

Shen J and Yeung Y M, 2004, Development and transformation of the free port of Hong Kong, *Korea International Commerce Review*, 19(1), 47-68.

Development and Transformation of the Free Port of Hong Kong

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Abstract

Hong Kong's territory consists of mainly hilly areas with almost no natural resources. Its major assets are a deep-water harbour and its resourceful population. Hong Kong has been developed as a free port from the very beginning. Currently, Hong Kong is a Special Administrative Region of China. "One country, two systems" has been practised in Hong Kong since July 1997. The success of Hong Kong as a global city in Asia has much to do with its status of free port and its role in international trade and re-export in the cross-border regional production system.

This paper will first examine Hong Kong's free port policy and the government non-intervention approach to the economy. Generally, Hong Kong follows the economic policy of free enterprises and free trade. There are no import tariffs and there is only limited licensing control of a few commodities.

In the process of development, Hong Kong has gone through several development stages due to changes in the external and international environment. This paper will examine Hong Kong's development and transformation in the recent decades, its industrialization, de-industrialization and current transformation associated with China's open door policy in 1978, the Asian financial crisis, and the CEPA (closer economic partnership arrangement) between Hong Kong and mainland China.

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Introduction

Hong Kong has an area of 1,099 km² with a population of 6.82 million in 2002 (Hong Kong Yearbook 2002). Its territory consists of mainly hilly areas with almost no natural resources. Its major assets are a deep-water harbour and its resourceful population (Rimmer 1992). It was only a tiny fishing village when it was seized by the British as a colony in 1841. Since then, Hong Kong has acquired increasing significance as an entrepot. Different from Macao which was under the exclusive rule of Portuguese in early years, Hong Kong was to be developed as a free port from the very beginning (Chiu 1973: 17; Meyer 2000). The success of Hong Kong as a global city in Asia has much to do with its status of free port and its role in international trade and re-export. In the process of development, Hong Kong has gone through several development stages due to changes in the external and international environment.

Currently, Hong Kong is a Special Administrative Region of China. “One country, two systems” has been practised in Hong Kong since July 1997. Coupled with Asian financial crisis and global economic slowing down, Hong Kong has been struggling with its economic restructuring since 1997. Many questions have been raised about Hong Kong’s future role in the development of mainland China and in Asia (Lo 2004). Implementation of economic reforms and open door policies in the mainland China have brought many development opportunities to Hong Kong investors since 1978 (Shen 2002). But increasing global integration of China’s economy and its entry to WTO questions Hong Kong’s bridging role between mainland China and the world. There have also been significant changes in Hong Kong’s position towards close cross-border integration with Pearl River Delta (PRD) and mainland China in general (Shen 2003). The debates on these issues involve both

economic and political dimensions. The low production and living costs in PRD are considered a threat to Hong Kong's competitiveness in terms both of the business and housing market in the region. The stark differences in the legal and institutional systems as well as governance and business practices between Hong Kong and mainland alert many Hong Kong people the danger of losing the legal and intuitional advantages through close integration (Rohlen 2000). All these considerations shape Hong Kong's strategy in coping with economic restructuring.

Within the above context, this paper will first examine Hong Kong's free port policy and the government non-intervention approach to the economy. The paper will then examine Hong Kong's development and transformation in the recent decades, its industrialization, de-industrialization and current transformation associated with China's open door policy in 1978, the Asian financial crisis, and the CEPA (closer economic partnership arrangement) between Hong Kong and mainland China.

Free port policy and the role of government

Hong Kong is a champion in free trade. It became a separate contracting party to the General Agreement on Tariffs and Trade (GATT) in 1986, and is a founding member of the World Trade Organisation (WTO) established in 1995. As a Special Administrative Region of China, "one country, two systems" has been practised in Hong Kong since July 1997, according to the Basic Law of Hong Kong Special Administrative Region (HKSAR). Hong Kong continues to be a full member of WTO using the name "Hong Kong, China". Within WTO, Hong Kong is a separate customs territory that enjoys full autonomy in the conduct of its external commercial relations (Commence and Industry Branch, no date). In a word, Hong Kong continues to be a free port after 1997.

