

Hong Kong's Position in Guangdong under "One Country, Two Systems"

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Hong Kong and south China have been undergoing a rapid process of economic integration since the 1980s. The model of "front shop and back factory" is known as the most typical in transborder cooperation utilising economic complementarity across the border. Economic integration of Hong Kong into the Pearl River Delta region is now becoming inseparable from transborder governance. The policy-making process is now an intriguing process of capital flow over a subregional economic space in southern China. This paper will revisit the economic restructuring process of Hong Kong in Guangdong under the "One Country, Two Systems" dictum.

Keywords: Economic restructuring, Economic integration, Hong Kong, Pearl River Delta region

JEL Classification: R58

I. Introduction

In 1996, Chan observed that full economic integration between Hong Kong and a rising China loomed large on the horizon, stating that "... a set of theories capable of explaining the divergent development processes (is needed)" (Chan 1996). Coinciding with the 12 years of Hong Kong's return to China's sovereignty, and on the eve of the first anniversary of the global financial crisis (credit crunch), this paper sought to review

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Hong Kong's position in Guangdong and the Pearl River Delta (PRD) since 1980s.

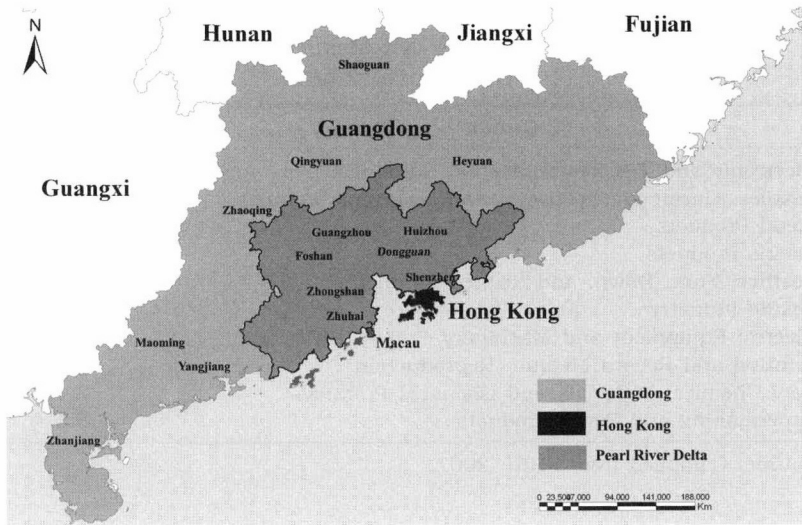
Research on south China's economic success has been presented in voluminous publications. This paper begins with a summary of the economic transformation from the perspective of firms. This is to be followed by detailed statistical presentation of major economic variables including trade, investment, and mobility of capital and people. The third section of this paper reviews recent development proposals earmarked for Hong Kong and the Pearl River Delta (PRD), with the evolving regional governance as backdrop. The paper concludes by arguing the relationship between economic downturns in 1997-1998 and 2008, coupled with the outbreak of severe acute respiratory syndrome (SARS) that prompted the Chinese government to craft various economic measures to support Hong Kong.

Hong Kong has survived these economic crises. The extent to which it can live up to the noble idea of "One Country, Two Systems" remains a contending proposition. It appears that a new epoch of economic restructuring is unfolding in south China.

II. The Pearl River Delta Region

Since the opening of China in 1978 until mid-1990s, the relationship between Hong Kong and the PRD can be described as "shops front, factory back" (see Map 1). Whilst the PRD has focused on manufacturing activities, Hong Kong has concentrated on higher value added businesses such as product design and marketing, promotion, and logistic activities. It was on this basis that Hong Kong and the PRD used to integrate and cooperate in the export of goods. The mode of cooperation has contributed to the transformation of the region into a metro economic centre.

The economic achievements of the PRD have made it outstanding. It produces the largest number of electronic and medical products and construction materials in China, and the second largest textile industry is located in the PRD. Furthermore, it produces 50% of the nation's colour television sets, one-third of the refrigerators, one-seventh of the washing machines, and one-tenth of the crude oil and natural gas output. The PRD represents 85% of the economic strength of Guangdong, and it is responsible for 90% of export of the province. Although its land area and population merely account for 0.43% and 1.8%, respectively,



MAP 1
LOCATION OF THE PRD IN GUANGDONG

of the country's total, it contributes up to 8% of China's GDP. The PRD has all the attributes and potential to develop into an international economic region in partnership with Hong Kong and Macau.

As before, Hong Kong continues to assume the leading role as source of foreign direct investments (FDI) in China. The PRD has attracted massive investments from Hong Kong as a typical case of exogenous urbanisation and industrialisation (Sit and Yang 1997). From 1979 to 2005, accumulated FDI from Hong Kong in Guangdong has risen to USD105.4 billion, accounting for 65% of the cumulative FDI in Guangdong (FHKI 2007). The number of Hong Kong enterprises in the PRD was estimated at 55,200, and the PRD is currently home to 57,500 factories (FHKI 2007). Within the nine cities in the PRD, Shenzhen and Dongguan were the recipients of the largest number of Hong Kong enterprises, accounting for 47% of total enterprises with funds from Hong Kong (FHKI 2007).

