Study on Enhancing the International Core Competitiveness of Hong Kong

Postdoctoral Research Fellowship

Qiangfang Gui
Shenzhen, China (CAEASC)

ABSTRACT

Name: Qiangfang-Gui  Degree: Postdoctoral
Major Field:  Awarded: December, 2013
Institution: California State University Monterey Bay
Location: Shenzhen, China (CAEASC)

Title of Dissertation: STUDY ON ENHANCING THE INTERNATIONAL CORE COMPETITIVENESS OF HONGKONG

Scope of Study: This research pager is study on enhancing the international core-competitiveness of Hong Kong. It is significant for Hong Kong to find the growth point of its core-competitiveness, discuss the development trend of the competitiveness, analyze and evaluate the strategy of enhancing Hong Kong’s international core competitiveness.

Findings and Conclusions: This study shows that Hong Kong is confronted with competition from all over the globe. Hong Kong must seize the opportunity
of economic globalization, be aware of its situation and position, discover the difficulty and restriction for its development and try to achieve the maximization of benefit in international competition by constant exploring.
ACKNOWLEDGMENTS

My deepest gratitude goes first and foremost to Professor Tao yiqing, my supervisor, for his constant encouragement and guidance. He has walked me through all the stages of the writing of this thesis. Without his consistent and illuminating instruction, this thesis could not have reached its present form.

Second, I would like to express my heartfelt gratitude to Professor Qu guangsheng, who led me into the world of translation. And have instructed and helped me a lot in the past two years.

Last my thanks would go to my beloved family for their loving considerations and great confidence in me all through these years. I also owe my sincere gratitude to my friends and my fellow classmates who gave me their help and time in listening to me and helping me work out my problems during the difficult course of the thesis.
LIST OF ILLUSTRATIONS

Chart 1: Hong Kong’s GDP growth trend from 2000 to 2012………………..8
Chart 2: standard container tonnage in cities including Shanghai and Hong Kong
……………………………………………………………………………………11
LIST OF TABLES

Table 1: A table of container handling charges in major ports of Asia.............. 10
It is an era of intense competitions, especially among countries and regions. In worldwide, the international core competitiveness of Hong Kong is advantageous. However, challenges are inevitable. For Hong Kong, it is important to realize the world development trend as well as the situation of each region, and create beneficial conditions in comparison and learning in order to achieve a real development and growth. Therefore, it is significant for Hong Kong to find the growth point of its core competitiveness, discuss the development trend of the competitiveness, analyze and evaluate the strategy of enhancing Hong Kong’s international core competitiveness.
GLOSSARY

Hong Kong  international  core competitiveness  challenge
LIST OF APPENDICES


Teng guangjin, & Ou hejian, P. 2003. Hong Kong's industrial structure evolution and development of urban competitiveness study. Hong Kong, Macao, Taiwan and Special Zone Economy 12:120-125.


TABLE OF CONTENTS

CKNOWLEDGMENTS ........................................................................................................... i

LIST OF ILLUSTRATIONS .................................................................................................. ii

LIST OF TABLES .................................................................................................................. iii

LIST OF ABBREVIATIONS ................................................................................................... iv

GLOSSARY ............................................................................................................................. v

LIST OF APPENDICES ......................................................................................................... vi

TABLE OF CONTENTS ........................................................................................................ vii

I. MEANING OF CITY CORE COMPETITIVENESS Error! Bookmark not defined.

II. ANALYSIS OF HONG KONG’S INTERNATIONAL CORE COMPETITIVENESS ......................................................... 3

III. PROBLEMS THAT HONG KONG FACES IN ENHANCING INTERNATIONAL CORE COMPETITIVENESS .... Error! Bookmark not defined.

IV. IMPORTANT MEASURES TO ENHANCE THE INTERNATIONAL CORE COMETITIVENESS OF HONG KONG .......... Error! Bookmark not defined.

V. PERSPECTIVE ................................................................................................................. Error! Bookmark not defined.
Since the beginning of the 21st century, the study of cities’ core competitiveness has been a hot global topic. With accelerated globalization and the upgrading science and technology, economic integration has developed fast. The world has entered a new era of information and has become a knowledge economy. In the background of economic globalization, competition among cities is becoming even more intense rather than losing its importance. Governments, especially in Europe and America, have been reviewing themselves. They now work on developing and promoting their city’s core competitiveness in order to take the lead in the new round of international competition. As a financial center of the world, Hong Kong is confronted with competition from all over the globe. Hong Kong must seize the opportunity of economic globalization, be aware of its situation and position, discover the difficulty and restriction for its development and try to achieve the maximization of benefit in international competition by constant exploring.

