourable policies and terms. Moreover, there can be more joint programmes with different cities and institutes, in promotion and development in foreign markets, and training, etc. Hong Kong should be able to secure its leading position and competitiveness in these markets.

5.7 The growth of other competitive industries

Hong Kong’s logistics industry

Over a long period of time, Hong Kong was the only gateway for China’s import and export. In addition to Hong Kong’s flourishing manufacturing industry, the surface transport and maritime businesses developed rapidly. Since the adoption of the open door policy, many Hong Kong-based factories have left Hong Kong and settled in the PRD region, along with many foreign investors. The PRD has, in fact, developed into what is now known as a world factory. This change has resulted in a larger demand for surface
and sea transports between Hong Kong and the PRD, and reflected in the increasing cross-boundary surface traffic and ports’ throughput. The increasing internationalization of businesses and trades, higher requirement of the production chain, accompanied by the IT innovation, has led to the emergence of the modern logistics industry in Hong Kong.

The development and advantage of the logistics industry is well recognized by the sector, users and society. It is one of Hong Kong’s four pillar industries. On transport information infrastructure, the scale of the industry, the free port status, legal system, or the high standard of services and monitoring, Hong Kong is leading in the region. The contribution of the industry to Hong Kong is increasing too. In 2004, there were about 200 thousand people, or 6% of the workforce, engaged in the industry. The value added of the industry increased from HK$50.5 billion in 1999 to HK$67.2 in 2004, at an average annual rate of 5.9%. The percentage share in the GDP also increased from 4.2% to 5.4%.30

Challenges to the logistics industry

The industry is facing some major challenges which can influence the development of the industry and the economy and competitiveness of Hong Kong. These challenges include both indigenous and regional factors.

- Hong Kong is not the origin of goods. Export goods originated from Hong Kong constituted, for some time, only a small proportion of the total export. The major source of goods has now come from the PRD region. The development of large-scale ports in the PRD, however, has raised an alarm for Hong Kong. As a consigner has more choices in ports, goods can be exported through other ports, and the logistics industry is certainly facing an uncertainty.

- Apparent high cost. Export goods transported from the PRD to Hong Kong is experiencing a higher cost in extra fuel consumed, higher wage payable to Hong

Kong driver, higher terminal handling charge and miscellaneous fees. According to a survey, it costs US$333 (for a TEU) or US$296 (for a FEU) more for transporting a container from Dongguan to the US west coast via Hong Kong, in comparison with the Yantian Port. By including other costs, time cost and other factors like reliability, a container routing to Hong Kong via a barge still possesses a certain advantage. However, such a US$333 gap is large enough to tip the balance away from Hong Kong port.

- Inadequacy. The logistics industry has grown bigger, further and more complicated and Hong Kong has yet to catch up the development. This includes the inadequacy of cross-border infrastructure and professional manpower. For the former, one hurdle to be cleared is the decade-long Hong Kong-Zhuhai-Macau bridge proposal, because no road linkage exists between Hong Kong and western PRD; the Shenzhen Western Corridor, with an initial daily capacity of 80 thousand vehicles, has also been delayed a few years before its scheduled opening in 2007, having resulted in frequent congestion in the Lok Ma Chau checkpoint, and seriously affected the logistics industry. For the latter, the specialization of the logistics industry means that there are more and more complicated, comprehensive and intertwined logistics procedures, as well as the overall management and decision-making of the industry, that need to be dealt with by well-trained professionals. However, local universities and schools cannot train enough specialists.

- Administrative hindrances. The “one country, two systems” by its design, requires customs clearance and drivers regulation, resulting in increased costs. Customs red tape, limited customs operation period, special requirements to drivers (1-truck-1-driver rule) and truck (4-up-4-down requirement), age and border crossing limitation to driver, and cross-boundary truck licence fee are some of the hurdles that need to be addressed.

The way forward

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31 ibid.
For the good sake of the logistics industry, many suggestions have been raised, such as lowering the terminal handling charge, simplifying the customs clearance, and simplifying the requirement for truck and driver. The industry has also required the government to improve the transport infrastructure, build a new container terminal and logistics centre, and raise the efficiency of land use around the container terminals. All these steps should be able to have a positive impact on the logistics industry. We should understand systematically the future of the PRD regional development, however, and provide the most suitable and practical solutions to the case.

In the years ahead, the manufacturing industry and export of Guangdong will likely grow at a high rate, so will the demand for transportation. There will be more large-scale international ports in Guangdong able to compete with Hong Kong. Moreover, Guangdong ports are still having an advantage over Hong Kong in price level and transport cost. Also, the border and customs still present themselves as hurdles. Therefore, the “transport” section of the supply chain in Hong Kong will still be facing challenges, no matter how the Hong Kong container port can lower the terminal handling charge, or the government offers tax reduction. More than just enhancing the strength of the “transport” section, it is even more important to provide improved and new value-added services for other parts of the supply chain. The target should be on the optimization of the supply chain, wherein lies the future of the industry.

Development policy

We believe all-round policies are needed. From raising the strength of the “transport” section to providing value-added services, concrete plans should be formulated for each level, as shown as follows:

- Removing hurdles for a smooth flow. Such a move can reduce cost and raise transport efficiency, meeting the prerequisite of modern logistics. Concrete steps
include opening more checkpoints for 24-hour operation, such as the Changping customs in Dongguan. The Lok Ma Chau checkpoint 24-hour operation is the model to follow. On the other hand, “one clearance check and sealed” should be implemented for cross-border trucks and containers. The check can be carried out by either Hong Kong or the mainland customs and the relevant information will be transmitted to the other side instantly. Without the second check in Hong Kong, time and cost is saved for the export of goods, as well as relieving road congestion in Hong Kong.