Although its investments continue to play a leading role among various source regions of FDI in Guangdong, Hong Kong's share of total FDI in the said province has declined in recent years (See Figure 1). Investments from other source regions — particularly Taiwan, Japan, US, and Singapore — have been more important to industrialisation in Guang-

TABLE 1
 SECTORAL COMPOSITION OF HK MANUFACTURING FIRMS IN
 GUANGDONG, 2007

| Sector | Percentage (%) |
|---|----------------|
| Electronic and Telecommunication Equipment | 17.4 |
| Textiles, Garments, Footwear, and Headgear Products | 13.6 |
| Metal Products | 10.5 |
| Plastic Products | 9.0 |
| Leather, Furs, Down, and Related Products | 7.7 |
| Textile Industry | 6.4 |
| Electric Equipment and Machinery | 5.4 |
| Printing and Record Medium Reproduction | 3.6 |
| Raw Chemical Materials and Chemical Products | 3.4 |
| Papermaking and Paper Products | 3.3 |

Source: Compiled from FHKI, 2007.

dong. For example, auto clusters fostered by Japanese investments in Guangzhou and the information technology (IT) cluster driven by Taiwanese electronics investments in Dongguan have attracted greater attention from both scholars and local policymakers (Enright *et al.* 2005; Wang and Tong 2005).

A recent survey conducted by the Hong Kong Trade Development Council (HKTDC) illustrated that majority of Hong Kong manufacturing firms operating in the PRD continue to specialise in the manufacture of textiles and garments, accounting for 23.4% of surveyed firms (HKTDC 2007). According to another comprehensive survey conducted by the Federation of Hong Kong Industries (FHKI) on nearly 2,529 enterprises in 2005 and 2006, the top three industries in the sample were the following: 1) electronic and telecommunication equipment (17.4%); 2) textiles, garments, footwear, and headgear products (13.6%); and 3) metal products (10.5%) (see Table 1).

More interestingly, although electronic and telecommunication equipment ranked first in the sample enterprises, majority of Hong Kong electronics firms remain concentrated on the production of electronic appliances rather than the manufacture of IT products (Chiu and Wong 2004). Therefore, it is generally accepted that Hong Kong manufacturing firms in the PRD, although having relocated for over 20 years, have not successfully upgraded, remaining engaged in the production of low-end products in various labour-intensive industries.

The unsuccessful upgrading of Hong Kong manufacturing firms can

be further illustrated by their OEM model of production. In a survey conducted by HKTDC, nearly 74% of 2,200 surveyed Hong Kong manufacturing firms reported that majority of their main business revenues were obtained from OEM production. Meanwhile, merely 6% of Hong Kong manufacturing firms have tapped into the OBM or ODM production (HKTDC 2007). Furthermore, Hong Kong manufacturers remain in favour of investing profits in real estate or the Hong Kong stock market as business strategy, instead of investing in research and development (Meyer 2008)

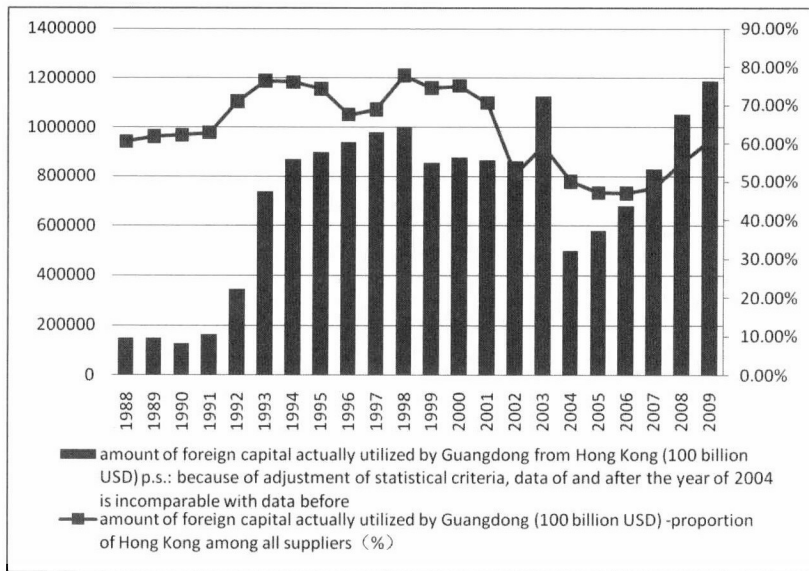
The fast-growing economy in mainland China, especially in the electronic and information technology industries, has gradually narrowed the gap between Hong Kong and the major coastal cities in the mainland. Hong Kong's comparative advantages are fading. For example, increment in GDP per capita in China is approximately 6%, representing growth from USD941 in 2000 to USD1,477 in 2004. On the other hand, GDP per capita in Hong Kong had dropped for 6% from 2000 to 2004, representing a decline from USD24,915 to USD23,410 (Earth Trends Environmental Information 2007). At the same time, the PRD is experiencing a rapid boom in the service industries. Changes in economic profiles have brought new perspectives to the economic cooperation between the two areas. They are partners as well as competitors (Yeh 2004).

III. Data Connected with Major Events Including Investment, People Movement, Trade, and so on

A. Investment

Amount of foreign capital actually used by PRD and that used by Guangdong (Figures 1, 2) from Hong Kong is in accordance with the development process of the HK-PRD relationship. Both variables remained at a limited value until 1992, which coincided with Xiaoping Deng's visit to Shenzhen in the said year. Subsequently, both increased significantly from 1992 to 1997, which is regarded as the initiation period of the HK-PRD relationship's development process.

From 1997 to 2000, the increasing amount of foreign capital actually used by the PRD gradually slowed down; this was due to the extension of domestic market and improvement of the PRD's economic independence, as well as Hong Kong's economic recession. On the other hand, from 1999 to 2002, amount of foreign capital actually used by Guangdong from Hong Kong began to decrease for the first time since 1988;



Source: *Statistical Yearbook of Guangdong*, various years.