The success of Hong Kong as a global city in Asia has much to do with its status of free port and its role in international trade and re-export. Hong Kong was ranked the freest economy in the world by the Heritage Foundation over the period 1995-2002 and by the Fraser Institute over the period 1970-2001 (O'Driscoll et al. 2003; Gwartney et al. 2003). The current status of free port policy and the government non-intervention approach to the economy can be summarized in what follows (Shen and Yeung 2002).

Hong Kong follows the economic policy of free enterprises and free trade. There are no import tariffs and excise duties are levied only on four categories,

including locally manufactured or imported tobacco, alcoholic liquors, methyl alcohol and hydrocarbon oils. A tax is also payable on first registration of motor vehicles. The Customs and Excise Department is assigned the tasks of fighting smuggling, collection of government revenues on dutiable goods, the detection and deterrence of narcotics trafficking and abuses of controlled drugs, and the protection of intellectual property rights. In the year 2001/02, the excise duties collected amounted to HK\$6.98 billion (US\$1=HK\$7.8), of which HK\$3.77 billion came from hydrocarbon oil, HK\$2.41 billion from tobacco, HK\$0.79 billion from alcoholic beverages and HK\$0.03 billion from other alcohol products, representing 3.98% of the government's revenue (Treasury Branch 2003). The tax of first registration of motor vehicles amounted to HK\$2.68 billion in 2001/02.

For health and safety reasons, five kinds of commodities are subjected to licensing control of the Director-General of Trade and Industry according to the "Import and Export Ordinance", the "Reserved Commodities Ordinance", the "Ozone Layer Protection Ordinance" and their subsidiary legislation. Import license is required for radioactive substances and irradiating apparatus. Import and export licenses are required for the following commodities:

- (a) Pharmaceutical products and medicines
- (b) Reserved commodities
- (c) Strategic commodities
- (d) Ozone depleting substances

Except for the above regulations, Hong Kong has no trade barrier. Any company, regardless its ownership, can operate in Hong Kong freely. It is very easy to set up a new company in Hong Kong in six working days. Hong Kong has a simple tax system and the profit tax is one of the lowest in the world. In 2001/02, the profits of unincorporated businesses were taxed at 15% and profits of corporations at 16% (Hong Kong Yearbook 2002). Hong Kong has no control of the movement of foreign currencies. Hong Kong dollar is currently pegged against the US dollar so that the exchange rate is extremely stable.

HKSAR government does not practise any economic planning and there is no protection and subsidization of manufactures in Hong Kong. This is a distinctive departure from the FDI policies in mainland China that provide tax incentives and cheap land. Nevertheless, the Hong Kong government plays an important role in many aspects of society, including land ownership, education, public housing, water

supply and health service. Major utility services such as public transportation and electricity supply are also licensed to a few private companies which set their prices mainly according to their value of capital assets and the affordability of consumers with little competition pressure.

Generally, the government does not involve directly in economic activities but it does strive to provide a good physical, organizational and informational infrastructure for Hong Kong to play a hub-gateway role and an excellent environment for businesses to thrive. As mentioned above, the government has adopted policies of low and simple taxation, free port and free trade status, anti-corruption and political stability. With a clean and efficient government, Hong Kong is an ideal place for business. The only concerns for business are the high property price and labour cost, especially prior to the Asian financial crisis in 1997.

In the period before 1997, the *laissez-faire* non-intervention policy of the government was the most famous feature of urban governance and considered one of the most important factors in the development of Hong Kong's economy (Enright *et al.* 1997). Such non-intervention policy largely continued in Hong Kong after 1997. However, Yeung (2000) argued that the commercial and financial interests actually dominated Hong Kong's executive and legislative councils and had much influence in political affairs and government policy before 1997. The role of Hong Kong government could best be interpreted as "a passive, reactive and *status quo* 'intervention' without intervention"(original emphasis, Yeung 2000: 138), possibly in conflict with the notion of neo-liberalism. Thus government policy was rarely free from the influences from the commercial and financial interests. Nevertheless, with a powerful ICAC (Independent Commission Against Corruption) that was set up in 1974, outright bribery and corruption in Hong Kong have been rare either.

