

Summary of

Hong Kong and the Pearl River Delta: The Economic Interaction

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A project sponsored by
the 2022 Foundation

The Project

- In order to understand the economic potential of the Greater Pearl River Delta region, we decided to focus on the present and future economic interaction between Hong Kong the Pearl River Delta region. In addition to reviewing primary and secondary data, some 250 interviews were carried out with government officials, managers, academics, and other experts in Hong Kong, the Pearl River Delta region, Beijing, and elsewhere. The idea was to understand the nature of the economic interaction between Hong Kong and the Pearl River Delta region industry-by-industry and jurisdiction-by-jurisdiction. The overall picture of the economic interaction and how it might evolve in the future was built up from this detailed research. The research for the project took place from February to December of 2002.

The Project Team

- The project has been a true team effort. Professor Michael Enright and Chang Ka Mun provided overall direction and coordination for the project as a whole and for the development of the final document. Edith Scott, Jo Wilson, and Ng Cheuk Hung were primarily responsible for interviews, data collection and analysis, and drafting for the Hong Kong side of the project. Dr. Zhu Wenhui, Helen Chin, and Xu Xihua were primarily responsible for interviews, data collection and analysis, and drafting for the Pearl River Delta region part of the project. In addition, important support was provided by the Centre for Urban and Regional Studies at Zhongshan University in Guangzhou, which contributed key background pieces for the project.

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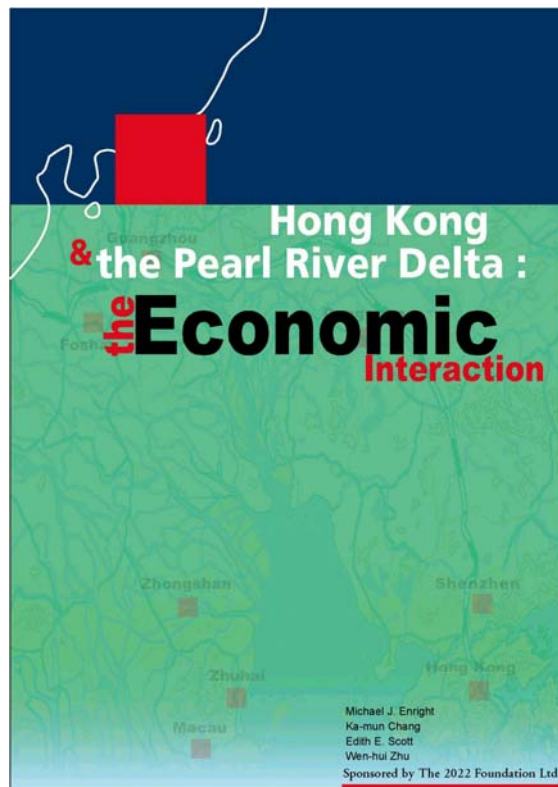
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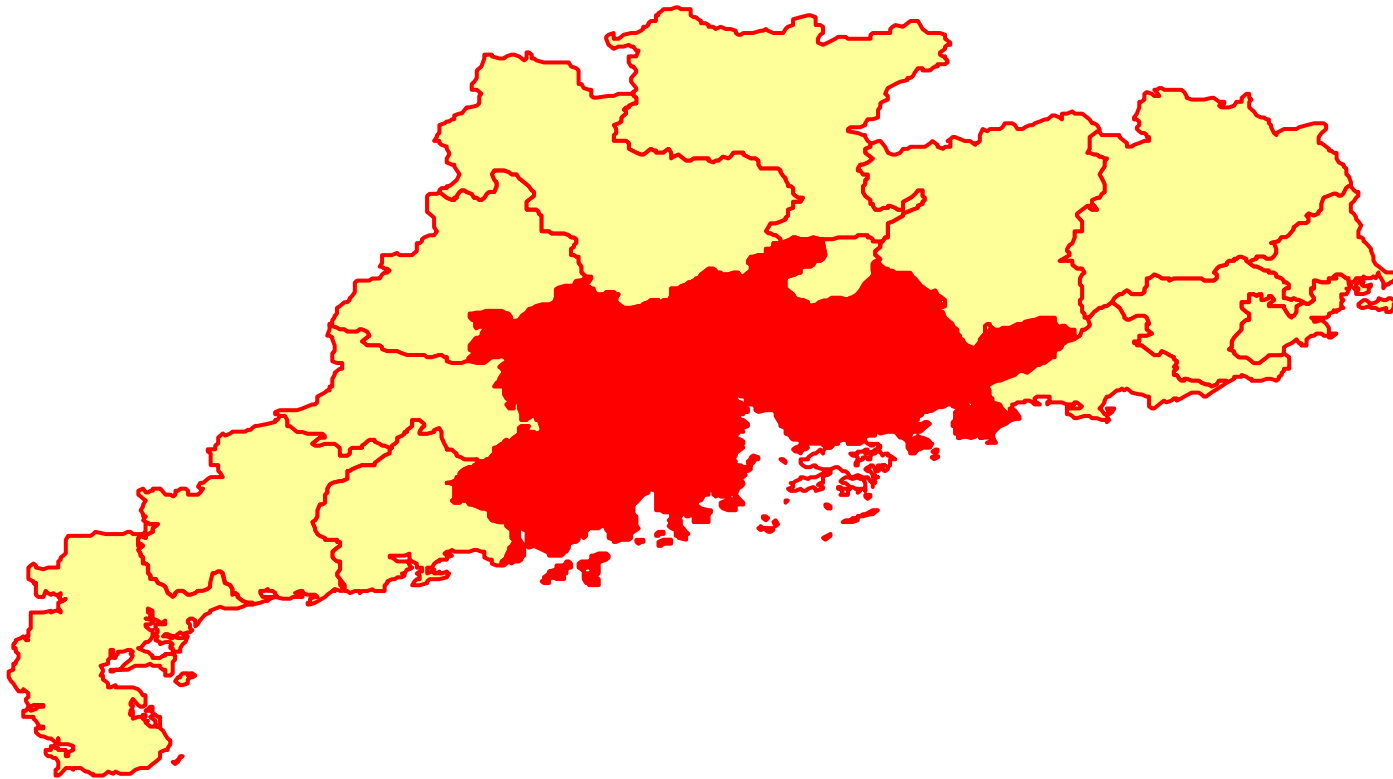
Raymond Kwok