• Instant improvement in infrastructure. The deficient design of transport infrastructure has creased a blind alley at the Hong Kong International Airport. Goods from the airport can only be shipped by truck heading to Tsing Yi in one direction. This only transport mode cannot have a 100% guarantee and cannot satisfy the requirement of time and speed by modern logistics, especially for air freight goods. A possible remedy is to build an extra railroad, despite its extremely high construction cost. Moreover, the present flow of goods between Hong Kong and the PRD is mainly conducted by trucks and barges. No railway is required for goods transport. A possible plan is to enhance the sea transport between the airport and PRD cities. According to the airport development plan, a marine cargo terminal is located in the north-end of the Island, providing the shortest link to the PRD cities. We believe this marine cargo terminal can offer an integrated service with the logistics centres inside the airport and the North Lantau Logistics Centre (proposed) on the one hand; and the terminal can provide high speed vessel service, which has potential and demand, forming the sea-air transport link, on the other hand. For the development of Container Terminal 10, if the issue of Hong Kong-Zhuhai-Macau bridge, with a function of attracting western PRD goods, is finalized ultimately, we propose the Terminal to be built in north Lantau and the planning works should be carried out soon. Concerning Container Terminal 1-9, the only way is to provide better road linkages towards Shenzhen and the backup land use.

• Increasing value-added services. Since the “transport” section is facing increasing competition, and no absolute advantage can be derived by Hong Kong, providing
more value-added services to customers is the only way out, i.e. high value-added logistics discussed among the industry and the government. Nowadays, some mega logistics companies have already provided various professional and value-added services, such as labeling, packaging, storing, tracking and so on. However, most small companies remain in simply “transport.” The government and the industry can provide assistance for small companies in transforming from the simply “transport” service to more high value-added services, enhancing the competitiveness of the industry.

- Building a high level platform. Other than high value-added services, it is necessary to go one step further, i.e. developing the 4th party-logistics. It is an advancement of the 3rd party-logistics, and does not involve any physical flow and transportation. Hong Kong’s advantages in high flexibility and superior business administration, and the well-developed virtual network and information system can rightly overcome its deficits in space and high transport cost; and match exactly the requirement of developing the 4th party-logistics. Some large-scale logistics companies in Hong Kong have the ability and advantages in transforming themselves into an integrator and a platform. They can supply services like information, logistics design and organization, supply chain management etc to the local and PRD 3rd party-logistics companies.

**Hong Kong’s advantages in high-tech/new technology**

The contribution by a group of scientists and specialists allows Hong Kong to enjoy the advanced communication network and support the further development of the logistics industry and other sectors as well. For example, the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies is established by three local universities with funding from the government. With the joint efforts of academics and the industry, the government attempts to promote the new development and breakthrough in logistics and supply chain, thereby contributing to the actual application
in the industry. Moreover, the R&D centre is a platform to protect and commercialize intellectual property rights.\textsuperscript{32}

Hong Kong is highly competitive in technology innovation, application and protection. Definitely, R&D is an activity against time and other cities in the region are doing the same. Therefore, Hong Kong must have a crystal clear goal in high tech/new technology development. Nevertheless, regional exchanges and cooperation are necessary to promote both Hong Kong’s advantages and regional strength and standard in technology.

\textbf{5.8 Hong Kong’s competitiveness}

In comparison to the mainland, Hong Kong does not have any absolute advantage in talents, capital and development strategies. There are more talents and resources available in China, and their dedication to technology development is very strong. Nevertheless, Hong Kong has some advantages that cannot be found in the mainland yet. Hong Kong should make good use of its advantages.

- High quality R&D infrastructure and services. It is not wise and not necessary to compete with the mainland in the size of science park. Rather, Hong Kong’s R&D sites like Science Park or Cyber Port can provide high quality infrastructure and facilities (such as labs and office), as well as high standard backup services. Moreover, the devotion to the work, flexibility and efficiency, professional knowledge and services, and the honesty of Hong Kong people are Hong Kong’s distinct advantages. These advantages can facilitate our work in R&D and Hong Kong should keep providing higher-quality infrastructure and services to attract more R&D institutes.

- High value and better protection to intellectual property rights. R&D involves a

\textsuperscript{32} Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies, http://www.lscm.hk/AboutLSCM/Overview.do
variety of new knowledge, techniques and products, with the participation and hard works of a large group of scientists and specialists. Intellectual property must be well protected. In the mainland, the concept of intellectual property right is relatively weak. Although there are laws and regulations, plagiarism, piracy and thievery are common. No proper protection to intellectual property definitely weakens the eagerness and willingness of scientists to have further R&D. On the contrary, Hong Kong places a high value on intellectual property, thereby providing high confidence to R&D teams. Not only Hong Kong should further strengthen intellectual property protection, promotion and education, but also such practices should be spread throughout the region. The better the intellectual property protection in the region, the better the future of R&D development.

**Application of new technologies in the region**

Application of R&D results for commercial and social uses in Hong Kong is successful. Potentially, such application can spread to Shenzhen and other cities in the PRD region. Out of all high tech products, the Octopus stored-value card has a high potential of adoption in mainland cities. It is now an opportune time for its wider application and adoption, as favourable circumstances include (1) the possible cooperation between banks in Hong Kong and the mainland in electronic clearing; and the exchange rate for RMB to HK dollar is approaching 1:1; (2) there are many Hong Kong businesses in Shenzhen and the PRD region that can offer the Octopus diversified trial runs, such as in fast food shop (Fairwood in Shenzhen has offered this service recently) and for the mass transit service in Shenzhen (built and operated by MTR, the largest shareholder of Octopus). The increasing consumption of Hong Kong people in Shenzhen provides another push factor in the market. If Octopus can get popular in Shenzhen and other PRD cities, it would be a major indicator of regional integration. With Octopus acting like a single currency in the region, Guangzhou and Shenzhen people can simply get an Octopus card and spend in Hong Kong. Similarly, in the logistics industry, the electronic logistics/supply chain management system, the global positioning system for truck and
digital transport networks are high technologies developed and readily applied in the market.