FIGURE 1

AMOUNT OF FOREIGN CAPITAL ACTUALLY UTILISED BY GUANGDONG FROM HONG KONG (USD100 BILLION)

this was mainly due to the latter's economic recession. From 2001 to 2003, amount of foreign capital actually used by the PRD again increased rapidly, mainly due to the influence of China's entry to the World Trade Organization (WTO).¹ Changes in the Taiwanese investment pattern have been well articulated by Chen (2011) over the same period.

Because of adjustment in mainland China's statistical criteria, data in or after 2004 are incomparable with previous ones. However, from 2004 to 2009, rapidly increasing rate of the variable is noticeable. Within the said period, amount of foreign capital actually used by Guangdong

¹ Accession to World Trade Organization (WTO) has brought considerable changes to the profile of FDI and trading in China. On June 29, 2003, mainland China and Hong Kong concluded the main text of Closer Economic Partnership Arrangement (CEPA). This was followed by six annexes signed in September 2003 and the addition of five supplementary agreements signed in 2004, 2005, 2006, 2007, and 2008, respectively. As a result, it strengthened economic cooperation and integration between the mainland and Hong Kong (http://www.tid.gov.hk/english/cepa/legaltext/cepa2_note.html).



Source: *Statistical Yearbook of Guangdong*, various years.

FIGURE 2
 PRD AMOUNT OF FOREIGN CAPITAL ACTUALLY UTILISED
 (USD100 BILLION)

from Hong Kong again began to increase rapidly, coinciding with the Closer Economic Partnership Agreement (CEPA) and in keeping with the “fast growth phase” of the cross-boundary relationship.

In particular, it is observed that from 2003 to 2009, both outward direct investments from Hong Kong to mainland China and inward direct investments to Hong Kong from mainland China increased rapidly, compared with the previous phase. This was similar to the trend in outward direct investments from Hong Kong to Guangdong/PRD.

Although absolute value of investments between Hong Kong and the PRD/Guangdong region was enhanced significantly between 2003 and 2006, proportion of the amount of foreign capital actually used by Guangdong from Hong Kong among all suppliers has decreased evidently since 2001 (Figure 1), which coincides with China’s entry into the WTO. This lends support to the analysis of CEPA’s influence on closer relationship between Hong Kong and the PRD region, as well as PRD cities’ deeper involvement in the global market after China’s entry into the WTO.

B. Human and Cargo Movement

Average daily number of cross-boundary passenger trips increased from 115,000 in 1991 to 547,000 in 2009 (Crossboundary Travel Survey 2009). Meanwhile, average daily number of cross-boundary vehicle trips increased from 15,900 in 1991 to 40,400 in 2009. Both these variables have increased rapidly.

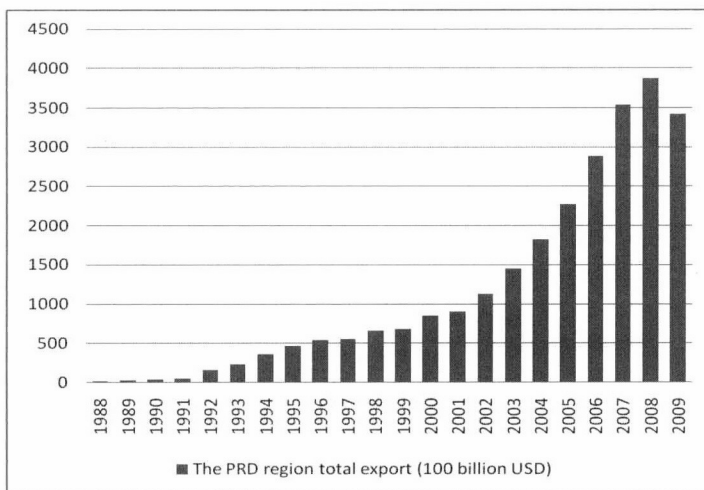
For the number of passenger trips by usual place of residence, Hong Kong residents accounted for the largest portion (Crossboundary Travel Survey 2009). Human movement across the boundary has been increasing; in particular, proportion of visitors from the mainland to Hong Kong in all passengers increased most rapidly during the period, compared with other parts. In the number of passenger trips made by Hong Kong residents to the mainland, those made for the purpose of leisure has increased significantly, especially since 2003. In other words, from the perspective of human movement across the boundary, interactions between Hong Kong and the mainland have experienced an upsurge.

C. Trade

With the exception of domestic exports, Hong Kong external merchandise trade aggregate figures increased rapidly from the 1980s to 1997. The said period is regarded as the initial stage of the Hong Kong-PRD relationship's development process. These figures decreased for the first time in 1998 and subsequently stagnated from 1998 to 2002, which coincided with Hong Kong's economic recession and the "adjustment period" of cross-boundary relationship. The figures have increased rapidly since 2003, coinciding with the initiation of CEPA and keeping pace with the "fast growth phase" of cross-boundary relationship.

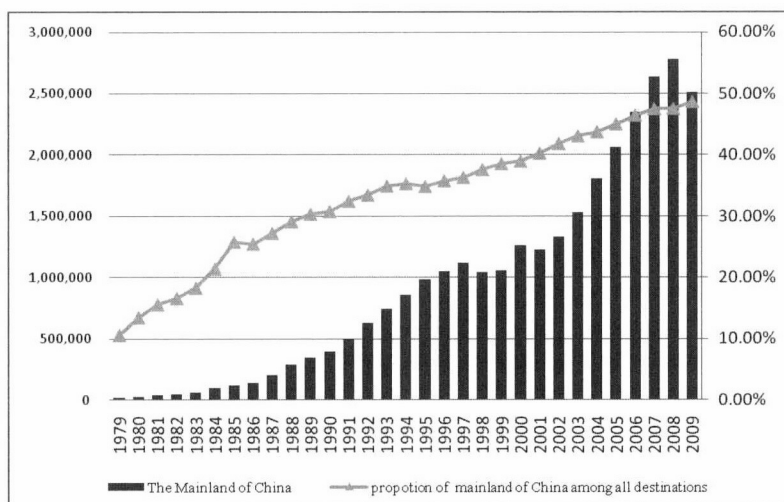
On the other hand, the PRD region's total exports (Figure 3) and total trade of Hong Kong with mainland China (Figure 4) both grew rapidly from 1988 to 1996. The PRD's growth slowed down from 1996 to 1999. Both variables again increased rapidly after 2000, coinciding with China's accession to the WTO. Particularly after 2003, increasing rates were considerably remarkable, coinciding with the initiation of CEPA.