Report



- Release date February 20, 2003
- The full report is available through the foundation's website:
- www.2022foundation.com

The Pearl River Delta Economic Zone



Jurisdictions in the Greater Pearl River Delta Region



Main Results

Economic interaction has been crucial to the region,...

- The economic interaction between Hong Kong and the Pearl River Delta region has been critical to the development of both economies. It has allowed the Greater Pearl River Delta region to become an economic powerhouse, whose strength vastly exceeds that which would have been possible for each jurisdiction in isolation. The Greater Pearl River Delta region has become the home for many internationally successful regional clusters of industries that will be difficult to displace.

...but many opportunities are being missed.

- Despite the importance of the economic interaction between Hong Kong and the Pearl River Delta region, there are many cases in which opportunities are being missed due to a lack of understanding in the region and due to barriers that exist to further economic interaction. The result is that a great deal of money is being left on the table in the Greater Pearl River Delta region.

Interaction will continue to grow...

- The economic interaction between Hong Kong and the Pearl River Delta region has been growing substantially and will continue to grow with greater experience with “one country, two systems,” with China’s entry into the WTO, with improved transportation and communication, and with an increased understanding throughout the “Greater Pearl River Delta region.” Natural economic forces will create both opportunity and pressure for further interaction.

...and a division of labour has emerged,...

- A complex division of labour has developed in which the Pearl River Delta region performs a wide range of manufacturing-related activities while Hong Kong performs management, logistics, finance, and other activities related to manufacturing, as well as a range of high-level professional services for the region. This division of labour has allowed the different economies in the region to focus on what they do best, contributing to the prosperity of the entire region.

...though several areas of competition exist.

- While the development of Hong Kong and the Pearl River Delta region has been largely complementary, there are several areas in which competition among jurisdictions in the Greater Pearl River Delta region takes place. The most obvious areas include port and logistics services, activities supporting manufacturing, and some retailing.

Economic trajectories are key...