**Hong Kong’s advanced and innovative business administration**

For many reasons, Hong Kong enterprises have a more advanced, efficient and internationalized standard of business management and culture than their mainland counterparts. Following the growth of mainland economy and enterprises, they are going to have a breakthrough in business operation, management and efficiency. They are willing to learn from Hong Kong enterprises and this is a valuable opportunity for Hong Kong. In the meantime, the Hong Kong style of management has been already applied in various sectors in China. For example, running housing estates using the Hong Kong style of management is catching on in cities like Shanghai, Beijing, Guangzhou and Shenzhen. The Hong Kong style of corporate management, modelled after Cathay Pacific, MTR and Hong Kong Airport Authority, is spreading on the mainland, often through joint ventures, such as Shenzhen, Shanghai and Beijing MTR, and Xiaoshan and Zhuhai airports.

**5.9 Conclusion**

Hong Kong is in the midst of massive and momentous changes, buttressed by globalization and regionalization. Against the rapid development of regional economies, Hong Kong has managed largely to maintain its competitiveness. Nevertheless, it is vitally important for Hong Kong to cling on to its traditional strengths and simultaneously move with changing times and regional situations to discover new strengths and advantages to meet a challenging future. As the 10th FYP passed, China is now an even stronger economy. Hong Kong is also getting its strengths back from economic difficulties and has realized the importance of regional cooperation to Hong Kong’s future. The Pan-PRD economic cooperation framework established under the leadership of Hong Kong and Guangdong is a significant step responding to the new regional situation. In the remaining four years of the 11th FYP, Hong Kong-mainland cooperation will enter a new phase. In
order not to be marginalized, every key decision taken during this time will matter crucially to the future of Hong Kong.
Chapter 6
Conclusions and Recommendations

This report has attempted to set the background in which Hong Kong should view the recent release of the 11th FYP and the new opportunities and challenges the Plan presents to this community as it seeks to further integrate with the mainland. The Plan occupies a strategic position as the nation continues its rapid economic growth into a global power at the threshold of a new century. It builds on the solid foundation of the last Plan to begin the construction of a xiaokang society and while seeking moderately rapid economic growth, chooses a path of development more mindful of the need to conserve resources and the environment. Fresh emphasis on developing a harmonious society and the agricultural sector are aimed at minimizing disparities across regions and societal sectors.

The report began with an analysis and review of the concept of marginalization, a focus of community concern over the past few months. It has also examined the contextual background against which the 11th FYP should be properly interpreted. It then outlines the major elements of the Plan in the Bohai region, Yangzi River Delta and Guangdong in different key parts as they might affect Hong Kong. Some key findings with respect to the three major coastal regions and their potential impacts on Hong Kong are summarized first. They are followed by a discussion of major challenges facing Hong Kong and five groups of recommendations to avoid marginalization and strengthen the overall competitiveness of Hong Kong.

6.1 The Bohai region

The Bohai region, consisting of Beijing, Tianjin and Hebei province, is a region earmarked for rapid growth and development during the 11th FYP period. First Beijing will host the Olympic Games during the Plan period and will capitalize on this rare opportunity to elevate its international status as a city. While Beijing will be building all
sorts of infrastructure facilities for the Games, it will at the same time strengthen its economic capability and the well-being of its inhabitants. Much like what the Olympics did for Tokyo in 1964 and Seoul in 1988, Beijing will ride the Olympics bandwagon to a higher level of development and to a greater fame.

Tianjin, basking in the Olympics glory with Beijing, has development plans of its own to launch itself into a rapid period of development and transformation. Its recent growth trends have been impressive but an even more spectacular period appears to be in the making. What is so special in the present Plan period is that the Tianjin Binhai New District has been designated by the central authorities to be a new area for comprehensive reforms, reminiscent of Shanghai’s Pudong similarly assigned a special role in 1990. Tianjin is thus often compared with Pudong’s recent past, and the expectation is for Tianjin to strike out on its own to lead the Bohai region to an era of miracle growth. After the PRD in the 1980s and Pudong in the 1990s, the new century is Tianjin to take the lead to a brave but unknown future. Tianjin does not begin from scratch because one of the seven districts forming the Tianjin Binhai New District has had more than two decades of planned high-tech development in the guise of Tianjin Economic-Technological Development Area (TEDA). It is now a well-developed and shining community, with Motorola, Siemens and other multinationals well settled in the area.

Industrialization and logistics development constitute a dual approach for Tianjin to strengthen the competitiveness of the Bohai region in the next five years. Tianjin is expanding and improving on its port facilities, while connectivity within the region is strengthened by expressways and railways. High-speed railroad is being built ahead of the Olympic Games, so that by 2008, travel between Tianjin and Beijing will take only 30 minutes, saving the existing time by two-thirds. The spillover effects from development plans in the two Municipalities will be felt in the surrounding region in Hebei.
As Beijing and Tianjin have different hinterland from Hong Kong, their development does not lead to any direct competition with Hong Kong. But there may be many business opportunities for Hong Kong investors.