Industrialization, de-industrialization and cross-border development

Hong Kong has enjoyed a long period of economic growth over the past four decades. According to the latest GDP estimates (CSD 2001a), its real annual GDP growth rate was 5.8% in the period 1965-1975, 8.5% in the period 1975-1985 and 6.1% in the period 1985-1997. The GDP per capita tripled during the period 1975-1997. Hong Kong had a negative GDP growth rate of -5.3% and -3.0% in 1998 and 1999, respectively, due to the Asian financial crisis. Its economy recovered in 2000 with a GDP growth rate of 10.2% before entering another stage of stagnancy. In 2001, the

GDP per capita, after purchasing power adjustment was US\$26,050 and was ranked 17th in the world (World Bank 2003). It is the tenth largest trading entity with the airport and container port among the busiest in the world in 2002 (CSD 2003a).

Hong Kong's development is associated with its changing economic links with mainland China. The cross-border relation between Hong Kong and mainland China in the period of 1841-1949 can be characterized as no government control on the border. Hong Kong's immigration laws prior to 1940 allowed Chinese to enter and leave Hong Kong freely with no requirement of document or visa. Hong Kong's economy benefited from entrepot trade with the mainland China up to the early 1950s.

After 1950, the economic links with the mainland China were severed following the embargo on China imposed by the United Nations. The embargo virtually stopped the entrepot trading of Hong Kong with mainland China.

Hong Kong relied on industrialization for economic growth in the period from the 1950s to the 1970s and the China factor played almost no role in that period. The share of the labour force employed in manufacturing was as high as 47% in 1971 and was still 41.3% in 1981 (Suen and Chan 1997).

Since the introduction of open policy in China in 1978, due to economic complementarities and comparative advantages of Hong Kong and mainland China, a spatial division of labour has been established, generally called "front shop, back factory model" (Sit 1989; 1998; Shen 2003; Lo 2004). Hong Kong has transferred the majority of its manufacturing to PRD and has itself become a prominent service centre, specialization in trading, transport and communication, and financial services. Hong Kong's economy has experienced a significant de-industrialization process and trading with mainland China and America has become very important to Hong Kong. By 2002, the share of labour force in the tertiary sector was as high as 84.3%. The service sector accounted for 86.5% of the total GDP in 2001 (Hong Kong Yearbook 2002).

One important role that Hong Kong plays is as a middleman who imports from, and exports to, the rest of the world, especially for mainland China. According to Table 1, re-exports accounted for over 68% of the import or export of the economy in 1991 and these shares were increased to as high as 88% in 2002. The majority of such re-export activities are related to mainland China that is the largest trading partner of Hong Kong. Re-export trading activities with mainland China brought huge profits to the business community in Hong Kong. According to the statistics of Hong

Kong Government (Sung 1998), the gross profit rate of exporting mainland China's product via Hong Kong increased from 13% in 1989 to a magnificent 34.4% in 1996, while that of exporting other product via Hong Kong declined from 11.5% to 6.6% over the same period. The main reason for a high gross profit rate of trading with the mainland is that many manufacturing activities in the cross-border system are operated by Hong Kong investors or joint ventures with partners in mainland China, particularly in Guangdong. Table 2 shows that 47.2% of mainland import from Hong Kong and 78.0% of mainland export to Hong Kong resulted from these FDI activities by Hong Kong investors in 2001. It is notable that HK\$532.0 billion out of HK\$529.5 billion export to Hong Kong from mainland induced by outward processing actually originated in Guangdong in 2001. In 2002, vehicular traffic movements through the three control points at Lok Ma Chau, Man Kam To and Sha Tau Kok reached 12.4 million, an increase of 9.6% from 2001 (Hong Kong Yearbook 2002). A cross-border production network between Hong Kong and PRD has been well established with expanding manufactured export to the world market (Shen 2003).