- The future economic interaction, division of labour, and competition between Hong Kong and the Pearl River Delta region will be influenced by the overall economic trajectories of the different jurisdictions. In particular, they will be affected by the natural deepening and broadening of the economy in the Pearl River Delta region and the high-value service orientation of Hong Kong. Understanding the natural economic trajectories of the economies in the region will be crucial to firms and governments as they develop strategies to benefit from the interaction in the future.

...with the PRD economy to broaden and the Hong Kong economy to specialise.

- Overall, the economy of the Pearl River Delta region will become deeper and broader as the region produces more of the components and capital goods to supply its growing manufacturing base; as urbanisation, infrastructure investments, and transportation systems continue to grow; and as the rise of the service sector contributes to the region's growth. Hong Kong's economy, on the other hand, is likely to become even more specialised in providing high-value managerial, financial, information, and coordination activities, albeit for a broader range of industries and types of companies.

Interaction will become more important in the future.

- The economic trajectories of Hong Kong and the Pearl River Delta region imply that the economic interaction between Hong Kong and the Pearl River Delta region will become even more important to overall prosperity in the Greater Pearl River Delta region than has been the case in the past.

Most comparisons of the Pearl River Delta with other regions are flawed.

- Most of the existing comparisons between the Pearl River Delta region and other regions of China are at best misleading. In particular, comparisons with the Yangtze River Delta region often involve comparing an overly broad definition of the Yangtze River Delta that encompasses Shanghai, all of Jiangsu Province, and all of Zhejiang Provinces with an overly narrow definition of the Pearl River Delta region that encompasses only a portion of Guangdong Province, and excludes Hong Kong and Macao. False comparisons give misleading results that have the potential to influence investment decisions.

Many issues need to be addressed,...

- There are several issues that need to be addressed if both Hong Kong and the Pearl River Delta region are to take full advantage of their economic interaction in the future. There are misperceptions and misunderstandings about the Greater Pearl River Delta region that exist both inside and outside the region. The region has multiple jurisdictions and complex decision making that can hinder beneficial interaction. These jurisdictions tend to have a limited view of cooperation in the region and tend to go their own ways without thinking through the overall regional impact of their actions.

...including connectivity, regulations, and competition with other regions.

- There is limited understanding of the implications of the fact that the Greater Pearl River Delta region has more than one centre. Limits to connectivity between Hong Kong and Shenzhen, between Hong Kong and the western part of the Pearl River Delta region, and around the region in general provide barriers to business. Regulations on export processing facilities and international service firms in the Chinese Mainland hurt the economies on both sides of the Hong Kong-Pearl River Delta region boundary. Finally, competition with other parts of China, most notably the Yangtze River Delta, will shape the region's economy in the future.

Enormous potential exists for the Greater Pearl River Delta...

- The Greater Pearl River Delta region also has the potential to benefit from enormous opportunities. The region is very well-positioned to benefit from eventual recovery in global markets. It is well-situated to benefit from growing affluence and the eventual emergence of a single national market in the Chinese Mainland. As the most trade-oriented part of China, the Greater Pearl River Delta region will benefit from China's accession into the World Trade Organisation. It also will benefit from the development of South-western China and from closer economic ties between Hong Kong and the Chinese Mainland as a whole.

...and several implications are clear from our research.

- There are several implications that arise from our analysis of the economic interaction between Hong Kong and the Pearl River Delta region. The region needs to build off of past success, including the presence of small and medium-sized firms, market-orientation, and international linkages. It needs to foster more of a regional identity, so that people within the region think more in terms of “us and us” rather than “us and them”. Development planning needs to be improved to include cost-benefit analyses of major developments.

The “magic three hours” must be a target and goal,...

- Connectivity within the Greater Pearl River Delta region should be improved so that all main cities in the region can be reached from each other by land within the “magic three hours” that tends to govern the locations of investments, management, service provision, and purchasing. Streamlined border operations and a direct link between Hong Kong and the western part of the Pearl River Delta region would be particularly beneficial.

... the right interaction should be fostered,...

- There also is a need to develop the right interaction among the different actors in the region. Often the right interaction to foster business activity is between local government or Party officials in the Pearl River Delta and private business people from Hong Kong. There is ample scope for far greater cooperation in terms of information sharing and promotion of trade, investment, and tourism in the region. There also is scope to enhance the region's international linkages, one of its main advantages over other parts of China.