6.2 Yangzi River Delta (YRD)

Shanghai, Zhejiang and Jiangsu have comprehensive development plans across many sectors to develop the region into the "world's sixth largest urban cluster," with competitive strengths in manufacturing, financial industries and foreign trade capable of playing international rules and facing the world. The continued upgrading of manufacturing towards high technology and added values is an overall direction of growth, while investment from domestic and foreign sources is equally tapped. Infrastructural development will be multi-faceted and ambitious, with some that have been initiated during the 10th FYP period. The construction and opening of the Yangshan container port complex will elevate Shanghai to be a major container hub, not only for the YRD but for the world. The Pudong airport will also undergo expansion and modernization, with the addition of a new runway. Three bridges are under construction in the Hangzhou Bay area to shorten the travel time between cities in the region. A dedicated high-speed train will be built to connect Shanghai with Hangzhou, reducing the present time needed to merely hours. In all, development and infrastructure plans will consolidate Shanghai as the unrivalled centre of the region - the dragon head - with Zhejiang and Jiangsu supporting as two wings.

Many of the current and planned developments in the YRD, notably the Yangshan container port installations, Pudong airport expansion, expansion of Shanghai's financial role and services, appear to pose direct or indirect competition to Hong Kong. It is possible that the economy of YRD may overtake PRD in further development in quantity as well as quality such as the volumes of export and foreign investment, and R&D. This will undermine the economic vitality of PRD which is Hong Kong's direct hinterland. Hong Kong and PRD need to work closely to strengthen the overall competitiveness of
Greater PRD. The further growth of Shanghai international aviation centre and international shipping centre may challenge Hong Kong’s prime position in China and Asia although it may take quite a long time for Shanghai to develop a solid international financial centre.

However, Shanghai and Hong Kong serve, in reality, two separate regions. As a financial centre, Hong Kong still possesses a range of unique advantages that Shanghai will not be able to ever match in at least one or two decades, as experts in the field have maintained. The new and additional infrastructure facilities in the YRD region have been planned in anticipation of a growing market, domestically and internationally. This expansion will not be at the expense of Hong Kong because the two regions are sufficiently far apart. Moreover, given the recent trends of economic growth in China, the growing pie for the movement of goods, people and services is large enough to satisfy the two regions and their new capacities.

Finally, it bears reiteration that a strong Shanghai that is emerging is, in fact, good for Hong Kong. The two cities strong and special in their own ways have many opportunities for cooperation for their own good. Many Hong Kong firms and individuals are already investing in Shanghai, with the number of Hong Kongers working in Shanghai ever on the rise. This is something the Hong Kong SAR government needs to be on the lookout for. Shanghai and other hot spots in China have been aggressively recruiting talents to meet their needs. **Hong Kong must on its own develop a flexible and proactive talent recruiting policy**, so that in the long run Hong Kong provides the opportunity for people with the right skills, talent and experience to come and live here and turn it into a better place in which to live and work.

### 6.3 Guangdong

As a pace-setter for China’s economic reforms and modernization for over two decades, Guangdong enters the 11th FYP taking deliberately a breather and a hard look at
where and how the province should proceed. The choice of an economic growth policy at moderate pace and not for its own sake has vital implications. This is consistent with the national development plan of paying greater heed to the environment and conserving resources in the new Plan period.

As a result of a basic reorientation of growth and development, the relationship between Hong Kong and Guangdong, especially the PRD, has come into sharp focus. Hong Kong firms located mostly in the PRD, which traditionally have been at the lower end of the value chain with an emphasis on low-cost labour and land, are faced with the pressure to upgrade, and/or relocate if they are polluting or otherwise not meeting the standards of local authorities. The PRD model of development, touted for its natural complementarity between Hong Kong as the "front shop" and the delta as the "rear factory" is subject to serious scrutiny for its continued worth and relevance. The situation is obviously in flux, with many Hong Kong firms having to assess the situation and find a way out of the impasse.

However, as the PRD has developed to a stage in which its export accounts for about a third of the nation, its "world factory" status means that its reliance on the import of resources from abroad will increase. Guangzhou's heavy industrialization programme has a "go international" strategy to go with it. Consequently, there is an obvious scope for Hong Kong to complement these chosen development policies by highlighting its strengths in its logistics industry and supply chain management. Also, its "headquarters economy" can be further expanded. In the meantime, Guangzhou is being developed rapidly as a transportation centre within the province and beyond in the Pan-PRD region. Its growing international airport poses a major challenge to Hong Kong.

Shenzhen, a booming city that has grown across the border to Hong Kong, has grown to be a mega-city almost twice its size. It has plans to develop rapidly in high-tech industry, innovation, financial services, ports, airport and so on and has consistently come up high on lists of competitiveness among Chinese cities. Shenzhen aims to become a
world class city in its recent Shenzhen 2030 study emphasizing innovation and sustainable development. The expanding container port will challenge Hong Kong’s status as a major shipping centre.