The four variables — total export, reexport from Hong Kong to mainland China, total import, and reexport from mainland China to Hong Kong — exhibited a similar pattern. Firstly, they all increased rapidly and consistently before 1997. Subsequently, they either entered a period of stagnation or decreased from 1997 to 1999. They began to show signs of recovery in 2003. These turning points are in accordance with major



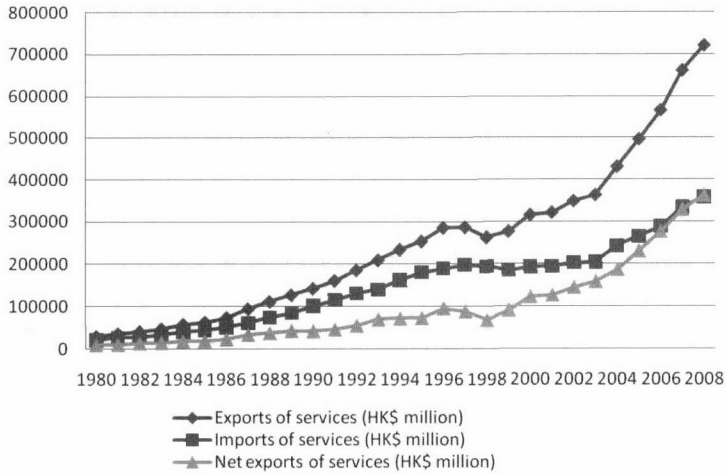
Source: *Statistical Yearbook of Guangdong*, various years.

FIGURE 3
PRD REGION'S TOTAL EXPORTS (USD100 BILLION)



Source: *Hong Kong Census and Statistics Department*, various years.

FIGURE 4
TOTAL TRADE OF HONG KONG WITH MAINLAND CHINA AND ITS PROPORTION AMONG ALL TERRITORIES (HKD MILLION)



Source: *Hong Kong Census and Statistics Department*, various years.

FIGURE 5

EXPORTS, IMPORTS, AND NET EXPORTS OF ALL HONG KONG SERVICES
(HKD MILLION)

events affecting transboundary interactions analysed hitherto.

Imports and exports of Hong Kong's services by major service groups increased gradually from 1980 to around 1997. They slowed down from 1997 to 2003 and yielded a marked growth thereafter, coinciding with the initiation of CEPA and Hong Kong's economic revival. In general, in terms of import of services, travel services ranks first, followed by transportation services, other services, merchanting and other trade-related services, financial services, and insurance services.

When it comes to Hong Kong's export of services by major service groups, transportation service, merchanting and other trade-related services, and financial services increased rapidly after 2003.

Through trial and error, local authorities within the PRD region managed to devise different strategies to harness the volatile and rapidly evolving economic environment. In the following sections, we will review two strategies, one at the regional (bottom-up) level and the other at the national (top-down) level. The two approaches will demonstrate how new development strategies have been formulated and put to practice during the different stages of economic development.

IV. Bottom-up Approach: The PRD Urban Cluster Coordinated Development Plan (UCCDP)

Among several plans and studies initiated by various ministries, the PRD Urban Cluster Coordinated Development Plan (UCCDP) (likewise called "Towards a Great Global Metropolitan Region") jointly initiated by the Guangdong Committee of the Communist Party, Guangdong government, and Ministry of Construction is the most significant. Providing a general framework for future development, UCCDP marks a significant change in the ethos of China's regional planning. The blueprint concept has shifted to a more regulatory approach, stressing on the policy basis of plans to legitimise intervention from upper-level governments. The normative contents of UCCDP are spelled out in 10 chapters; they were partially intended to offer substantial room for political efforts in exploiting the use of this planning, aimed at regaining control and improving the position of the PRD in the context of growing inter-regional competition.

- Chapter 1 defines the nature of the plan, boundaries of the PRD, and planning horizon, which spans 2004 to 2020.
- Chapter 2 outlines the development objectives and targets for population growth and land use. The overarching objective is to promote the structural competitiveness of the PRD and develop the delta into a significant world manufacturing base and a vigorous global metropolitan region. It reiterates the potential function of the PRD as growth engine of the national economy and China's gateway to the outside world. This directly spells out the resolution of Guangdong to compete with regions such as the Yangtze River Delta.
- Chapter 3 defines six spatial development strategies for urban systems. A central feature is the enhancement of existing central cities and growth spines and the provision of a balanced portfolio of sites to incubate peripheral development through policy inclination and resource allocation. This feature is intended to insert provincial visions of territorial growth into the fragmented pattern of regional development.
- Six spatial strategies are translated into detailed policies, which are set out in Chapter 4. Spatial and functional distribution of central cities, the major development axis, three subregions, and industrial clusters are defined in this chapter. These policies are intended to

select locations for investment whilst placing many other areas under strict provincial control.