I. MEANING OF CITY CORE COMPETITIVENESS

The three books of Competitive Strategy, Competitive Advantage and The Competitive Advantage of Nations published by Michael Porter from 1980 to 1990 were considered the cornerstone of his competitiveness study. In 1990, C.K. Pcahalad and Gary Hame, two well-known management specialist from America defined the term “core competitiveness” for the first time in their essay. The core competitiveness is an integration of competence and competitiveness, a representation of knowledge technology integrated within an organization, especially
referring to knowledge or competence in how to coordinate various production skills and integrate different technologies.

Afterwards, as the emergence of new characteristics of economic globalization and new economy, cities become the major media of global economic development. Competition between nations is always embodied in cities. Therefore, the study’s view of city’s core competitiveness should be broadened as well. Feng Bing, Yu Fangtao and some other scholars and institutes who study the city’s competitiveness in China have done a lot of research and demonstrations on city’s core competitiveness and they have made new explanations to the concept of city’s core competitiveness.

In the author’s opinion, city’s core competitiveness can be studied from strategy management and the economics. From the perspective of strategy management, a city’s core competitiveness is the manifestation of a city’s competitive advantages. These refer to the city’s unique ability and quality that cannot be easily excelled by other cities in a short period of time, including the city’s basic advantages and competitive edges, such as an excellent performance in the use of resource, industrial planning, city management and location advantages. They need to be sustainably developed and be able to fully meet the demands of social and economic development. From an economics perspective, a city’s core competitiveness refers to the special services that can dramatically add value to the city, enhance the city’s influence and add value to investors and dwellers.
II. ANALYSIS OF HONG KONG’S INTERNATIONAL CORE COMPETITIVENESS

As one of the busiest international metropolises in the world, Hong Kong is the third biggest financial center behind New York and London. Hong Kong is world famous for its clean government, safe society, free economic system and complete legislation. It is one of the safest, richest and busiest regions in the world. It is also one of the most important economic, financial and shipping centers as well as one of the most competitive cities, with the nickname of “oriental pearl”.

As a small place with scarce land, dense population and hardly any resources, Hong Kong has developed into a modern international metropolis with a prosperous economy. Besides its unique advantages, Hong Kong has seized all significant opportunities during the different stages of its development.

1. Unique location and position environment

Located east of the outlet of the Zhujiang River, Hong Kong is an important port city in Southern China, a central area in Southeast Asia, an important shipping channel in the Pacific Ocean and the Indian Ocean as well as an important hub for trade from Europe, America, the South Asian Sub-continent to East Asia. Hong Kong has a convenient transportation system with the Beijing-Kowloon Railway connecting southern and northern China and directly reaching Kowloon, Hong Kong. The Beijing-Macau-Hong Kong Express Way further accelerates the exchange and
cooperation between Hong Kong and mainland China. Victoria Harbor, located between Hong Kong and the Kowloon Peninsula, is the third biggest natural harbor in the world. At the same time, the mountainous area, winding coastlines and intensely scattered islands all make a good shelter for ships.

2. The world financial center

   Hong Kong is in an advantageous time zone location that links Asia and Europe as a bridge to fill up the time gap between North America and Europe. In world finance market, Hong Kong, along with New York and London, guarantees that the market runs for 24 hours non-stop. Therefore, Hong Kong is an important checkpoint for 24-hour trade in the world finance market as well as an important international financial center.

   The banking industry in Hong Kong is very well developed with branches of local and world banks scattered around Hong Kong. In the 1970’s, people said that there were more banks than rice shops to describe the huge number of banks in the streets of Hong Kong. According to the statistics of Hong Kong Finance Administration, by March 31st, 2013, there had been 155 licensed banks, 21 limited licensed banks and 24 deposit-taking companies. In addition, 60 foreign banks from all over the world have established representative offices in Hong Kong. The well-developed foreign exchange market is always busy and takes up an indispensable position in the global foreign exchange market. According to a triennial global investigation conducted by Bank for International Settlements (BIS)
in 2004, the volume of transaction of Hong Kong foreign exchange market ranked the 6th in the world. By the end of 2011, Hong Kong foreign reserve reached 282.5 billion dollars.

The well-developed Hong Kong stock market is an efficient one with a large variety of trade categories and good fluidity. Not just a world financial center, Hong Kong’s gold market is also famous. It is one of four major gold markets in the world and its gold exchange is the third largest in the world.