Economic restructuring and the changing role of government in cross-border development

As a highly open economy, Hong Kong's development path has been shaped by the changing political, social and economic situations in the region and the world. Hong Kong's economic position was adversely affected by the Asian financial crisis in 1997. It has been a painful process for Hong Kong to re-adjust its prevailing housing price and labour cost. The conditions in the mainland China and trading with America have tremendous impacts on its economic activities. The economic slowdown in America, worsened by the 911 tragedy in New York in 2001, also affected the export/re-export trade of Hong Kong dramatically. Hong Kong also needs to adjust its role in the world economy after the entry of China to the WTO in 11 December 2001.

The economic integration of Hong Kong with the PRD and the role of Hong Kong government have been important issues after 1997. The previous section shows that a close economic relation had been well established between Hong Kong and the mainland China by 1997. But such economic and trading relations were developed mainly through the initiatives of the local people and businessmen in Hong Kong through a bottom-up approach (Shen 2003). The then Hong Kong government took a policy of no intervention, neither prohibiting nor encouraging cross-border economic

exchanges. To facilitate the return of Hong Kong to China in 1997, a limited number of sub-committees under the Sino-British Liaison Group, were formed to deal with various matters after 1984 (Chu *et al.* 2002). The Hong Kong-Guangdong Environmental Liaison Group formed in July 1990 was the most successful before 1997.

The return of Hong Kong to China in 1997 did not change the nature of the border between Hong Kong and the mainland dramatically. The new HKSAR practices "one country, two systems" and the border continues to function to separate Hong Kong and the mainland as two independent economic entities. In all practical terms, the cross-border regional production system continues to operate under the "two systems" in Hong Kong and the mainland respectively. Officially, the HKSAR government has pledged to improve the relations with the mainland and to strengthen the co-operation on the cross-border issues. The regular Hong Kong-Guangdong Co-operation Joint Conference was inaugurated by the chief executive Chee-hwa Tung of the HKSAR and the Governor of Guangdong Ruihua Lu on 30 March 1998. But in reality, little progress in the cross-border development was achieved in the period 1997-2001 and the frequent calls by the governments in PRD cities such as Shenzhen and Zhuhai for close economic integration were ignored. Sung (2002) claimed that HKSAR government adopted a "fortress Hong Kong" policy towards regional integration of Hong Kong-PRD region in stark contrast to its famous liberal and "positive non-intervention" policy towards global capital and globalization.

Generally, the HKSAR government was slow in taking actions and the Planning Department was blamed for not planning ahead to accommodate increasing flows of passenger/goods traffic across the Hong Kong-Shenzhen border. There are two main reasons. First, the central government of China is committed to the implementation of "one country, two systems" in Hong Kong and has instructed all provincial/regional governments in the mainland not to seek any official engagement with HKSAR. Any relations with HKSAR must be dealt with via the Hong Kong and Macao Office of the State Council in Beijing. This has had the effect of cutting off the relation between HKSAR and many cities and regions in the mainland including those in PRD and Shenzhen.

Second, a full regional integration of Hong Kong with the PRD region with convenient 24 hour operation of border crossings has been considered by many as not in the benefit of Hong Kong's economy. The housing price in PRD cities is only one-

tenth to one-third of that in Hong Kong. Any significant improvement in the service of cross boundary transport may induce many Hong Kong people to live in Shenzhen and work in Hong Kong. More residents, especially those live in New Territories, will go shopping in Shenzhen. These changes in the property and consumer markets will have negative effects on the real estate price and businesses in Hong Kong that has been affected by the Asian financial crisis already.