- Chapter 5 focuses on inserting supporting systems. This chapter identifies ecological zones, sites for heritage conservation, and character areas. It likewise includes policies on integrated service provision and transportation. For example, it provides guidance on how to provide an integrated and balanced transport system, stressing the need to maintain and improve transportation networks, and to facilitate intercity transit systems. Economic justifications of this transport system have been closely intertwined with escalating inter-regional competition in place promotion.
- Chapter 6 considers policy zones and spatial regulation, and the “cutting edge” planning capacity of UCCDP. It sets up a hierarchical order of spatial control by dividing the PRD into nine policy zones, under four different levels of spatial regulation. The central idea is to amplify the supervisory and regulatory functions of the central and provincial governments and to downgrade the role of localities in land development and planning. For example, regional open spaces and transport corridors are under supervisory governance that is subject to the strictest state control. Cities and towns in these areas are no longer allowed to make independent investment decisions, nor can they alter defined uses.
- In Chapter 7, spatial guidance for individual cities is further articulated in detail so that the development of cities is in accordance with regional spatial strategies in an attempt to reduce local discretion.

Unlike other strategic plans, the UCCDP provides content on implementation. Chapter 8 specifies action plans to be laid down for projects. Chapter 9 advocates institutional reforms to ensure successful implementation of spatial policies.

There are two important proposals contained within the reforms. One is to establish the PRD Urban Cluster Planning Administrative Office under the Guangdong Construction Commission; the said office will undertake UCCDP-related works. The other is to promulgate the PRD Urban Cluster Planning Ordinance to legitimise spatial policies in the plan. This ordinance was endorsed by the Guangdong People’s Congress in July 2006 and implemented in December in the same year to become the first legal document guiding regional planning in China. The ordinance requires the establishment of a provincial government-led joint conference of PRD cities to provide a framework for political negotiations

regarding a number of regional issues, including economic growth, infrastructural planning, and environmental conservation. Institutional efforts are made to increase the legitimacy of central and provincial intervention in spatial formation.

V. Top-down Approach: Outline of the Plan for Reform and Development of the Pearl River Delta (2008-2020)

There exists a long-standing debate on poor coordination development in the PRD region, especially in the area of infrastructure projects. In the wake of the global financial crisis, the *Outline* was promulgated in January 2009 after extensive fact-finding as well as consultative process masterminded by the State Development and Reform Commission.

The *Outline* aims to create new competitive advantages for the PRD region from the perspective of strategic planning and long-term development of the whole nation. In facilitating the development of the rest of the country, the PRD region will be a model for emulation.

A. Building International Metropolis in PRD

Following its rapid economic development over the past 30 years under the reform and opening-up policy, the PRD region has evolved from an agricultural area into not only a manufacturing centre but one of the world's most robust economic regions as well. However, competition from other regions has emerged due to globalisation and changing regional economic development. The PRD economy, which depends heavily on external trade, is confronted with unprecedented challenges as overseas demand has markedly contracted amidst the global financial tsunami. The *Outline* urges the acceleration of reform and opening up of the PRD region as well as the upgrade and transformation of its industries. The *Outline* recognises the strategic importance of PRD in the development and economic planning of the nation and reinforces the PRD's position as a foothold for China's ongoing modernisation.

By allowing a higher degree of autonomy in cooperation among Guangdong, Hong Kong, and Macao, the *Outline* encourages closer economic integration and the development of a world-class international metropolis.

B. Optimisation of Regional Cooperation

The economies of Guangdong and Hong Kong have long been integrated. Complementing each other, the two sides have nurtured momentous economic achievements. However, as the social systems of the two places differ to a certain extent under the framework of "One Country, Two Systems," Guangdong and Hong Kong lack long-term macro political deployment with respect to infrastructure planning and industrial integration. The *Outline* incorporates cooperation and development among Guangdong, Hong Kong, and Macao into national planning, presenting a more comprehensive and detailed guiding thought for future cooperation.

C. Boosting Transport Infrastructure

The PRD is in urgent need of a comprehensive cross-border transport network and highly efficient ancillary facilities in light of the hectic economic and trading activities among Guangdong, Hong Kong, and Macao. It is necessary to fortify coordination and functional division among the major railway networks, ports, and airports in the region.

In particular, the *Outline* emphasises on improving transport links between the eastern and western parts of the Pearl River's estuary to form an integrated transport system with optimised network, reasonable arrangements, high operational efficiency, and close connections. Moreover, it promotes clear division and complementarity among ports and airports in the region. By 2020, volume of freight, container throughputs, and number of flight passengers in the PRD are expected to reach 1.4 billion tons, 72 million TEUs, and 150 million, respectively. The *Outline* encourages comprehensive cooperation between the PRD and Hong Kong in modern service sectors such as financial, professional service, and innovation and technology sectors. It provides a new momentum for the development of industries in the PRD.

The governments of Guangdong, Hong Kong, and Macao held the first Liaison and Co-ordinating Meeting earlier to discuss ways to implement the *Outline*. The meeting has reached a number of consensuses over issues of infrastructure, transport arrangements for enhancing connectivity, tourism, and environmental protection (*Sing Tao Daily* 11 February 2009, A10). They proposed to the Central Government that the extension of the Individual Visit Scheme and relaxation of entry-permit restrictions could be extended. This would create enormous business opportunities for tourism development in the Greater PRD (*South China*

Morning Post February 20, 2009, A2; March 4, 2009, A2).

VI. Regional Governance in Pearl River Delta

A. Current Coordination Framework

Thirty years after China opened up to the world, especially after Hong Kong's handover back to the mainland, a regional cooperation framework was gradually established. Central and local governments were key actors within this framework under the platform of the Hong Kong/Guangdong Cooperation Joint Conference (HKGDCJC). Cooperation was promoted through discussion, negotiation, and agreements covering various aspects such as infrastructure, environmental protection, trade, high-technology, education, protection of intellectual property rights, culture, sports, finance, health care, and food security.

