Lecture 3
The mainland-Hong Kong Link

Role of Hong Kong in China’s Economic Development

- Early contribution to mainland’s development
- Advantage of Internationalization
- Recent difficulties
- Further collaboration
Economic Development of Hong Kong

- Rapid economic development since the 60s
- Capital and industrialists from Shanghai
- Role of entre-port trade
- Rising consumer wealth - hardworking
- Low cost OEM manufacturing
- Small domestic market and outward-oriented economy
Economic Miracle of Hong Kong

- Subject to global market factors and cycles
  - Rising cost, financial crisis, trade regulations
- Key industries: toy, watch, financial services, logistics, real estate
- The biggest FDI investor in China – mostly export-oriented resource seekers
- One of the most competitive economies in the world
- From industrialization to positive non-interventionism

Hong Kong:

- Colonial government – laissez-faire policy, positive non-intervention and the “freest economy”
- Little investment in education, S&T, or R&D
- Economic development led by SMEs, trade, real estate, and financial services
- Realization of the problem in 80s:
  - Universities, R&D projects
  - Cyberport, S&T Park, HKPC, Biotech, Medicine
  - R&D spending by firms and government remain low – less than 1%
  - Consultation paper: Innovation and Technology Bureau, 13 industries, funds, patents, R&D centers
- Lag behind other tigers/dragons: Taiwan, Singapore, and Korea (to top Japan in electronics in 2015)
- Competition from Macao, Shanghai, Shenzhen and Guangzhou
Hong Kong’s Future

- Hollowing out of HK
  - 1997 and 2008 Asian financial crisis --unemployment rising
  - About 80% of service now
  - Reliance on real estate, financial services and mainland

- Common problem:
  - sustainable growth and competitiveness
  - lack of policy and initiatives on innovation and technology

What to do – Hong Kong

- Two divergent views:
  - Focus on manufacturing technologies despite the hollowing
    - Optimistic, coops, govt support, never to late
  - Leave R&D to others (India and Taiwan) but focus on the Service innovations
    - Already too late, don’t have the prerequisites
    - Focus on the mainland market
    - Gov’t led R&D not the model
  - If alliances in R&D, how to coop?
  - How to coop with mainland enterprises and R&D abilities? Importing talent?
  - How to cope with the rapid rise of mainland economy?
  - Positive Interventionism?
Weakness

- Declining roles as a "window" or a "front office" for Mainland
- High cost of doing business
- Traditionally reliant on others for technologies
- International competitions as a capital source as well as a service provider
- Competition as regional headquarters from other cities such as Singapore and Shanghai
- Aging population, lack of investment in human capital
- Closures of factories during financial tsunami, rising cost of doing business in Guangzhou, labor shortage

Hong Kong’s Economy – Strong Growth Tied to China

- Solid, broad-based upturn in Hong Kong economy
  - Real GDP rose by 6.5% in 1H 2005
  - Consumer prices posted a gain of 0.8% (Aug 2005)
  - Unemployment rate stood at 5.7% in the three months ended Aug 2005, down from 6.8% in 2004
  - Total exports and imports of goods grew by 11% and 8.7% (Aug 2005)
  - Tourist arrivals increased by 40.4% to 21.8 million in 2004 and another 9.6% in 1H 2005
- Continuous growth due to China-driven initiatives
  - CEPA I & II
  - CEPA III (early 2006) to CEPA X (2013)
  - Individual Travel Scheme (expanded to major cities, perhaps non-local residents, boost of parallel imports)
  - Pan Pearl River Delta co-operation
  - RMB currency reform in China
New Opportunities

• China – Hong Kong Closer Economic Partnership Arrangement (CEPA)
• Pan-Pearl River Delta (PRD) Regional Cooperation and Development Forum
• Major infrastructure projects linking Hong Kong and PRD
• More HK companies entering China
• Promoting HK brands in mainland
• Leveraging HK’s advantages: services, design, educational hub, RMB offshore center