3. Backed by mainland China

The economic and financial environment situation of mainland China is the biggest and the market with the most potential in the world. Any far-sighted investor in the world will not neglect this market. Hong Kong has been an important trade partner of mainland China as well as the window and bridge of exchange. Now, Hong Kong has become the fourth biggest trading partner, source of foreign investment, the most important economic partner and the biggest destination of domestic investment for mainland China. The opening up of mainland China has provided a wide stage for Hong Kong, and has promoted Hong Kong’s economic development. Hong Kong is the best bridge and springboard for capital and commodities to enter the Chinese market. With the full support of Chinese government, the exchange and cooperation between Hong Kong and mainland China has become deeper and has opened a new mutually beneficial win-win situation. The support of mainland China is a critical condition for Hong Kong’s competitiveness.
4. The most competitive and free economic body in the world

According to the Chinese Institute of City Competitiveness, Hong Kong has ranked 1st for comprehensive competitiveness of Chinese cities for 12 consecutive years. According to the investigation reports of many consulting and think tank institutes, Hong Kong was thought of as a free and open economic body and many of them estimated that this advantage would remain with Hong Kong until 2015. For 13 consecutive years, The American Heritage Foundation has assessed Hong Kong as the freest economic body in the world. In 2013, Ernst & Young and economist intelligence unit conducted an assessment and analysis on sixty major economies in the world on trade openness, capital fluidity, technological exchange, cultural integration, living environment and education environment. In their report, Hong Kong ranked 1st for the three consecutive years.

5. Sound legal system is the most solid institution foundation for the competitiveness

Hong Kong became one of the most competitive economies in the world largely due to its sound legal system, which it inherited from the British legal system. Hong Kong Law is entirely based on the British legal system and it developed its own local case law and statute law. This is a sound legal system based on British common law. Hong Kong’s legal system is reputable for its goodness, judicial independence, openness and efficiency.

6. Rich travel resource

As one of its support industries, the tourism industry, has made a great
contribution to Hong Kong’s economy. In addition to providing 5% of all jobs in Hong Kong annually, it also boosts the development of related industries, such as hotels, restaurants, transportation, telecommunications, finance and public services, causing a chain effect. Hong Kong has become a shopping and travel heaven. According to statistics from the Hong Kong Tourism Board, in 2011 the number of tourists visiting Hong Kong surpassed 40,000,000, a huge growth compared to 29,590,000 in 2009 and 36,030,000 in 2011. Back in 2001, The World Tourism Organization already assessed Hong Kong as one of the top fifteen destinations for tourists in the world. It was the only selected region that was actually a city. The various travel resource is a main motive that encourage tourists to Hong Kong.

III. PROBLEMS THAT HONG KONG FACES IN ENHANCING INTERNATIONAL CORE COMPETITIVENESS

1. Deindustrialization caused by the economic transformation in Hong Kong

In 1980’s, due to the increase in labor costs and land prices, labor-intensive industries, especially the manufacturing industry gradually moved to mainland China, especially the Pearl River Delta area, where costs were much lower. The cheap resources in mainland China helped Hong Kong keep its cost advantages and further boosted the development of port trade, logistics, the capital market and relevant services in Hong Kong. However, with more and more of its manufacturing industry moving out, its proportion in the Hong Kong GDP dropped dramatically, from its peak in the end of the 1980s to about 3.0% in 2006. It resulted in deindustrialization,
which posed potential risk in the job market, investment environment and finance in Hong Kong. As opposed to full employment and a shortage of labor, in 1995 the unemployment rate reached 3.3%. At the same time, because of the imbalance of industrial structure and the abnormal proportion of manufacturing and service industry, the industrial structure was so simple that Hong Kong’s economy became vulnerable to external influences and economic growth became unsteady due to its instability (as chart 1).

Chart 1: Hong Kong’s GDP growth trend from 2000 to 2012

2. Its financial status is being challenged and threatened more and more

Hong Kong is very sensitive to the world’s financial change. Behind the volatility and uncertainty of Hong Kong economy, the loan-to-deposit ratio keeps rising rapidly. According to the statistics of Hong Kong Monetary Authority, the loan-to-deposit ratio of Hong Kong dollar rose drastically from 69.1% in October 2009 to 84.2% in June 2011. It was a 15% increase in less than two years. It meant
that the loan growth had surpassed the deposit growth. Shocks in the stock market had added multiple pressures on investors and property buyers.

3. Impacts from other cities, such as Shanghai

Hong Kong people were worried about Shanghai’s orientation as a financial center, defined by Chinese government. In this year, Shanghai Free Trade Zone is officially established. Although there has been no serious impact on Hong Kong so far, there will be inestimable influence in the future. Furthermore, with the Qianhai development of Shenzhen as well as the growth of Singapore and Seoul, Hong Kong’s financial status will be confronted with bigger challenge and threat.