B. At the Central Government Level

Coordination was conducted between the Central Government and the Hong Kong Special Administrative Region (HKSAR) government at the platform of coordination council. Major issues coordinated at this level were the administration of border and customs under the "One Country, Two Systems" framework and the regional economic promotion policies. The first category of coordination is mainly connected to planning and construction of cross border infrastructure such as bridges, road check-points, and railways. The second category provides opportunity to promote cross-border economic activities through favourable customs or border control policies such as CEPA and individual tourist visas for mainland residents.

C. At the Pan-PRD Region Level

Since 2003, the Pan-PRD Regional Cooperation Project ("9+2" model) has been widely accepted and approved; it was promoted by Guangdong Province and supported by the governments of Fujian, Jiangxi, Hunan, Guangxi, Hainan, Sichuan, Guizhou, Yunnan, Hong Kong, and Macao. Under the direction of the Central Government and relevant national governmental departments, as well as the full cooperation of the "9+2" governments, the Pan-PRD cooperation project has achieved preliminary development, which is currently experiencing an upbeat trend (Yeung and Shen 2008).

The Pan-PRD includes provinces and districts in the eastern, central, and western part of the mainland, in addition to Hong Kong and Macau. It accounts for one-fifth of the nation's area, one-third of the population, one-third of the nation's GDP (excluding Hong Kong and Macau). Economic cooperation in the Pan-PRD has a long history based on different economic features and specialties in different areas.

The Pan-PRD Regional Cooperation Project follows the "One Country, Two Systems" policy. All provinces and areas involved must obey the legislations and regulations of the People's Republic of China, Hong Kong, and Macau. Cooperation is carried out under the direction of the Mainland and Hong Kong Closer Economic Partnership Arrangement and Mainland and Macau Closer Economic Partnership Arrangement. As argued by Kim (2011), the future success of Hong Kong hinges on its degree of integration with the mainland. Cooperation likewise is carried out according to the general requirement of national economy and social development planning, following the guideline of harmonious regional development and sustainable development. It takes full advantage of different specialties and resources, mutual respect, and reciprocal cooperation. This cooperation follows the market economy principles to promote regional development, broaden regional cooperation, and improve cooperation level and quality to establish the pattern of interactive, reciprocal, and sustainable development. The aim of the project is to broaden the cooperative scale and create a competitive environment for the region as a whole.

The two cooperation platforms are as follows: Pan-PRD Regional Cooperation and Development Forum, and Pan-PRD Regional Business Cooperation Fair. They are held jointly by the nine provincial governments of the Pan-PRD region and governments of Hong Kong and Macau. The direction units include the State Development and Reform Committee, Business Ministry, State Department of Hong Kong and Macau Affairs Office, and State Development Research Center (Yeh and Xu 2008).

D. At the Guangdong and Hong Kong Government Level²



FIGURE 6
HK/GD COOPERATION JOINT CONFERENCE



Other expert groups are as follows:

1. Expert group on implementing CEPA
2. Expert group on cooperation in control points
3. Expert group on coordinating Hong Kong/Guangdong cross-boundary

² Information provided by Jimmy Leung at a presentation held at the Department of Urban Planning and Design, The University of Hong Kong, January 24, 2009.



- major infrastructure projects
4. Expert group on promoting the "Greater Pearl River Delta"
 5. Expert group on tourism
 6. Expert group on exchange and notification mechanism on infectious diseases
 7. Expert group on cooperation in innovation and technology
 8. Expert group on cooperation in education
 9. Expert group on the protection of intellectual property rights
 10. Expert group on expanding the Hong Kong/Guangdong economic cooperation hinterland
 11. Expert group on the holding of the Hong Kong/Guangdong economic cooperation seminar
 12. Expert group on cooperation in culture and sports
 13. Expert group on information exchange
 14. Tonngu Waterway expert group
 15. Expert group on sustainable development and environmental protection
 16. Expert group on Hong Kong/Guangdong Town Planning and Development

After the Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020) was published in January 2009, the existing coordination mechanism among Guangdong, Hong Kong, and Macao was upgraded and replaced by the "Guangdong, Hong Kong, and Macao Coordination Group" to cater to the needs of development of the PRD and the entire country. This group should be supervised and coordinated by the Central Government and relevant ministries and commissions for closer cooperation among the three areas.

FIGURE 7

EXPERT GROUPS ON HK/GD TOWN PLANNING AND DEVELOPMENT

E. Coordination between PRD Cities and Hong Kong



FIGURE 8

HK/SZ COOPERATION CONFERENCE AND PLANNING-RELATED AGREEMENTS

F. Major Characteristics of the Current Coordination

- Task-based coordination rather than overall strategic arrangement
- Mainly administrative agreement that lacks economic or legal arrangement

VII. Summary: Hong Kong's Position in Guangdong

Cooperation and integration between Hong Kong and the PRD help better utilise the two regions' comparative advantages to achieve complementarities. These have promoted the competitive advantages of the HK-PRD region, consequently enhancing regional competitiveness. As Enright *et al.* (2005, p. 132) maintained, these complementarities have contributed to competitiveness, not just of Hong Kong and PRD but of the entire Greater PRD region as well.

Before China's economic reform marked by the establishment of Shenzhen and Zhuhai Special Economic Zones (SEZs), the PRD region and Hong Kong have been separated physically by the boundary between the mainland and British colonial government. However, due to their geographical proximity and racial and cultural relations, they communicated in different ways, forging the basis for transborder interactions (Chan and Hu 2002).