However, Shenzhen’s emphasis on industrial upgrading towards high technology, high value added, economic efficiency, and resources and environmentally conserving are in line with Hong Kong’s recent policy emphasis on sustainable development. The scope of cooperation between Hong Kong and Shenzhen continues to grow and, as the gap between them narrows rapidly, the time to seek some tangible and important breakthroughs should be in the 11th FYP period. R&D, educational services and cultural industries are good candidates to begin serious exploration. Shenzhen has proposed to develop with Hong Kong jointly as one single city and to nurture Hong Kong-Shenzhen innovation area. Shenzhen is determined to take full advantage of Hong Kong to facilitate its ambitious development. **Hong Kong also needs to formulate long-term strategies to cooperate with Shenzhen, to respond to suggestions from Shenzhen for new boundary crossings and easier travel arrangement for Shenzhen residents, and more importantly to lead Hong Kong-Shenzhen cooperation actively rather than passively.**

6.4 Challenges facing Hong Kong: changing relations between Hong Kong and Guangdong

In the 11th FYP period, Guangdong and Hong Kong will have to reassess their well-honed symbiotic relationships developed since the early 1980s. The PRD has developed to be a "world factory" with many factories financed and managed by Hong Kong entrepreneurs. After almost three decades of cooperation, Hong Kong has recently found the PRD much changed. Recent difficulties have stemmed from the rising costs of labour, land and materials; ever stringent standards to maintain environmental control; and the provincial new economic orientation to develop heavy industries. At the same time, some cities in the delta have greatly increased their economic capability. They have the ability to bring their manufactured products to the international market. The famous model of "front
The background factors leading to Hong Kong's new challenges can be traced to a rapidly changing regional situation. Hong Kong is no longer China's only gateway to the world. In the PRD, many cities, notably Guangzhou and Shenzhen, have emerged as powerful entities able to set their own development agendas. One reason why Hong Kong has lagged behind is its inability to timely respond to development opportunities, with endless discussions and debates having dragged on. Second is the changed mindset of the Hong Kong people. Instead of the former "never say die" and flexible attitude, what has emerged is a self-centred state of mind that is not conducive to building harmonious relationships within the community or with our neighbouring cities.

With a rapidly changing situation of Hong Kong in relation to Guangdong and beyond, while its pre-eminent former status has faded, Hong Kong is still well placed to avoid being marginalized by positively seeking to develop new comparative strengths and to integrate itself with an ever larger part of China. The enduring strength of Hong Kong is its being a world city with extensive global networks and rich experience in global capitalism.

6.5 The marginalization of Hong Kong in a historical context

Hong Kong is simply one of several large economic centres in China. Inasmuch as China is the world’s most populous country with over 1.3 billion inhabitants and an economic power house with an annual GDP of US$ 2000 billion, maintaining an annual growth rate of over 8 percent with a huge market, it is beyond reason that it has only one window or one city to act as a bridge to the outside world, and only one financial centre.
Flowing from this logic, Hong Kong’s impact on economic development on the mainland is limited, certainly partial. **Hong Kong is no longer, and cannot possibly act as China’s only window to the world, nor is it the only conduit for the country to absorb foreign investment.** Hong Kong’s historical role as the sole window and bridge for the mainland could not continue forever. It can also be said that the emergence of cities on the mainland is a natural and healthy state of development. In fact, Hong Kong can derive substantial advantage and benefit through the rise of these cities and the continued expansion of the Chinese economy. **Even to think Hong Kong would suffer from the emergence of Chinese cities is plainly a frame of mind that can be described as self-centred, worrisome and pessimistic.**

Hong Kong cannot be overly reliant on special policies offered by the central government. After three phases of CEPA implementation, most fields that can be opened have been opened. Realistically, it is unlikely there will be further significant breakthroughs. Hong Kong must change its mindset in depending on the central government for favourable policies. **Furthering economic development through the central government is an approach not compatible with the tenets of the free economy and not conducive to nurturing good relations with provinces and cities.** What Hong Kong must do is to seize the present juncture of economy recovery to develop its pillar industries rather than waiting in vain. Hong Kong must maximize the best of the present institutional framework. It should be wary at any development that is linked to new policies from the central government. New policies are hard to come by because the central government has to balance conflicting interests from different quarters.

Hong Kong has a host of strengths in its “soft” environment, such as the rule of law, the free press, an efficient civil service, good law and order, and an open competitive environment – traits that are head and shoulders above cities on the mainland. It will be years before mainland cities can catch up with Hong Kong in these dimensions. In addition, in its penchant to meddle in every pot, the Chinese government intervenes in almost everything out of the need to balance interests. Consequently, forbidden territories
are delineated here and there, hindering the free flow of information, establishment of the free market and development of a fair and just legal system. This is to say, while mainland cities may outrun Hong Kong economically speaking, it is extremely difficult for them to catch up Hong Kong in terms of institutions. Thus, should Hong Kong be able to maintain the strengths of its institutions, hold on to the innate quality of its “soft” environment, and, above all, not be swayed by mainland enterprises for short-term gains to distort institutions, regulations and market rules, its strengths will prevail for a long time. In that case, it will be difficult for mainland cities to usurp the role and position of Hong Kong.

6.6 Recommendations to enhance Hong Kong’s competitiveness

(1) Establishing Hong Kong-Zhuhai(-Macau) free economic area

For many years, quite a few scholars have made various suggestions of establishing a Hong Kong-Shenzhen free trade area. Recently, Shenzhen government has proposed the idea of joint development of Shenzhen-Hong Kong as a twin city (one-city development) and establishing a Shenzhen-Hong Kong innovation area. The key to realizing one-city development is to ease the boundary crossing between Hong Kong and Shenzhen, including the possibility of free movement of Shenzhen residents to and from Hong Kong.