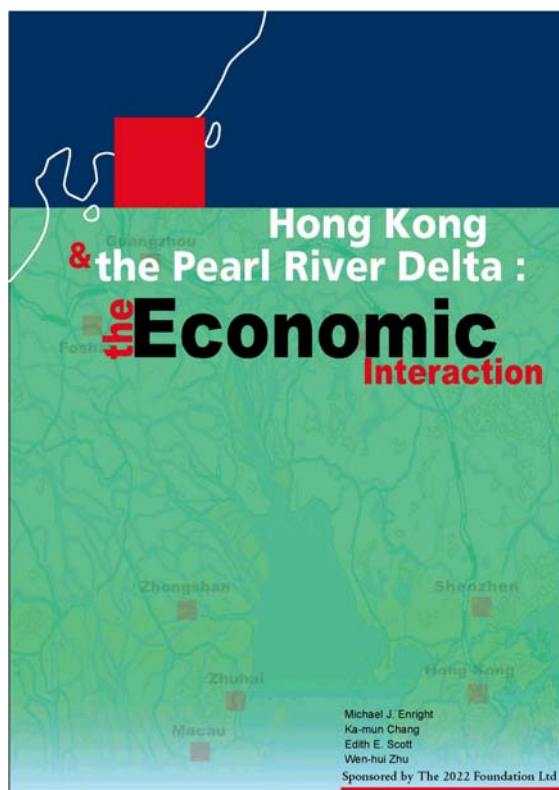
...and cooperation should be sought on specific issues with specific partners.

- While greater cooperation among jurisdictions in the region would be beneficial to all, in reality it will be difficult to obtain widespread agreement and cooperation on all issues. This implies that the various jurisdictions in the region should seek out some of the more obvious and easier avenues of cooperation in order to build understanding and trust. It also implies that each jurisdiction should try to identify natural allies on particular issues. It also implies that even in areas in which cooperation might not be immediately forthcoming, the creation of an environment in which jurisdictions at least take into account the strategies and advantages of other jurisdictions would benefit the region as a whole.

Interaction can be beneficial itself and can help jurisdictions deal with pressing issues.

- Finally, while greater economic interaction between Hong Kong and the Pearl River Delta region will foster additional development in both locations, both Hong Kong and the Pearl River Delta region face other issues that arguably are as important, if not more important, to their economic future. The key to productive interaction between Hong Kong and the Pearl River Delta region will be the extent to which the interaction will enable the individual jurisdictions to overcome their own challenges and ensure their prosperity.

For further information...



- For the analysis that underpins these conclusions, please refer to the complete project report, *Hong Kong and the Pearl River Delta: The Economic Interaction*
- Authors: Michael J. Enright, Ka-Mun Chang, Edith E. Scott, and Wenhui Zhu.
- www.2022foundation.com

The 2022 Foundation Vision and Missions

The Foundation's Vision

- The 2022 Foundation, as a non-profit organization, seeks to facilitate the development of a long-term vision of what Hong Kong can accomplish by deepening and widening its knowledge platform.

The Foundation's Missions

- To serve as a round table of bringing *together* experts and leaders from academe, business, government and other sectors from Hong Kong, Mainland China and abroad into active cooperation in the provision of objective and cogent data to decision makers of Hong Kong
- To foster cooperation in research in order to secure a better understanding of Hong Kong so that decisions can be made based on *sound* knowledge and *reliable* data
- To promote, stimulate and provide complementary funding for relevant studies that have significant interests
- To gather and collate technical information and to disseminate such information to the public

Intermediate Objectives

- Recognizes and articulates the importance of further and broader co-operation with the PRD
- Sponsors studies, seminars and workshops aimed at developing a better understanding of the PRD in relation to Hong Kong's prosperity
- Develops a website for the dissemination of relevant information to the public

Long Term Objectives

- Recognizes that Hong Kong must also understand its role *beyond* the PRD
- Supports interactions among academe, government and private sectors in Hong Kong, Mainland China and abroad in the exploration of *emerging* opportunities for Hong Kong to realize its long-term potentials

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Thank you

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