Five stages have been identified to reveal the relationship between Hong Kong and the PRD region after the economic reform. As summarised in Table 3, the second stage (1980 and 1998) is characterised by the "front shop (Hong Kong) and back factory (PRD)" model in production process. The model represents a "patron and client" relationship in which Hong Kong dominated in virtually every salient aspect whilst the other cities within the region attempted to follow suit (Figure 9-a).

Between the late 1970s and the early 1980s, the rising cost of production in Hong Kong threatened local competitiveness (Chan 1996; Begg 1999; Sit 2001). Such stress coincided with the opening of mainland China, leading to relocation of manufacturing activities from Hong Kong to the PRD. Since then, the PRD has developed into a global manufacturing powerhouse (Enright *et al.* 2005).

Figures 10 and 11 respectively capture the evolving economic structure of Hong Kong and the PRD. The pace of tertiarisation has been levelled off in Hong Kong whilst the secondary and tertiary sectors in the PRD have increased at the expense of the primary sector since 1980s. The PRD is becoming increasingly competitive with the influx of capital, tech-

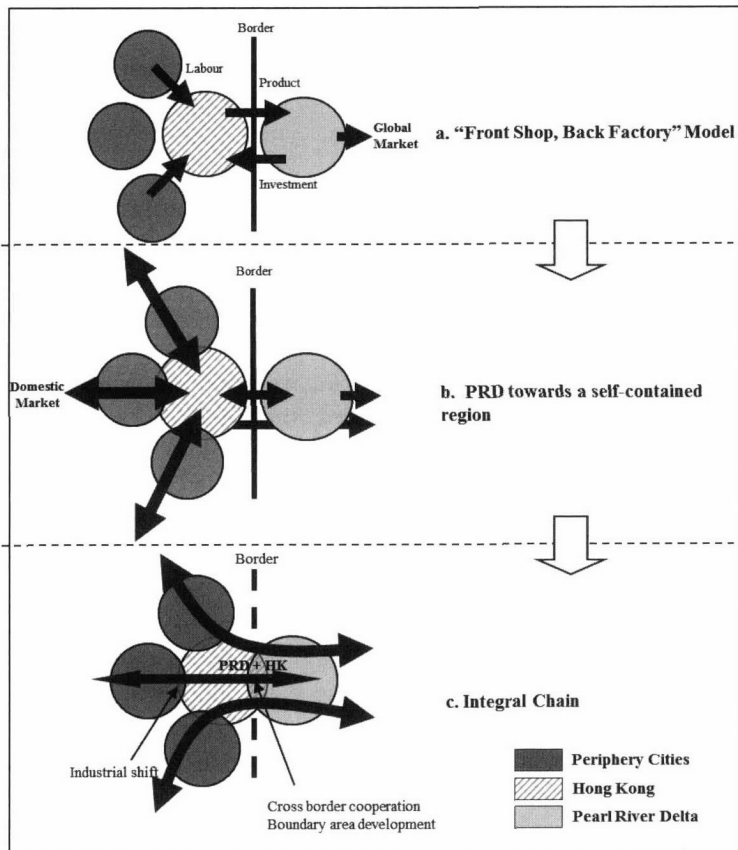
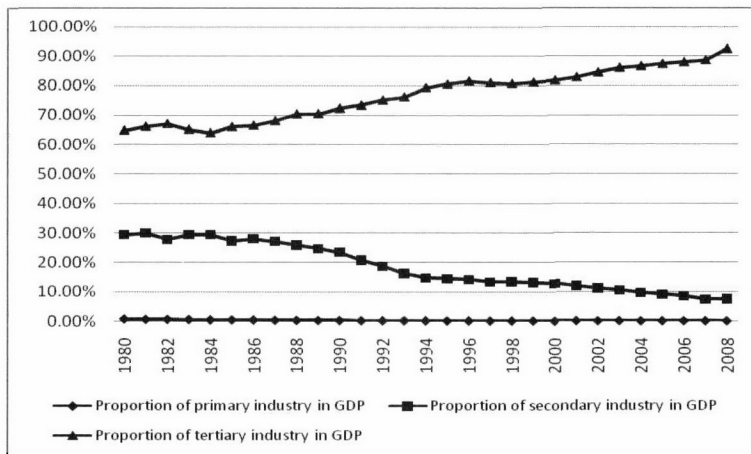


FIGURE 9
CHANGING HK AND PRD BORDER DYNAMICS

nology, advanced managerial skills, and an expanding global market.

The rise of the secondary sector in the PRD and the tertiarisation of Hong Kong's economy have led to regional industrial transformation in less than three decades. All these have promoted the competitive advantages of the Hong Kong-PRD region through improvement of sectoral trends, business environment (particularly cost of factors of production), capacity for innovation and technology, and integration of company characteristics into the global market. Consequently, the regional competitiveness of Hong Kong-PRD region has been enhanced.

In the third stage (1998-2003), the PRD cities no longer relied unilaterally on Hong Kong due to the latter's economic recession. Rapid de-



Source: Hong Kong Census and Statistics Department, various years.

