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## Hong Kong's Competitiveness Still Shines 10 Years After Its Reversion to China

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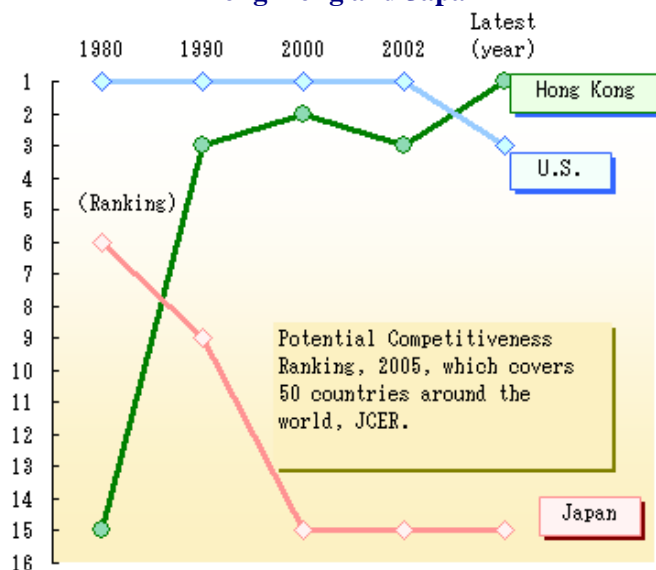
*Hong Kong's presence appeared to have diminished and its glitter seemed lost due to its reversion to the People's Republic of China. But the truth of the matter is, Hong Kong's competitiveness has risen rather than declined. What is the source of its strength? A visit to the territory reveals that the ability to come up with flexible ideas, and the capacity to act as the occasion demands, as only Hong Kong could, as well as its strategy to function as a hub for flows of people and goods, are the factors most responsible.*

### Stronger Than Ever, Rather Than Being Buried

Hong Kong, which was once in the limelight as one of the newly industrializing economies (NIES), was returned to the People's Republic of China from the United Kingdom in 1997. Now, almost a decade after its reversion to China, the assumption is that Hong Kong has been overshadowed by China, a giant whose surging economy is the locomotive of the world economy, and that it has lost its past glitter and presence.

This assumption is probably shared by more than a few people. Surprisingly, however, when the strength of countries and regions is measured using economic data and other indicators, it is found that Hong Kong has become more competitive than ever. Potential Competitiveness Ranking, 2005, which this center compiled at the end of last year, found that out of 50 countries and regions in the world, Hong Kong was the most likely territory to see the highest per capita GDP growth in the next 10 years (it was in third place in 2002). This is in sharp contrast to Japan, which ranked 15th, despite hopes that it would rise from its "lost decade." Hong Kong ranked second in World Competitiveness Yearbook, 2005, which was compiled by the Institute of Management Development (IMD) in Switzerland. (Hong Kong ranked sixth in 2004).

**Light and Shadow in Competitiveness:  
Hong Kong and Japan**



Where does this gap between Hong Kong's image and the ranking results come from? In mid-February, and with this question in mind, this writer visited Hong Kong and the South region of China, which has close economic relations with Hong Kong. He explored the sources of Hong Kong's strength by visiting businesses and factories, and exchanging views with analysts and experts.

### *“Hub” for Flows of People and Goods*

Hong Kong receives high marks in the overall ranking of potential competitiveness, because it ranks first or second in three out of the eight items that constitute the basis for evaluation. They are internationalization, finance and infrastructure.

Hong Kong ranks high in “internationalization” because of the upward trend in its amount of trade, which is attributable to an expansion in its trade with China, as well as to an expansion of foreign direct investment. In 2005, the total amount of Hong Kong's merchandise trade increased 11 percent above the level of the previous year to 587.0 billion U.S. dollars, maintaining double-digit growth. Service trade was also buoyant in 2005, rising by 9 percent from the previous year to 93.8 billion U.S. dollars. In the field of finance, Hong Kong's place as the financial center of Asia is sound.

What, then, is the strength of Hong Kong's infrastructure? In the determination of ranking, factors relating to physical distribution, such as the volume of container cargoes handled and the ratio of paved roads, are important items of evaluation. In marine transportation, in 2005, Hong Kong ceded its position as the world's top port in terms of the volume of maritime containers handled, but it is still vying in the top group. In air transportation, in 2004, international air cargoes handled in Hong Kong reached 3.09 million tons, sharply exceeding those at Tokyo (Narita), Seoul or Anchorage.

Hong Kong's strength in physical distribution can be seen in areas that do not appear in statistical data. An example is Hong Kong Air Cargo Terminals Limited (HACTL), which handles air cargoes at Hong Kong International Airport. In 2005, the company handled more than 2 million tons of air cargoes, chalking up an 8 percent-growth from the year earlier. While it strives to increase its business volume, it is also working hard to offer superior services for the convenience of clients. It is not merely carrying out the collection and transportation of cargoes efficiently, but has taken the bold step of creating a network with the Chinese Customs Office to offer a package of collection and transportation of cargoes combined with customs procedures. Under this system, cargoes arriving at Hong Kong International Airport are shipped in bonded trucks to the South region of China (which is close to Hong Kong geographically) and hence are not required to be checked at the border. They go through customs clearance after they are in the hands of consignees, thus cutting greatly the time and effort required.

Hong Kong's dedication to serving as a hub (center) for flows of people and goods can really be felt, when one moves around in Hong Kong International Airport with heavy luggage. Its design concept of eliminating steps as much as possible and enabling access

to public transportation right from the airport gates is in sharp contrast to that of Narita, where one has to struggle with heavy luggage.

Also responsible for Hong Kong's rise in overall ranking is the fact that, while maintaining its conventional strength in physical distribution and other areas, in the area of science and technology, where Hong Kong used to rank low, it has sharply revised upward the ratio of engineers in the research and development sector from slightly under 100 (as of 1995) to slightly over 1,500 (as of 2002) per 10,000 R&D staff.

### *Meeting Needs Rather Than Aiming at Quantitative Expansion*

The question then is whether Hong Kong will be able to remain competitive. Even with respect to the highly competitive area of infrastructure, some people in the Japanese shipping circle in Hong Kong express concern, saying, "What will happen to Hong Kong, if Chinese ports and harbors continue to grow in scale?" In fact, when asked which airport (out of Japan's Narita, South Korea's Incheon and the airport in China's South region) will likely become Hong Kong's rival in the future, Dr. David J. Pang, Chief Executive Officer of Airport Authority Hong Kong, has responded, "It is the airport in South of China." He is aware that China is a potential rival.

If Hong Kong competes quantitatively with China, which runs with all its might on its astounding growth path, it will very likely be overtaken. Therefore, the key to Hong Kong's future competitiveness appears to be whether or not it will be able to further enhance its function (somewhat akin to that of a "general trading company") of carefully identifying and meeting diverse client needs in the areas of infrastructure, finance, etc., by taking advantage of its unique ability to think flexibly and act as the occasion demands.

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