4. Port Trade facing new challenges

The port cost is too high. The monopoly in port industry has affected Hong Kong’s competitiveness. The high cost in Hong Kong ports has been criticized and it has been a logistic problem concerned by The Hong Kong Shippers Council, Legislative Council, Consumer Council and Hong Kong Government. By comparing the container handling chargers of major ports in Asia (as talbe 1), the handling charge in Hong Kong is always the highest, almost two times of that in Singapore and three times of that in Shanghai, no matter for what type of container or shipped to America or Europe. The high port cost and monopoly of Hong Kong port industry have severely obstructed the economic development and affected the rise of its competitiveness.
table1: A table of container handling charges in major ports of Asia

<table>
<thead>
<tr>
<th>port</th>
<th>To America</th>
<th>To Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Container size</td>
<td>20'</td>
<td>40'</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2,140</td>
<td>2,855</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>1,100</td>
<td>2,100</td>
</tr>
<tr>
<td>Gaoxiong</td>
<td>1,060</td>
<td>1,365</td>
</tr>
<tr>
<td>Singapore</td>
<td>865</td>
<td>1,285</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>608</td>
<td>905</td>
</tr>
<tr>
<td>Bankok</td>
<td>554</td>
<td>835</td>
</tr>
<tr>
<td>Pusan</td>
<td>600</td>
<td>810</td>
</tr>
<tr>
<td>Shanghai</td>
<td>515</td>
<td>686</td>
</tr>
</tbody>
</table>

Note: statistics from Transport and Housing Bureau of HK SAR

Hong Kong’s status as a port central city is being challenged. Hong Kong has always been a port trade center but it has been surpassed by Shanghai and Singapore. At the same time, ports in mainland China, especially in Zhujiang River Delta, such as Yantian, Shekou in Shenzhen, Nansha, Zhuhai and Gaolan in Guangzhou, have risen and will affect Hong Kong’s import & export and intermediary trade and threaten Hong Kong’s central position of trade and shipping. According to the statistics of Hong Kong Port Development Council in 2012, the standard container tonnage was 23.117 million tons of Hong Kong ports, dropping 5% compared to last year, lagging behind Shanghai and Singapore. The figure of Shenzhen was 22.941 million tons, rising 1.6% from last year and very close to Hong Kong. Port cities in mainland China is likely to surpass Hong Kong.(as chart 2)
5. Lack of long-term strategic planning from Hong Kong government

Since 1842, the colonial government ruled with a thought of “borrowed time in a borrowed place” so they issued many short-term policies. On the other hand, many Hong Kong residents were immigrants during the three tides of flee in 1950’s, 1962 and 1970’s, respectively. They thought themselves as a traveler rather than a dweller who would settle down. More importantly, before returning to the reign of the Chinese government, Hong Kong was ruled by governors assigned by the government of the UK. The governors only played a role of an executor who did not need to make long-term strategic planning for Hong Kong. Although Hong Kong government issued some specific measures during its economic development, they
are not sufficient to be considered long-term strategic planning.

IV. IMPORTANT MEASURES TO ENHANCE THE INTERNATIONAL CORE COMPETITIVENESS OF HONG KONG

1. Make strategic planning for Hong Kong’s core competitiveness

   Hong Kong government should initiate the study of Hong Kong’s core competitiveness study, work on enhancing the core competitiveness and determining the competitive strategy for short, medium and long terms, taking into the consideration of the actual situation of Hong Kong and combining the economic development prediction of the future world. First of all, Hong Kong should be aware of its competitive advantages and disadvantages that may affect its competitiveness enhancement, determine the strategic goals, from which they could make the economic development plan. All the departments of the government should do their job and make active exploration for the smooth implementation of the plan. The government should also make sure that all departments have implemented the plan well so that Hong Kong could maintain its stable prosperity and always take the lead in world competition.

2. Deal with financial fluctuation and consolidate its status of financial center with multiple measures

   Hong Kong should strengthen its cooperation with mainland China in order to solve financial problems together. Its economic openness and close connection with the world economy decide that its economic situation is closely related to that of
other countries. Any immediate chance of world economy will have subsequent influence on Hong Kong’s economy. With the economic stabilization in mainland China, there will be plenty of opportunities for Hong Kong to revitalize its economy in the transformation of manufacturing and the upgrade of service industry in a near future in mainland China. As a special administrative region of China, Hong Kong’s biggest advantage is the support from the mainland China. In the 12th five-year plan, the Chinese government has stated clearly that China will do everything to support the development of Hong Kong due to its function and orientation in the national development strategy. It is very precious for Hong Kong, which is highly sensitive to external economic impacts. Therefore, it is beneficial for Hong Kong to make use of its economic advantages and reduce economic fluctuation by further strengthening the economic bond with mainland China.