Forming Hong Kong-Shenzhen free trade (economic) area requires opening the first boundary between Hong Kong and Shenzhen but tightening up the control of the second boundary between Shenzhen special economic zone and the rest of mainland China. There is little possibility to do so now. First, Shenzhen has become a city with a population over 10 million. The free movement of population between Shenzhen and Hong Kong will bring tremendous pressure on Hong Kong. Second, developable land has been nearly used up in Shenzhen. Like Hong Kong, further development in Shenzhen is also constrained by land resources.
If we change our direction of thinking, considering the shrinking of distance between Hong Kong and Zhuhai after the construction of Hong Kong-Zhuhai-Macau bridge, we believe that there is a golden opportunity to establish Hong Kong-Zhuhai(-Macau) Free Economic Area. This can be a long-term option for the integration of Hong Kong and PRD. We use the term “free economic area” meaning that there will be very relaxed boundary control between Hong Kong and Zhuhai, possibly only random checks on goods import and export to maintain Hong Kong as an independent customs area. The term “free trade area” means tariff-free import and export, possibly still with full customs controls. The favourable conditions are as follows:

(a) Zhuhai has a land area of 1,600 sq km. There is huge potential for land development. In 2005, Zhuhai had a population of 1.42 million (including a temporary population of 0.52 million). GDP per capita was RMB45,258 (US$5,525). Free movement of population between Hong Kong and Zhuhai will not bring large pressure on Hong Kong.

(b) Establishing a free economic area, the flows of people and goods will increase tremendously. This will create a favourable condition for the construction of Hong Kong-Zhuhai-Macau bridge. The bridge needs to consider including a railway section. The railway will link Zhuhai and Hong Kong international airports so that two airports will operate jointly to achieve the highest synergy. Depending on the design of railway, travel time between the two airports will be in the range of 30-60 minutes. This strategy is also crucial to enhance Hong Kong as a major international aviation hub as the current Hong Kong international airport has limited room for further expansion.

(c) Establishing the free economic area will provide ample land for the development of high-tech industry, higher education, trade and commerce, luxury and low-cost housing. It will expand the direct hinterland of Hong Kong dramatically, overcoming the land bottleneck for further development in
Hong Kong. Hong Kong-Zhuhai-Macau free economic area may become a comprehensive economic system with all sorts of economic sectors. Currently, Hong Kong’s economy heavily depends on the financial service sector. Many low-educated people face much difficulty in securing employment and housing. The development of manufacturing in the free economic area will create many jobs. Other than Zhuhai, Jiangmen and Zhongshan outside the free economic area also have much land for the transfer and development of Hong Kong’s manufacturers.

(d) The development of R&D, higher education, manufacturing and housing will enhance development potential, improve housing environment and reduce business cost in Hong Kong. The competitiveness of Hong Kong will be enhanced on all fronts.

(e) The manufacturing development in and out of free economic area will expand the scale of import and export. This will create further opportunity to develop container transport in Hong Kong or Zhuhai, further enhancing the international shipping centre of Hong Kong.

The preliminary arrangement of the free economic area is as follows:

(a) Zhuhai city will be upgraded to become a special administrative region. There will be relaxed boundary control between Zhuhai and Hong Kong. Zhuhai and the rest of mainland will establish a boundary with regular boundary checks on the flows of people, goods and vehicles. If Macau also joins the free economic area, no boundary checking is necessary for Hong Kong-Zhuhai-Macau bridge. The bridge will be free from boundary check.

(b) Hong Kong and Zhuhai (may be plus Macau) will form an administrative authority with real administrative power. It will be responsible for the planning and management of land resources, urban planning and infrastructure in the free economic area.

(c) The free economic area can consider introducing the legal and institutional systems of Hong Kong. Hong Kong residents living in Zhuhai will receive the same
government services and welfare as in Hong Kong. This will completely solve the concerns of many Hong Kong residents who may work and live outside Hong Kong. The existing Zhuhai residents will have the right to stay in Zhuhai and they also enjoy the same entitlements as the Hong Kong residents there. They can also come to Hong Kong freely. Whether these Zhuhai residents should have the right to live in Hong Kong should be decided by the administrative authority of the free economic zone.

(d) The existing resources and assets of Zhuhai city will be protected by law. Hong Kong side may acquire land development rights through the market to provide land for development including public facilities.

(e) Zhuhai municipal government will cooperate with Hong Kong SAR government on all fronts. Its administrative system will converge on that of Hong Kong.

As Zhuhai has a small population and a modest economy, the possibility of establishing Hong Kong-Zhuhai(-Macau) free economic area is much greater than that of Hong Kong-Shenzhen free trade area. **Hong Kong’s westward development will provide ample space for Hong Kong’s airport, seaport, high-tech industry, trade and commerce and various kinds of housing. It will also consolidate and enhance Hong Kong’s status as international aviation hub, international shipping centre, international economic centre and international financial centre. It will also avoid direct competition with Shenzhen by achieving development in alternative areas. It will also create sufficient traffic flow for the construction of Hong Kong-Zhuhai-Macau bridge.** If this vision is realized, there will be three large metropolitan areas in Greater Pearl River Delta growing side by side: Guangzhou city, Shenzhen city and Hong Kong-Zhuhai(-Macau) free economic area. The Greater Pearl River Delta will enter a new stage of development. It will also create a favourable condition for Hong Kong to play an effective role in the Pan-Pearl River delta.

(2) Enhancing internationalization through institutional strengths - The notion of Hong Kong being marginalized stems from the fact that economic development on the
mainland is more rapid than that in Hong Kong. In the PRD region, economic
development and structural upgrading are also ahead of similar changes in Hong Kong.
However, Hong Kong government and enterprises lag in their capability in
technological innovation and in their desire for long-term investment. It is, therefore,
not possible to anticipate immediate change from the status quo.

Hong Kong ought to seriously ponder over not just how to integrate with the
mainland economy. Instead, Hong Kong should go another step further to rethink how
it can capitalize on its institutions to serve economic development on the mainland.

The biggest difference between Hong Kong and China is the “one country, two
systems” creation, and its constituent internationalization element. The utility of
Hong Kong to Mainland China, as distinct from other mainland cities and
regions, is this unique quality of internationalization – it is one trait which is
beyond reach of other cities in China.