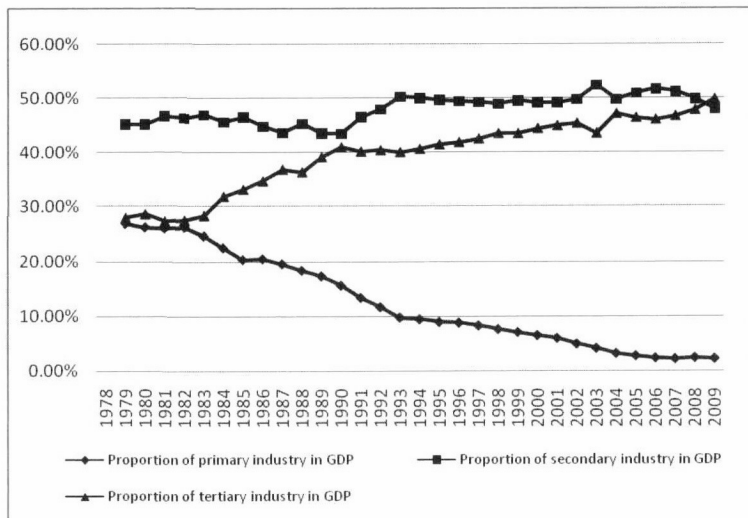
FIGURE 10
INDUSTRIAL STRUCTURE OF HK

velopment of PRD has informed economic independence, further promoting the development of industrial sectors such as electronic and communication equipment, and electrical machinery and equipment.

Demand generated from the global and domestic markets further contributed to the rise of the PRD's productivity. The PRD began to reposition its status as a self-contained region rather than a production arm for Hong Kong. More coastal cities have intensified port development for export-oriented trade. Trans-boundary interactions between Hong Kong and the PRD during the adjustment period showed a symbiotic relation (see Figure 9-b).

Hong Kong suffered from the Asian financial crisis in 1997. In 2003, mainland China and Hong Kong was saddled by the outbreak of severe acute respiratory syndrome (SARS). During this period, the PRD improved its economic independence and began to reposition itself as a self-contained region, eventually developing into a global one. Moreover, other institutional barriers prevented Hong Kong and the PRD from deeper integration and cooperation, such as policy restriction difficulties in transferring RMB to Hong Kong, congested cross-boundary traffic, and border barriers (Chan 2006).

The fourth stage (2003-2008) is referred to as the "fast growth stage" of cross-boundary relationship. Different from the previous two stages



Source: *Statistical Yearbook of Guangdong*, various years.

FIGURE 11
INDUSTRIAL STRUCTURE OF PRD

that were predominately firm-based, it is signified by inter-governmental participation in promoting closer relationship, especially highlighted by the changing attitude of Hong Kong SAR government from a non-interventionist approach to one that acknowledges the mix between government and the market. The notion of “big market, small government” has become increasingly prevalent.

According to Yeh and Xu (2008), the Greater PRD (PRD, Hong Kong, and Macao) cooperation achieved a breakthrough in 2003 when Hong Kong, Macao, and Guangdong signed free trade zone agreements. The signing of CEPA has contributed significantly to improved cross-border integration and deeper cooperation by providing faster and easier market access in the mainland for 18 Hong Kong service sectors. The Hong Kong domestic market expanded significantly. With the advent of CEPA, businesses and officials became considerably more open to new opportunities across the boundary in both directions. Hong Kong’s economic positioning was to become Asia’s world city and an international financial centre.

The general trend of industrial structure of Hong Kong and PRD in this period has not changed (Figures 10, 11). Increasingly, Hong Kong’s

TABLE 2
CROSS-BORDER ECONOMIC INTEGRATION AND
DEVELOPMENT IN THE PRD REGION

| Stage | Landmark event | Agreement/ interaction between PRD and HK | Policy/plan in relation to transborder cooperation | |
|--------------------------------------|--|--|--|--|
| | | | PRD | HK |
| Embryonic stage (before 1980) | Establishment of Shenzhen and Zhuhai Special Economic Zones (SEZs) (1979) | Agreement of water supply from Baoan to HongKong(1960) | | |
| Initial stage (1980-1998) | Deng Xiaoping's visit to Shenzhen (1992) HK handover (1997) | New construction of ports (e.g., Luohu port 1984; Huanggang port 1985; Wenjindu port 1985); investment from HK | • "One Country, Two Systems" idea and "open door" policy • Officially proposed "PRD economic development zone" (1994) | |
| Adjustment stage (1998-2003) | Asian financial crisis (1998) Guangdong-HK joint conference (1998) China's accession to WTO (2001) | Guangdong-Hong Kong joint conference (1998); Huanggang port, open 24 hours for border-crossing (2003) | | |
| Fast growth stage (2003-2008) | CEPA (2004) | • Pan PRD "9+2" forum agreement • HK-SZ "1+6" agreement (2008) • Individual visitor scheme (IVS) from Chinese cities to visit HongKong | Coordinated development plan for PRD metropolitan area | • Chief Executive's Policy Address • Towards a Hong Kong-Shenzhen Metropolis (2008) • Hong Kong 2030 |
| New epoch of cooperation (post-2008) | • Global credit crunch (2008) • Outline of the plan for the reform and development of the PRD region (2009) | | • The "double shift" policy (2008) • "Replace the cage and change the bird" policy | |

economy has become focused on high value-added, knowledge-intensive activities involving management, coordination, finance, information, market development, and business services (Enright *et al.* 2005). Hong Kong's exports of transportation service, merchanting and other trade-related services, and financial services increased rapidly after 2003, which complemented its goal of focusing more on high value-added producer services.

The economic trajectory of PRD over the next decade will be characterised by modernisation, deepening and broadening of the industrial base, urbanisation, and greater openness. Industrial structure of the PRD is currently experiencing an upgrade towards the hi-tech industry and basic producer service industry.

The current stage is earmarked by the *Outline* released by the State Council in 2009. This may be identified as a new era of cooperation towards an integrated chain for cross-boundary partnership. Further cross-boundary cooperation and integration in this stage contribute greatly to the mutual complementarities and enhance competitiveness of Hong Kong, the PRD, and Greater PRD region. Contrary to the previous two stages, it is the macro influence, particularly policies, that induces and contributes to the improvement of other variables of the determinants of competitiveness.

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