Hong Kong Brands

• Low cost OEM manufacturing and sourcing
• Neglected brand building at the Early Stage
• Early entry: Apple, Goldlion, Crocodile
• Newcomers: Giordano, HSBC, HW
• OEM – ODM – OBM
• Opportunities of CEPA and globalization
• Mainland economy switching from FDI, export and government investment to consumption driven: testing grounds for Hong Kong brands
Hong Kong brands

- Peninsula Hotel, Cathay Pacific Airways, Tai Koo Shing, HSBC, Hong Kong Airport, IFC, Shangri-La, Mandarin Oriental, SCMP.
- Late entrants: Chow Tai Foo, Chuan Pei Pe Pa Go, McDull, watches and jewelry, etc..
- According one survey, SaSa is a popular HK brand among mainland visitors.
- Others include Watsons’ CTS, Ocean Park, Broadway, Chow Tai Foo, 卓悦纤体、优之良品、Giordano, Wing On, Wellcome, etc..

New Opportunities

- China – Hong Kong Closer Economic Partnership Arrangement (CEPA)
- Pan-Pearl River Delta (PRD) Regional Cooperation and Development Forum
- Greater Bay Area development Plan
- Promoting HK brands in mainland
- Leveraging HK’s advantages: services, design, educational hub, RMB offshore center
CEPA

- Essentially a bilateral Free Trade Agreement between China and Hong Kong
- Phase I – effective 1 January 2004
- Phase II – effective 1 January 2005
- Phase III – effective 1 January 2006
  - CPEA 10 (2013), unlicensed branches of foreign banks
- A building-block approach which contains a mechanism for further liberalization measures and prescribes a method for consultation with business community

How to Benefit from CEPA?

- Partnering with, investing in or buying a CEPA-qualified firm in Hong Kong to gain full benefits from CEPA
- Enjoying zero tariffs by manufacturing brand name products, or locating manufacturing processes with high valued-added content or substantial intellectual property input in Hong Kong
Who can benefit from CEPA?

- High savings in tariffs
- Depending on imported raw materials or intermediate goods from overseas rather than sourcing from the mainland
- Production for which Hong Kong commands a good image or reputation, hence able to charge a higher price for the "Made in Hong Kong" label
- High-price products with value-added in terms of brand, design, quality, technology, etc. rather than the labour input
- Predominant share of IP input in the overall cost structure, hence requiring strong IP protection
- Limited quantity rather than mass production
- Availability of sufficient skilled workers in Hong Kong, or more realistically, ability to adopt advanced technology in production

New directions

- 2009 CE Policy Address
- Four pillar industries: Finance, tourism, trade/logistics, professional services
- Six industries for development: testing and certification, medical services, innovation and technology, culture and creative industries, environmental industry and education services.
The Greater PRD

- Definition
  - Hong Kong
  - Macao
  - PRD Economic Zone

- Combines
  - Manufacturing powerhouse in Guangdong
  - Financial, service excellence in Hong Kong
  - Tourism development in Macao

Infrastructure Projects for Better Connectivity with Mainland China

- Shenzhen Western Corridor
- Guangdong-Shenzhen-Hong Kong Express Rail Link
- HK-Zhuhai-Macao Bridge
Greater Bay Area

- Hong Kong can help the Greater Bay Area become a landmark in China’s reform process
- Hong Kong-Zhuhai-Macau bridge to enhance Guangdong connections
- Can Greater Bay Area rival San Francisco and Tokyo?

One Belt One Road and Hong Kong
Role of Hong Kong in New Blueprint

• Hong Kong provides
  – Capital
  – Management
  – Professional services
  – World-class infrastructure
  – Access to and knowledge of international markets
  – Transport and communications
  – Connections to the international business community
  – Technology
  – A base for foreign firms to access the Greater PRD and China

An Update on the HK-mainland Relation

• Strengths of HK: creativity, many young talented designers!
• Rule of law, relatively speaking!
• Product safety + service quality
• Slower growth, diminishing demographic dividends (人口红利) on the mainland
• Co-opetition with the mainland and challenges:
  – Free travel, immigration school children