To enhance internationalization, Hong Kong should seek to implement free trade
agreements with other WTO members. Based on its free port status and bilateral free
trade agreements, Hong Kong can promote its service industry, elevate and accelerate
its internationalization. At the same time, Hong Kong’s service-related and
knowledge-based manufacturing industries can be better served and promoted. Indeed,
CEPA has provided more opportunities for Hong Kong’s manufacturing industries
than its service industry.

With a view to strengthening internationalization, Hong Kong should go one step
ahead of China, by entering into more and broadly-based free trade agreements with
other countries. Ahead of other cities in China, Hong Kong can go far in
internationalization and, in so doing, distinguish itself as being special and strong in
the country. Singapore had entered free trade agreements with Japan, USA and other
countries; Japan and South Korea have entered similar pacts with countries near and
far. Faced with such rapid development and change, Hong Kong will likely be marginalized in the world market if it does not catch up. With support from the central government, Hong Kong can quickly catch up, taking Singapore as an example of succeeding in establishing worldwide networks. Through forming such partnerships, Hong Kong can possess the largest networks in the world and can better serve China. Should this scenario come to pass, Hong Kong will also surpass many countries and regions, such as Singapore, and consolidate its position as an international financial centre, a trading centre and a transport centre, apart from its role as a global city in Asia.

The road map of realizing Hong Kong’s widening regional position and increasing internationalization role is as follows: through Hong Kong-Shenzhen integration, Hong Kong will lead the PRD region; through leading the PRD region, Hong Kong will extend its influence to the whole South China; through becoming the dragon head of South China, Hong Kong will develop as part of one of three major economic centres in China; and through becoming one of three economic centres in China, Hong Kong will serve as the confluence place between China and ASEAN and further consolidate its status as a global city in Asia.

(3) Developing Hong Kong and Shenzhen as twin cities - Discussions about closer cooperation between Hong Kong and Shenzhen have been in progress for more than a decade. However, this dialogue has become more intense in the last year or two, even in official circles, to the extent that the concept of Hong Kong and Shenzhen as twin cities has even been mooted. The following recommendations are intended to further Hong Kong-Shenzhen integration:

(a) Facilitating boundary crossing – As a matter of urgency, Shenzhen must strive to eliminate traffic bottlenecks in the only land link between Hong Kong and the mainland via Shenzhen. Efficient and unhindered through traffic for people and goods between Hong Kong and the PRD depends critically on the
Shenzhen boundary crossings. For Hong Kong as a central city to play its destined role vis-à-vis the mainland, ensuring the smooth and efficient through traffic is an object of the highest priority and importance. Shenzhen should on its part strive to eliminate through traffic bottlenecks. To date, the Lo Wu check point has been upgraded, the underground express transit at Lo Wu and Huangguang have been put in place, and the Western Corridor will be opened in early 2007. In addition, the need to improve the passage of container traffic at Huanggang and Sha Tau Kok (Shatoujiao) is urgent, with an additional crossing at Liantang near Sha Tau Kok in the east under serious consideration. The boundary crossings between Hong Kong and Shenzhen have been much improved, but they are still in need of comprehensive improvement.

(b) Jointly developing the border area - The border area, especially the river loop area, and perhaps to a lesser degree, even Sheung Shui, Fanling, Sha Tau Kok, and Yuen Long, poses the question of joint development. **The border area development is an important step to developing Hong Kong and Shenzhen as twin cities. This is an important aspect for the twinning of the two cities, with the utilization of the river loop area as a symbol of Hong Kong-Shenzhen integration.** In fact, the river loop area is rather small, and whatever that goes on it is not so important. However, it is crucial for both sides to jointly work on some projects to showcase to the world that the two governments share a genuine desire to cooperate as a first step of Hong Kong-Shenzhen integration.

(c) There are still many domains that are ripe for cooperation. Nevertheless, **the crux of integration lies in how firm is the desire of the two cities to integrate. It is only through a strong desire for integration will Hong Kong’s role and influence be further enhanced in the PRD region through Shenzhen.** The outcome is the consolidation of the leading position of both Hong Kong and Shenzhen as twin cities in the PRD and South China.
(4) Infrastructure projects

Shenzhen port – The meteoric rise of Shenzhen port should be looked at rationally. Its rapid growth just mirrored the rapid growth in trade within the PRD. Imagine if Hong Kong had to take even half of Shenzhen container traffic during the past decade, the negative impact on urban traffic, storage and other aspects on the city would have been unbearable. As the Hong Kong and Shenzhen ports share the same interest with even the same operators, we recommend the two governments and the relevant operators consider the proposition of moving towards a master planning approach of port operation for the two cities. Consolidation of port functions and a uniform management structure are subjects worthy of consideration and research.

Airports – Within a diameter of 140 km in the PRD, there are five large airports. Air traffic within the delta continues to soar in both passengers and cargoes as income levels have risen rapidly. Bigger planes have come into use and so have airport facilities expanded, but the air space has become increasingly crowded. The crowding of air space has adversely affected route choices and air space management shown no improvement. All airports in the delta have been experiencing a deteriorating situation. We recommend the Hong Kong Airport Authority to approach and actively liaise with the national civil authority and concerned bodies to begin a discussion of how to improve and rationalize on the air space of the three cities of Hong Kong, Zhuhai and Guangzhou. A possible way to smother air space management is to combine the three into one. Previously, Hong Kong air space belonged to the British colony. Ten years after the handover, it is time to rectify a legacy that has hindered air space operation.