The Asia financial crisis hit Hong Kong's economy greatly especially on its stock and property markets in October 1997. The price index of private housing dropped by 46.8% and the rental index of private housing dropped by 27.1% in the period 1997-2000 (CSD 2001b). The Hang Seng index dropped from over 16000 in 1997 to the bottom of 6600 in August 1998. Hong Kong's domestic export dropped from HK\$211.4 billion in 1997 to HK\$170.6 billion in 1999. With the fall of the stock and property prices and the shrinking of import/export trade, the consumption power of Hong Kong residents declined significantly. As a result, Hong Kong registered a negative GDP growth rate of -5.3% in 1998 and -3.0% in 1999.

In 2000, Hong Kong's economy was on its way to recovery with a positive GDP growth rate of 10.2% (CSD 2001b). However, Hong Kong's economy worsened again after the 911 event in New York. The value of domestic exports fell by 15.2% and 14.7% in 2001 and 2002 respectively (CSD 2003b). The value of re-exports dropped by 4.6% in 2001 but increased by 7.7% in 2002 due to strong export performance of mainland China. The GDP growth rate in real terms was only 0.5% and 2.3% in the year 2001 and 2002, respectively (CSD 2003c).

The outbreak of SARS (Severe Acute Respiratory Syndrome) in March-June 2003 was another blow to Hong Kong's tourism industry and already weak internal consumption. The rate of unemployment, a vital indicator of social well-being and stability, rose from only 2.2% in 1997 to 6.2% in 1999. It dropped to 5.1% in 2001 and rose again to 7.3% in 2002 due to the impact of 911 event and subsequent global adjustment (Table 3). The SARS outbreak pushed the seasonally adjusted unemployment rate to the highest peak of 8.7% in May-July of 2003 (CSD 2003d). The unemployed population reached 309,200.

Economic slowdown and the bursting of the bubbles in the stock and housing markets have significant implications on the balance of government budget in Hong Kong. Its revenue dropped from HK\$281.2 billion in 1997/98 to HK\$225.1 billion in 2000/01 and HK\$177.5 billion in 2002/03 with significant loss in the earnings and

income tax, stamp duty and capital revenue. Land premium dropped from the peak of HK\$63.6 billion in 1997/98 to HK\$29.5 billion in 2000/01 and HK\$11.1 billion in 2002/03 (CSD 2001b; Legislative Council Panel on Financial Affairs 2002; Leung 2003). As a result, HKSAR government incurred a deficit of HK\$23.3 billion in 1998/99, HK\$7.8 billion in 2000/01 and as much as HK\$63.3 billion in 2001/02 and HK\$61.7 billion in 2002/03 (Treasury Branch 2003; Leung 2002; 2003). The Government's fiscal reserves decreased from HK\$457 billion in 1997/98 to HK\$303 billion in 2002/03 and HK\$271 billion by 31 July 2003.

The China's entry to WTO in December 2001 provides opportunities and challenges to Hong Kong that have been playing a bridging role between mainland and outside world. This becomes a turning point in HKSAR government's policy from protectionism to closer economic integration with PRD in particular and mainland China in general. It seems that a consensus has been reached in Hong Kong for closer economic relationship with PRD and mainland China in general. Previous reservations have been replaced by more active and enthusiastic move to seek economic opportunities in the mainland. This is quite different from the early years after the handover. According to a survey of 1004 residents in Hong Kong in September 2002 by Hong Kong Institute of Asia-Pacific Studies (Sung 2003: 14), 77.1% supported the construction of Hong Kong-Zhuhai/Macao bridge and 54.2% supported the 24 operation of border-crossing.

On the request of the HKSAR government, the central government has been playing a coordinating and supporting role in fostering economic cooperation between PRD region and Hong Kong. With the dramatic change in HKSAR government's position on Hong Kong-PRD integration, significant progress has been made on cross-border development. Some major developments since 2002 are as follows:

1. A closer economic partnership arrangement (CEPA) was reached between HKSAR and the mainland in June 2003.

2. The 24-hour operation of the border crossing for passengers was introduced at the Lok Ma Chau checkpoint in 27 January 2003 (SCMP 2003). This is an important step in Hong Kong's integration with the PRD region.

