

ENTREPÔT NO MORE?

WHY CHINA'S WTO ENTRY IS NOT A ZERO SUM GAME FOR HONG KONG

BY ANTONY LEUNG



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On December 11th 2001, the face of world trade changed forever. China's entry into the World Trade Organization will have enormous ramifications for global trade and investment, but it will particularly be so for Hong Kong, which has acted as the world's window into China for the past two decades.

Will China's entry into the WTO diminish Hong Kong's importance as the location of choice for international business in Asia? The answer must be "no." Our experience over the past twenty years has shown that the more China opens up, the more prosperous Hong Kong becomes. And there are good reasons to believe this will continue to be the case.

For the sake of argument, let us look at a few figures that paint a picture of China's market potential over the next twenty years.



A metropolis on a trade route.

China is now the world's sixth largest economy (the fifth largest if you take the European Union as a whole) and also the seventh largest trading entity. The World Bank estimates that within the next two decades years, China could become the world's second-largest trading entity, ahead of Germany and Japan, and that its consumers would have a purchasing power larger than all of Europe.

The "World Economic Outlook" database shows the United States as the world's largest economy with a GDP of US\$9,873 billion. Japan is next with a GDP of US\$4,753 billion. The UK and Germany—third and fourth, respectively—have a combined GDP of more than US\$3,280 billion.

At present, China has a GDP of about US\$1,080 billion. If China's economy can maintain growth of 6.5% per annum for the next two decades—a possible scenario, according to the World Bank—what does that mean for its market potential? It means that within the next twenty years, China's economy will be more than three times larger, and about \$500 billion bigger than the German and UK economies combined today. Obviously, this will bring about a significant lifting of living standards. Chinese consumers will have more money to spend and more money to save.

Let us make another comparison. The US has a population of about 280 million. It has five major trade and financial centers in New York, Chicago, Los Angeles, Miami, and Houston. The UK, Germany, and France have a combined population of just over 200 million. Major service cities include London, Birmingham, and Edinburgh; Berlin, Frankfurt, Hamburg, Munich, and Cologne; and Paris. Nine major cities service those three key European economies.

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China has about 1.27 billion people. In Guangdong and its adjoining provinces alone, there are more than 270 million people. Where do they look to for services? The answer must be Hong Kong as well as our neighboring cities of Guangzhou and Shenzhen. On the eastern seaboard, there are now some 230 million people in the provinces around Shanghai. A bit further north Tianjin is well-positioned in a market now of over 160 million people. Looking west, Chengdu and Chongqing have the potential to service another 250 million people, of which almost 85 million alone live in Sichuan province. So,

China's WTO accession will not be a zero-sum game for Hong Kong. It can't be—China's market is already too big for just one or two major cities to take the lion's share of the trade and investment pie. And remember that the pie will get bigger, and get bigger quickly.

Some analysts may argue that Taiwan's entry into the WTO, if followed by the resumption of direct cross-strait links, will affect Hong Kong's intermediary role as a conduit for trade, investments, and communications between Taiwan and Mainland China. At present, Mainland-Taiwan trade accounts for about 5.3% of Hong Kong's total merchandise trade. Some—not all—of that trade will be lost if direct shipping and airline links are established. But look at the flip side of the coin—at present, indirect trade between Mainland China and Taiwan accounts for only 6.4% of China's total trade and only 10.6% of Taiwan's total trade. So there will be considerable scope for increased trade ties between the two economies, with some of them concentrating in the Pearl River Delta where Taiwanese businesses already have a strong presence.

Given Hong Kong's prime location, our strength in finance, communications, business and commerce and, mostly impor-

tantly, our freely convertible currency, an expansion of cross-straits trade in the long run will most likely benefit rather than hurt Hong Kong. The biggest challenge for Hong Kong will be to adjust itself to the new environment and to provide relevant value-added support services to capitalize on emerging business opportunities.

Most opening up of the Mainland market will take place within five years of the accession to WTO. So those with the first mover advantage obviously stand to benefit most. Businesses in Hong Kong and from overseas already have a good idea of where their best opportunities lie in China. For the past twenty years, Hong Kong's entrepreneurs and businesses, as well as international companies based in the city, have been waiting for China's entry into the WTO. They have been quietly paving the way for the opportunities that will come from a more open and rule-based market in China.

In Hong Kong, our Trade Development Council estimates there are about one hundred thousand companies manufacturing products in Mainland China, with most of them for overseas buyers. In Guangdong, there are more than thirty-six thousand Hong Kong-linked companies employing some five million people—the equivalent of one and a half times the Hong Kong workforce, or twenty-one times Hong Kong's manufacturing workforce. Areas of investments range from electronic goods to

toys and plastic products, from IT equipment manufacturing to catering, and from infrastructure development and professional services. Hong Kong remains the largest source of external investment in Mainland China, with cumulative investments of US\$181 billion, or about half, of all external investment in the Mainland. There are about one hundred eighty thousand Hong Kong firms that have joint ventures in China. Hong Kong entrepreneurs are the biggest external investors in every Chinese province, autonomous region, and municipality. Where

ever you go in China to do business, there will always be someone from Hong Kong.