Hong Kong-Zhuhai-Macau bridge – Although the official announcement of the construction of this bridge is still being eagerly awaited, it is still not too late to consider the design and traffic pattern of approach roads for long-term needs. As a previous study by the authors has advocated the dual use of the bridge for road and rail,
plans known to the public so far appear to have ruled out the rail option. Including the rail option will increase cost but, given the railway network being developed on the western part of the PRD, it is worthwhile to take a second look. Also, the planning of the approach roads in the single Y design is to link Hong Kong with western PRD. If traffic from the eastern part of Shenzhen going as far as eastern Guangdong is to be catered for, some ancillary road network between Lantau Island and Shenzhen east needs to be contemplated.

Guang-Shen-Gang (Hong Kong) high-speed railroad – While construction of this railroad, which means so much for regional integration and bringing Hong Kong together with the delta, is going full steam ahead in Guangdong, Hong Kong government does not show the same degree of seriousness or urgency. As plans now stand, the Guangdong section of the railroad will be completed and ready for use by 2010, but the Hong Kong section will be completed only in 2013 at the soonest. There is also a huge difference in the quality of construction. The Guangdong section will use dedicated tracks, whereas the Hong Kong section will rely on shared tracks. This is a sorry case of how badly Hong Kong has fallen short. We recommend the government to seriously revisit the issues of timetable and choice of tracks. Dedicated tracks are expensive but, in the long run, it is what is required for a state-of-the-art operation. Hong Kong must quickly switch to a “dedicated tracks” solution, or run the risk of being marginalized by choice.

(5) Other domains:

“Rear factory” in crisis – the well-known model, "front shop, rear factory," capturing the relationship between Hong Kong and the PRD is in flux. Many Hong Kong firms are faced with the pressure of immediate closure or relocation, as they failed to meet environmental standards in their operation. Six “Structural Industrial Transfer Parks” have been established and Hong Kong factories have been encouraged to relocate. This is one approach in relocation to a nearby site within the delta. The other alternative is to move towards eastern and northern Guangdong, or even further in the Pan-PRD area.
Whatever decision that is taken to struggle for survival, it is vitally important for Hong Kong entrepreneurs to realize that the phase of labour-intensive, low value-added type of industrialization is probably over. **It is time to upgrade their industry and to factor in their operation funds for technological enhancement and pollution control.** Hong Kong government, together with the commerce chambers, is in a position to assist.

Full integration – Hong Kong has entered, since 2003, a phase of all-round integration with the mainland, facilitated by favourable policies such as CEPA, the individual travel scheme and others. The Pan-PRD framework is another opportunity for Hong Kong to extend its sphere of cooperation and activity. With Shenzhen, many ideas have been proposed for closer cooperation. These include pushing back the present boundary to the second boundary, with likely a very rapid outcome that Hong Kong is probably not ready to confront. Education cooperation has been afoot, with the participation of several universities in Hong Kong. Serious discussion of the “twin city (or one-city development)” concept has been proposed by Shenzhen, after the adoption in 2006 of the “Shenzhen 2030” plan. All these are serious propositions to advance cooperation between the two cities. The reception of these ideas has been distinctly warmer than before in Hong Kong in concerned quarters. We recommend more can be undertaken, with some initiatives taken by the government. **There is still a general lack of understanding of the issues at stake by the general public in Hong Kong. Public education and consultation of the different options and their consequences and implications for Hong Kong should be debated and aired.**

Political drag on decision making – This study has shown clearly that large-scale public works and cross-border infrastructure projects have been in the habit of dragging on because they have to gain popular legitimacy. There is a price to be paid for the democratic process but there is a risk of going overboard. This study has furnished examples of how the government has failed badly in delivering the goods, either in developing the West Kowloon cultural district or redeveloping the former Kai Tak site.
within Hong Kong, or in the protracted delay in coming to a decision to build the Hong Kong-Zhuhai-Macau bridge and the Guang-Shen-Gang (Hong Kong) high-speed railroad. We recommend that we must somehow find a way out of the consultation malaise, or we shall be losing fast to our competitors. The cost in marginalization is real.

New-found strengths – In the face of a rapidly changing regional situation in which Hong Kong has lost some of its former unique advantages, Hong Kong must find ways to rediscover itself by developing new economic strengths to meet new needs. We have outlined how Hong Kong can further develop and excel in the headquarters economy, cultural innovation industry, advanced logistics, education and medical industries. We sometimes take these functions and services for granted, but by taking them down the industry route, Hong Kong can provide a new angle for their growth and development, thereby generating more jobs and income for this community. The government and people have to be alert to new opportunities in these sectors and provide a road map.

Opportunities in Shanghai and Tianjin – Within the 11th FYP period, Shanghai and Tianjin, as dragon heads in their respective regions, will continue to forge ahead in growth and transformation. Hong Kong investors should be on the outlook for opportunities to partake of the new policy, energy and visions that will guide their growth. These destinations should be compared with other alternatives in the expansive Pan-PRD region. Hong Kong government can provide up-to-date information on changes and opportunities. The regional representative offices, along with those of the TDC, should shoulder a larger portfolio. In this way, Hong Kong investors and other individuals will be in a better position to take prudent decisions.

For the first time, Hong Kong is included in the 11th FYP, a fact signalling a new beginning in the Hong Kong-mainland cooperation and Hong Kong's integration with the nation. Cooperation between mainland governments and Hong Kong SAR government is
still a challenge, because there are institutional, psychological and systemic hurdles to overcome rooted in history, inertia and past experience. There has been recent progress, notably since 2004 with the implementation of CEPA, but it is a challenge to human ingenuity to find feasibly ways forward under the “one country, two systems” formula.