3. The quota on the number of tourists from mainland to Hong Kong, 2000 tourists a day, was abolished in 1 January 2002. Individual tourists from cities in PRD, Beijing and Shanghai have been allowed to apply for travel permit to visit Hong Kong since July 2003.

4. The case of Hong Kong-Zhuhai/Macao bridge (an alternative to Lingdingyang Bridge proposed by Zhuhai in 1997) was re-opened in 2002. Senior Hong Kong officials now support the plan that the bridge needs to be built well before 2016. The bridge, costing HK\$15 billion and 41km long, would help connect Hong Kong with the west side of the PRD (Yeung et al 2003).

CEPA and its implications for Hong Kong

CEPA represents one major development in the cross-border development between Hong Kong and mainland. As a free port, Hong Kong imposes no import tax and has little constraints for foreign investors. However, other economies that are Hong Kong's trade partners have various kinds of trade protection measures. Thus it would be ideal for Hong Kong to seek the establishment of free trade arrangements with such trade partners. The CEPA agreement between Hong Kong and mainland China is one major development in this direction.

To catch business opportunities before China's full opening to the outside world after 2005, the HKSAR government proposed to the central government to make a closer economic partnership arrangement between HKSAR and the mainland on 20 December 2001 (Mingpao 2001). The CEPA agreement was signed officially on 29 June 2003. Although mainland China will not gain any direct benefit by lowering its tariffs and opening its domestic market to Hong Kong companies, it has been argued that mainland China will benefit indirectly from the provision of quality services from Hong Kong and the competition pressure brought by CEPA to speeding up the reform and restructuring of domestic economy (Sung 2003).

Hong Kong's business sector would benefit from zero custom duties for exporting 273 categories of products manufactured in Hong Kong to the mainland from January 2004, accounting for 60% of the export value. Table 4 presents the list of categories of products that mainland China imposes an import tariff rate of over 20% that will be reduced to zero for products from Hong Kong. This is in addition to 30% export value that has already enjoyed zero custom duty (Mingpao 2003a). Over 2000 categories of goods from Hong Kong would also enjoy zero custom duty before January 2006 while the average custom duty for China's import from the world would still be 8.9%. The mainland market would also be opened for Hong Kong's 18 kinds of business and professional services.

Agreements were reached regarding the definitions of Hong Kong products and Hong Kong companies on 29 September 2003. To qualify as Hong Kong products under CEPA, 187 categories of products such as textile and clothing will use the existing definition in Hong Kong based on production process, 46 categories of products such as chemical and metal products will be defined according to "Change in Tariff Heading (CTH)" origin rule, meaning that the products have been manufactured to the extent that their classification in the World Customs Organization Harmonized System falls in a different four-digit heading from the classification of the non-originating constituent materials used, 40 categories of products such as clocks and watches will be defined according to production process and value that at least 30% are created in Hong Kong (Trade and Industry Department 2003). The requirement of 30% value creation in Hong Kong lies between the existing requirement of 20% in Hong Kong and 50% as originally requested by mainland China (Sung 2003: 9).

To be qualified as Hong Kong companies under the CEPA, companies must have been operated and registered for 3-5 years in Hong Kong and 50% of their employees are Hong Kong permanent residents and one-way permit holders. These companies could engage in 18 kinds of services in the mainland. For example, the minimum asset requirement for a Hong Kong bank to be eligible to operate in mainland China is reduced from US\$20 billion to US\$6 billion. Eight more Hong Kong banks become eligible to provide banking services in mainland China (Mingpao 2003b).

Based on 2001 figure, CEPA can save HK\$750 million custom duties for Hong Kong products. It is estimated that CEPA will generate 10-50 thousand jobs in Hong Kong in the next five years. The CEPA agreement would also consolidate Hong Kong's status as international financial centre. The mainland China supports state-owned commercial banks and certain shareholding commercial banks to re-locate their international treasury and foreign exchange trading centres to Hong Kong. The mainland China supports eligible mainland insurance companies and other companies, including private enterprises to be listed in Hong Kong's stock market (CEPA 2003).

