

# **Sustaining Hong Kong's Competitiveness**

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## The issue in context

- Globalisation
  - More opportunities, and more competition
- The rise of China
  - And the rise of Chinese cities
  - We are not unique?
- HK's own challenges
  - HK, Asia's World City
  - A World City, no longer a simple economy, nor a simple society

## Three angles

- Our single most important international competitiveness factor: China
- The economic dimension: HK's pillar industries
- Delivering a globally competitive city: Society and governance

# **The China angle: HK as China's Bridge to the World**

# Hong Kong's Current Role

1. Good partner for foreign companies
  - Familiarity with China, on-the-ground experience
  - Attuned to international practices
2. Bridge for China enterprises “going out”
  - Marketing, professional, value-added services for “going out”
  - New double-taxation arrangement with the Mainland
3. International financial hub for China
  - Fundraising (H shares/red-chips) and RMB business
  - Improve corporate governance of mainland companies
  - Wealth management (QFII and QDII)
4. International logistics hub for China
  - The best airport & biggest container port

# China's economic growth

## Rosy picture

- 9.6% annual GDP growth (for 25 years!)
- Per capita GDP from US \$1300 (2005) to US\$1600 in 2010
- Globalisation: WTO member (Dec 2001)
- FTA's: CEPA, ASEAN and 20 others under negotiation

## Challenges

- Great internal discrepancies
  - Rich vs poor, rural vs urban, West vs East
- Environment, energy
- Increasing foreign trade disputes
- (Internal) regional economic cooperation

# Opportunities: Regional cooperation

## PRD - China's manufacturing base

- 9% of China's GDP and 35% of China's exports
- 70% foreign investment in PRD is from Hong Kong
- Hong Kong firms employ 11 million workers in PRD
- More than 200,000 Hong Kong people work in PRD
- Hong Kong handles 70-80% of delta's external trade

## Pan-PRD – the greater market and hinterland

- 450 million population, same as ASEAN
- Government's policy direction
  - fewer trade barriers
  - better cooperation in infrastructure

# A continuing role for Hong Kong

## Opportunities

- Included in China's 11<sup>th</sup> 5-year plan for the first time
- The experimental site for China's new economic policy
- Continual strengthening of CEPA (CEPA IV?)
- Centre for capital flow (RMB business)
- New infrastructure links to Greater PRD

## Challenges

- “Marginalisation” – cities bypassing HK?
- Competition of talents: a limited talent pool?
- Corporate competitiveness: technology and creativity
- Business environment: cost & competitiveness
- Too “sino-tised” and less international?



# **The economic dimension: HK's pillar industries**

# Tourism and quality of life

- The tourism industries
  - Guardian of the “HK Brand”
  - Job creator
- What tourists want: a clean, friendly and interesting place to visit
- Opportunities: increasing number of Mainlanders as individual travellers
- Challenges: is HK still a clean, friendly and interesting place?

## Tourism: the challenges

- Air pollution: cleaning up our act not just in HK, but in the PRD
- Harbour: Beautiful harbour vs roads on the waterfront and reclamation for offices rather than for parks
- Public health: we learnt a lesson from SARS, do we need another lesson (Bird flu)? Or are we forgetting?

## Finance: resting on our laurels?

- HK is the undisputed financial centre of Asia
- The competition: other cities are reforming their regulatory systems (simpler regulations, lower taxes) to become more competitive
- Opportunities in RMB business and capital outflow management for China
- Benchmark up and down: financial centres of the world and rising Asian competitors

## Financial centre: challenges

- Tax certainty
  - Maintain our “flexible” (vague) tax regime?
  - Modernisation needed to provide certainty
- Budget & public spending
  - Narrow tax base an ongoing concern
  - Broaden tax base or reduce services
- Regulatory regime
  - Room for improvement? (SFC role & regulations)

## Logistics: a competitive port

- HK not an entity on its own, but an integrated logistics hub with PRD
- Needed: Better rail, direct air links
- Not just physical infrastructure, but also regulatory infrastructure

# Logistics: challenges

- Trucking
  - More regulatory reform needed: still much red-tape despite improvements (e.g. abolition of 4-up-4-down)
- Air services
  - Improvements in passenger flows needed, e.g. international travelers to transit PRC customs & immigration in HK?
- Port competitiveness
  - Rationalising costs (port charges) and services
  - Coordination among PRD ports?

# Professional services: human capital

- The ultimate competitive edge: HK people
- HK education: an experience in career-readiness, or an experience of miseries?
- The people challenge
  - Are our people good enough?
  - Do we have a throughput of good people?



## Professional services: challenges

- Education and career relevance
  - More international exposure (more foreign students)
  - Languages: English & Putonghua
  - Developing a good qualifications framework
- Migration: circulation of talents in HK
  - Business-friendly immigration policies (points system?)
- An internationally competitive attitude
  - An open vs a protectionist attitude

# Competitiveness-related policies requiring attention

## China

- Infrastructure links
- PRD cooperation
- CEPA

## Tourism

- Air pollution
- Harbour development
- Public health

## Financial services

- Capital management for China
- Tax reform
- Budget & public sector reform
- SFC role

## Logistics

- Better rail links
- More direct air links
- Trucking rules
- Air services regulations
- Port charging

## Professional services

- Education reform
- Internationalisation of education
- Qualifications framework
- Immigration
- Professional liberalisation

**Many issues...**

## Competitiveness-related policies requiring attention

### And more, such as...

- HK as cultural hub
- Population policy
- Creativity and innovation
- Employer-labour relationship
- Energy policy
- Harmonious society
- Good governance...

# **Delivering a globally competitive city: Society and governance**

# Delivering a competitive world city

- What is needed
  - Good-quality government decisions
  - Good problem-solving capability in society and political system
  - Long-term perspective of policy makers and politicians

# Delivering a competitive world city

- What we have:
  - An increasingly vocal community
    - “collusion”, “inequality”, “poverty”...
  - LegCo in permanent opposition
  - No sensible economic policy from political parties
- Result:
  - Expediency and short-termism
  - Poor quality of policy decisions
  - Poor problem-solving capability, social disharmony

## A problem of the system?

- HK's political system – neither full democracy nor autocracy
- But worst of both worlds?

An underdeveloped political system  
+ A developed media  
+ A politically motivated public  
= A recipe for difficult governance!

## Society & politics – way ahead

- Relevance
  - Harmonious society & mature political system are key competitive factors
  - Political development needed, not for its own sake, but to improve governance and ensure policy consistency
- Way ahead
  - Consensus building: advisory committees, better executive/Legislature relationship
  - Address business community and conservatives' concerns about more democratisation
  - Political engagement: Political parties must be more business-oriented, and business sector must be more politically-conscious
  - Broader representation – a matter of course, a matter of choice?



**Thank you**