

A Ride on the China Economic Express

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Hong Kong's specific inclusion in the National Eleventh Five-Year Programme is generally well received here in the SAR. There is a common consensus that since Hong Kong is now part of China, which is the growth engine for the region, if not for the global economy, we should reserve a good seat in the China Economic Express. Rafael Hui Si-yan, Chief Secretary for Administration of the Hong Kong Special Administrative Region recently articulated his concern that Hong Kong might risk being "marginalized". This sparked a heated debate in Hong Kong, which served to consolidate the determination that Hong Kong must shape up to face the challenge of integration into the national economy.

Subjective determination apart, a meaningful economic integration entails quite a few problems both on the part of every level of government in the mainland as well as that of Hong Kong. The crux of the matter is that the mainland is a quasi-market economy, which the government still plays a major role, whereas Hong Kong is on the other extreme. It is commonly recognized as the world's freest economy in which the government deliberately refrains itself from meddling with the market. It does not even possess the usual macro-management tools common to other market economies, such as fiscal policy, monetary policy, industrial policy, and exchange rate policy.

For several decades, Hong Kong thrives like a single cell amoeba, freely moving around, exchanging resource with the environment. Now it has to adapt itself as part of composite life form, such as an arm to the whole body, serving certain specific functions, synchronizing with the whole entity. In economic terms, Hong Kong now has to position itself in the national economy, working out an elaborate scheme of division of labour and cooperation with various level of government in the mainland. This is heresy to the long-held positive non-interventionist dogma, which to most decision makers in Hong Kong, though they can somehow appreciate the necessity, they just do not know how to proceed from here. To some die-hards, this may amount to losing a large degree of economic integrity and even economic autonomy.

In line with "one country, two systems", the Central Government cannot force Hong Kong to change its attitude and follow a certain direction. In a recent seminar to Hong Kong civil servants, National Development & Reform Commission Department of Development Planning Deputy Director General Xu Lin stressed that under the Basic Law and the "one country, two systems" principle, the planning and arrangement of

socio-economic development in Hong Kong should be formulated by the Hong Kong SAR Government. It may take a while for the Hong Kong Government to gradually work out the strategy and sell it to its citizens. In a pluralistic society with elected legislature, this is not a very easy task. Even today, many people still insist that Hong Kong should strive to revive a strong industrial base to preserve its economic integrity, not to mention giving up a long-held economic dogma.

Without directly confronting and assailing the positive non-interventionist dogma, the Hong Kong Government can still be more proactive within its existing parameters. Breaking down barriers to trade, investment and information exchange, for instance, is completely in line with free trade principles, and there are a lot of things to be done in these areas. Just to cite a few concrete examples, we may question whether Hong Kong should cling to its communication system with very expensive roaming charges in telephone conversations during our frequent traveling in the mainland. Recently, there is also a debate whether Hong Kong's power supply should be open to the South China Grid. Previously, low priority has been given to linking to the regional express in Shenzhen to Guangzhou, and then to the whole country. Realizing the significance of integration, the priority can be raised to build a dedicated high-speed railway for that purpose.

Attracting external investment has long been accepted as one of the basic roles of the Hong Kong Government. The Hong Kong Trade Development, a government funded body with its extensive network of overseas offices, has been accorded with such a function as early as 1968 when it was first set up. On top of that, the Hong Kong Government has its separate network of economic and trade offices and an Invest Hong Kong Department. Throughout these years, Hong Kong always adopts a take-it-or-leave-it attitude, confident that its superior investment climate and advanced infrastructure would be sufficient to attract overseas investors. All it has to do is to provide information and facilitate the investment process.

Despite this passive official attitude, Hong Kong is today unquestionably the number one centre for multinational corporation regional headquarters in the Asia-Pacific Region, and is by far the number one choice in China, with Shanghai as number two at quite a distance behind. It is estimated that there are about 7,000 multinational regional headquarters, regional offices and local offices in the SAR. As an indication of its degree of globalization, Hong Kong hosts 107 consulates and consulates-general offices, more than any other city in the world; more than even New York, with only 93 consulates. Hong Kong is the world's eleventh largest banking centre. Our service

sector constitutes a remarkable 88 % of the GDP, with a highly sophisticated banking sector and good communication links, making Hong Kong the best location for regional and national headquarters anywhere in the world.

With more aggressive effort to promote Hong Kong as the most convenient gateway to China, we can attract many more overseas companies to set up their regional operations here, enhancing Hong Kong's position as financial center, logistic centre, commercial service centre, along the direction as envisaged in the National Eleventh Five-Year Programme, revitalizing the economy, and creating more high value-added jobs. On top of that, commercial tourism, also high value-added compared with run-of-the-mill type, will get a big boost.

Also in the National Eleventh Five-Year Programme, mainland enterprises are encouraged to invest and diversify its operation overseas. What other cities can surpass Hong Kong as a springboard and an international operation centre? Many mainland enterprises urgently want to get listed here, and use Hong Kong's superb trade and commercial service infrastructure to house their headquarters for central management, finance and R&D, and to leapfrog to overseas markets. A convergence of major mainland enterprises and multinationals in Hong Kong will catalyze plenty of business opportunities both for Hong Kong and for the whole country.

In the mainland, this model is commonly called "headquarters economy". Developing Hong Kong along this line does not require any unnecessary government intervention, as all the elements are already there, but it is definitely supportive of the National Eleventh Five-Year Programme in the most unique Hong Kong way, and will create a win-win situation for all parties concerned.

4/4/2006