In Mainland China, a more liberal trading regime will spur greater numbers of small and medium-sized enterprises (SMEs) to engage in foreign trade. These



Wide Berth: Hong Kong is a natural port city.

SMEs, with little or no international experience, will look to Hong Kong for intermediary services in much the same way that international companies seeking a foothold in China come to Hong Kong for the same type of services. Hong Kong companies will be able to capitalize on well-established business networks in

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Mainland China not only to help facilitate foreign direct investment into the Mainland, but also to help take Mainland products and companies onto the world stage.

The opening up of the Mainland's service sectors in areas such as trading and logistics, distribution and retail, telecommunications, finance, professional services, and travel and tourism will also provide ample business opportunities for Hong Kong. At present, many of these areas are underdeveloped in Mainland China, while Hong Kong has a well-educated workforce extremely familiar with the international standards of service and performance that will be required in the

post-WTO environment.

While businesses will always take the lead in developing markets, there is also an important role for governments to play: to provide an enabling environment for business to flourish.

Hong Kong has its natural advantages: a prime location at the mouth of the Pearl River Delta and a fine deep-water port. Both have helped Hong Kong develop into the world's tenth largest trading economy, channeling goods and services from all over the world into China and distributing Mainland-made products to all corners of the globe. This role will not change following China's entry into the WTO. If anything, Hong Kong's role in post-WTO times will be enhanced, as greater economic synergies will be created within the Pearl River Delta, our economic hinterland with a population of over forty million and the most affluent area in Mainland China.

Hong Kong has distinct advantages that no other city in Asia can match. These are not only long-standing policies and philosophies. Since the 1997 Handover, the One Country, Two Systems regime enshrined in the Basic Law has allowed Hong Kong to play a unique and special role in the ongoing development and progress of our country, while at the same time preserving our own way of life—our social and economic systems. It gives

us full freedom to develop our niche role as Asia's world city, servicing a growing Mainland economy, channeling investment and expertise from all over the world into China, and providing a familiar outlet for Mainland enterprises seeking global exposure.

To better position Hong Kong to capture the post-WTO accession opportunities in China, the Hong Kong SAR Government has focused on enhancing links with Mainland China at the official level and also at a practical level, especially within the neighboring Pearl River Delta. In addition, we have targeted five key areas in which Hong Kong has advantages in adding value: financial services, logistics, business services, design, and tourism. Significant resources are also being devoted to upgrade the quality of Hong Kong's most important asset—our people. Spending on education has increased forty-six percent in the past four years and will continue to rise in the years ahead, despite prevailing economic conditions. It is crucial for Hong Kong to ensure that our citizens are equipped with the skills and knowledge that will enable them to excel in the knowledge-based economy and move further up the value-added chain of service provision.

In the long term, Hong Kong's economic position as the region's premier financial, business, and logistics hub can only be strengthened if we interact seamlessly with our hinterland. The Hong Kong SAR Government is working very closely with Mainland Chinese authorities to facilitate the flows of people, cargo, capital, information, and services between Hong Kong and the rest of China.

But Hong Kong will not be a hub for China alone. We are positioning ourselves as the hub for the region and as a leading cosmopolitan city of the world. Businesses from around the globe are familiar with our unique strengths—the rule of law, our independent legal system, a level playing field for business, the free flow of information, and a clean, efficient administration. But these pillars of our success are a range of other advantages: the free flow of goods and capital, a freely convertible and stable currency, low taxes and a simple tax system, world-

class telecommunications and transport infrastructure, and a law-abiding community.

These qualities are attracting international companies to establish their base in Hong Kong. Latest figures show that more than 3,230 have established regional headquarters or offices in the city, including some 750 in the past two years alone. I believe there are two reasons for this. The companies are obviously positioning themselves for entry into the China market,

and Hong Kong offers the best business environment in Asia for multi-nationals. The advantages that set us apart in Asia were cited by international companies as major factors in their decision to choose Hong Kong as a regional base.

The presence of so many regional operations of multi-national companies has an extensive clustering and network-

ing effect, which can only enhance Hong Kong's position as a hub for China, for Asia, and for the world.

In summary, the Hong Kong SAR Government is determined to ensure that Hong Kong benefits substantially from the continued opening of the Mainland Chinese market. We have a special role to play in the development of China. We are continuing to promote and expand Hong Kong's role as a regional player, a location where international corporations naturally look for the expertise, infrastructure, facilities, and policies

required for the efficient transaction of global trade and investment. We remain strongly committed to our vision of Hong Kong as the world city of Asia—a progressive, free, and stable society. We are a city of opportunity that emphasizes quality.

Considering the depth of business and cultural links, the extent of existing investment, a world-class business environment, and the constant upgrading of infrastructure, it

would be folly to write off the role of Hong Kong in the post-WTO China market. It is logical that companies from the rest of the world leverage on the network and experience built up by Hong Kong businesses and entrepreneurs when they explore the vast opportunities in Mainland China. Hong Kong will continue to be the best place to do business in the region. ■

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A sophisticated city for growing needs.