Strengthening financial supervision. Hong Kong SAR government should keep improving the supervision system in securities, banking and insurance from the actual situation of Hong Kong. Strengthen financial supervision, coordination, learn from international supervision ideas and industrial standard. Improve the method and measures of supervision. Discover and intervene with financial risks earlier; strengthening the establishment of basic market rules, improving corporate management and dissolving the hidden dangers of highly risky financial institutions. The strengthening of financial supervision is an important guarantee to maintain financial safety and prevent international financial crisis.

Macroeconomic regulation and control strategy. Theories have shown that
fiscal policy is an effective macroeconomic regulation method. However, such method is rare in Hong Kong. Simple tax system, low tax rate and balanced budget that are implemented to maintain the conventional advantages and attraction of Hong Kong have restricted the flexibility of the fiscal policies. However, these measures still have potentials in more flexible tax rate, taxes with fewer efficiency twist and government bonds. It cannot only precious fund for the improvement of income policy and social benefit policy, but also reduce the need for economic fluctuation and direct macroeconomic control.

3. Taking feasible measures to consolidate and strengthen Hong Kong’s status as an international shipping center

Reducing intermediary trade cost. According to trade cost theory, the ultimate purpose of either adding or reducing intermediary steps is to reduce trade cost. Just as the author mentioned previously, the container handling charges in Hong Kong is too high. Therefore, the government should intervene with the pricing and the Hong Kong Maritime Industry Council should play the role of economy police. The HK SAR government should also break up the monopoly, consider building new container ports, and introduce new operator in order to cut the port handling charges. Goldman Sachs, an American investment bank, once said that the port industry of Hong Kong has become a shrinking “sunset industry” and the future of the port industry is determined by whether the operation cost can be reduced rapidly.

Let the agents play their unique role. The trade agents in Hong Kong used to
play an important role in the import & export trade of domestic enterprises. There are two types of trade agents in Hong Kong. One is trade companies and the other is purchasing agent authorized by overseas buyers. With advantageous location and business environment, Hong Kong agents have an extensive client relation and sales channels. They should play their roles as agents and make use of their export channels. At the same time, there are plenty of overseas importers who purchase domestic products from China via agents because traders in Hong Kong are able to communicate with them very well. These traders know their clients’ needs and aid in solving disputes.

Taking feasible measures to consolidate and strengthen Hong Kong’s status as an international shipping center, for example, reducing ship registration fee and adjusting seaman’s license fee to a similar level of that in Panama, the cheapest in the world. Increase the tonnage of registered ships in order to create more employment. Train special talents and enhance the research related to shipping, educate people for Hong Kong’s shipping industry; reducing the overseas tax burden of Hong Kong ship companies in order to enhance their international competitiveness. Promote Hong Kong’s shipping advantages to the outside world as planned.

4. Integrating worldwide high-end resource and optimizing resource allocation for Hong Kong to use

In Hong Kong’s future development, they should strengthen the integration of
worldwide high-end resources and the optimization of resource allocation. While making good use of its own advantages, Hong Kong should develop a headquarters economy and attract more multinationals to enter Hong Kong or establish regional headquarters in Hong Kong. They should introduce global high-tech companies to establish R&D bases in Hong Kong as well as high-end talents so all the high-end resources from around the world can be applied by Hong Kong in order to complement its disadvantages and help in Hong Kong’s economic development and rise of its international position.

5. Resort to reform, look for new drive for economic growth and develop new advantages in competition

Hong Kong needs to reform to address the problems of social contradiction and declining competitiveness. Sticking to the old fashion and enjoying the advantages of the old system will never work. An in-depth reform and exploration must begin in order to find new drive for economic growth. The substantial economy of Hong Kong has seen a deindustrialization and threats to finance, trade, tourism and shipping have emerged. Therefore, Hong Kong has to update its idea of development, encourage and support all kinds of innovation, enhance its service and nurture new economic growth point. Furthermore, they should make good use of the prosperous development in mainland China to expand the depth and width of cooperation with mainland China and establish a complementary, mutually beneficial win-win relationship.
V. PERSPECTIVE

Although Hong Kong has difficulties such as financial fluctuation and deindustrialization in enhancing its international core competitiveness, and its status as a finance and trade center is challenged, we still have faith in its advantages. We believe that the Hong Kong government is capable of knowing Hong Kong’s economic development law and taking appropriate measures to boost a new growth of Hong Kong’s economy.