The response of business sector to CEPA is quite well with some positive impacts on the economy. In August 2003, the total number of tourists visiting Hong Kong reached 1.64 million (Mingpao 2003c). Those from mainland China reached 0.95 million, an increase of 43.3% from August 2002. The total job vacancies of the

private sector registered with the Labour Department reached a historical high of 24,612 in August 2003. Hang Seng Index rebounded to 11229 on 30 September 2003. Housing market also shows evidence that the price is being stabilized.

Conclusion

This paper has examined Hong Kong's free port policy and the government non-intervention approach to the economy. Generally, as a free port from the very beginning, Hong Kong follows the economic policy of free enterprises and free trade.

Hong Kong has enjoyed a long period of economic growth over the past four decades, going through several development stages. In the period from the 1950s to the late 1970s, Hong Kong relied on industrialization for economic growth. In the period from 1978 to 1997, Hong Kong transferred the majority of its manufacturing to PRD and itself became a prominent service centre after the implementation of economic reforms and open door policies in the mainland China (Shen 2002).

In the period after 1997, the Asian financial crisis resulted in the bursting of the bubbles in the stock and housing markets. Hong Kong has been struggling with its economic restructuring since then with a negative GDP growth rate in 1998 and 1999.

Economic integration between Hong Kong and the mainland China has been a key issue of government policy. Although a cross-border production network between Hong Kong and PRD had been well established by 1997, Hong Kong had serious reservations about closer economic integration in the period 1997-2001. Sung (2002) claimed that HKSAR government adopted a "fortress Hong Kong" policy towards regional integration of Hong Kong-PRD region. But such policy has not been able to bring economic recovery to Hong Kong after a series of crises such as 911 in 2001 and SARS in 2002.

China's further global integration after its entry to WTO questions Hong Kong's bridging role between mainland China and the world. This becomes a turning point in HKSAR government's policy on cross-border development. A consensus has been reached in Hong Kong for closer economic relationship with PRD and mainland China in general. Previous reservations have been replaced by more active and enthusiastic moves to seek economic opportunities in the mainland.

Responding to the needs of HKSAR, the central government is also more than willing to support closer economic ties between Hong Kong and mainland for

political and economic reasons. CEPA represents one major cross-border development between Hong Kong and mainland. How successful the CEPA will be and how it can benefit Hong Kong depend on the actions by HKSAR government and the business sector. Upgrading the human resources in Hong Kong through education and training, consolidating advanced producer services, and enhancing Hong Kong's status as world city in Asia are some of the essential strategies to revive Hong Kong's economy.

Acknowledgement

This paper is based on research funded by a Direct Research Grant of The Chinese University of Hong Kong, project code 2020659.

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Table 1 Import and export in Hong Kong 1991-2002 (HK\$billion)

Year	Import	Domestic imports	Re-exports	Domestic Exports	Total exports	Re-exports share in imports (%)	Re-exports share in exports (%)
1991	779.0	244.2	534.8	231.0	765.8	68.7	69.8
1996	1535.6	349.8	1185.8	212.2	1397.9	77.2	84.8
1997	1615.1	370.6	1244.5	211.4	1455.9	77.1	85.5
1998	1429.1	269.9	1159.2	188.5	1347.6	81.1	86.0
1999	1392.7	214.3	1178.4	170.6	1349.0	84.6	87.4
2000	1658.0	266.3	1391.7	181.0	1572.7	83.9	88.5
2001	1568.2	240.7	1327.5	153.5	1481.0	84.7	89.6
2002	1619.4	189.8	1429.6	130.9	1560.5	88.3	91.6

Data Sources: CSD (2001a: 1; 2002; 2003b)

Table 2 Outward processing trade and its share in total trade between mainland China and Hong Kong 1991-2001 (HK\$billion)

Year	1991	1997	2001
Mainland China direct import from Hong Kong (Percentage share in total)	40.4 (76.5)	47.1 (76.1)	35.2 (71.0)
Mainland China import via Hong Kong (Percentage share in total)	73.6 (48.2)	197.81 (44.7)	224.4 (45.2)
Subtotal (Percentage share in total)	113.9 (55.5)	244.9 (48.6)	259.6 (47.2)
Mainland China export to Hong Kong (Percentage share in total)	197.4 (67.6)	491.1 (81.2)	532.0 (78.0)
Guangdong export to Hong Kong (Percentage share in total export involving outward processing from the mainland)	186.6 (94.5)	430.8 (95.1)	529.5 (97.9)

Data sources: CSD (1992; 1998; 2002)

Table 3. Number of unemployed and unemployment rate in Hong Kong 1997-2003

Year	Unemployed (thousand)	Unemployment rate (%)
1997	71.2	2.2
1998	154.1	4.7
1999	207.5	6.2
2000	166.9	4.9
2001	174.8	5.1
2002	255.5	7.3
Jan.-March 2003	259.8	7.5*
Feb-April 2003	273.7	7.8*
March-May 2003	287.3	8.3*
April-June 2003	300.0	8.6*
May-July 2003	309.2	8.7*
June-August 2003	309.0	8.6*

Data source: CSD (2003d)

Note: * Three month moving average, seasonally adjusted.

Table 4 List of Hong Kong Origin Products for Implementation of Zero Import Tariff by the Mainland with MFN tariff rate over 20% in 2003

Serial No.	Product Description	MFN Tariff Rates
1	Ice cream and other edible ice, whether or not containing cocoa	24.2
19	Other mixtures of odoriferous substances and mixtures with a basis of one or more of these substances, of a kind used as raw materials in industry	21.7
23	Manicure or pedicure preparations	21.7
24	Other beauty or make-up preparations	22.3
110	Men's or boys' shirts, knitted or crocheted and of man-made fibres	21.3
111	Men's or boys' shirts, knitted or crocheted and of other textile materials	20.5
113	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted and of man-made fibres	21.3
114	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted and of other textile materials	20.5
132	Women's or girls' jackets, of synthetic fibres	21.3
135	Women's or girls' trousers, bib and brace overalls, etc., of synthetic fibres	21.3
137	Men's or boys' shirts, of man-made fibres	20.5
138	Men's or boys' shirts, of other textile materials	20.5
140	Women's or girls' blouses, shirts and shirt-blouses, of man-made fibres	21.3
141	Women's or girls' blouses, shirts and shirt-blouses, of other textile materials	20.5
149	Articles of jewellery and parts, of silver	26.7
150	Articles of jewellery and parts, of gold	26.7

151	Articles of jewellery and parts, of other precious metal	35.0
152	Articles of jewellery and parts, of base metal clad with precious metal	35.0
153	Articles of silversmiths' wares and parts	35.0
154	Articles of goldsmiths' and silversmiths' wares and parts, of precious metal	35.0
155	Articles of goldsmiths' and silversmiths' wares and parts, of base metal clad with precious metal	35.0
158	Articles of precious metal or of metal clad with precious metal, for other use	35.0
159	Articles of natural or cultured pearls	35.0
160	Articles of precious or semi-precious stones	35.0
161	Cuff-links and studs of base metal	35.0
162	Other imitation jewellery of base metal	24.7
163	Other imitation jewellery of materials not specified elsewhere	35.0
190	Electric motors for use in toys, of an output not exceeding 37.5W	24.5
204	Primary cells and primary batteries of manganese dioxide	20.0
221	Pick-up cartridges	35.0
222	Parts and accessories for turntables (record decks) or record-players	27.0
223	Transport mechanisms of cassette recorders	27.0
224	Other parts and accessories for video recording or reproducing apparatus	30.0
225	Other parts of products within HS headings 85.19 to 85.21	20.0
260	Other electrically operated wrist-watches, with opto-electronic display	23.0
261	Electrically operated clocks with watch movements	23.0
262	Electrically operated alarm clocks	23.0
272	Slide fasteners fitted with chain scoops of base metal	21.0
273	Other slide fasteners	21.0

Data Source: CEPA (2003)