

*To remain viable, experts say territory needs to find a role in China's Belt and Road Initiative*

ALBERT WAI IN HONG KONG  
albertwai@mediacorp.com.sg

**HONG KONG**—During the past two decades since returning to Chinese rule, Hong Kong's economy has benefited greatly from being plugged into China's economic boom. But with the Chinese economy maturing, and cities in the country fast becoming global hubs of their own, Hong Kong's continuing economic relevance has come under the spotlight.

In charting its economic future, the city will need to carve out a niche for itself in the growing Pearl River Delta region, as well as in major Chinese infrastructural initiatives such as Belt and Road projects, according to experts interviewed by TODAY.

Dr Karen Lai of the National University of Singapore's (NUS) geography department, who has studied Hong Kong's role as a global financial centre, said that the city's economy has done "relatively well" in the past 20 years, including through the 2008 global financial crisis.

"Much of that has benefited from the strong Chinese economy and buoyant activities of firm investments, initial public offerings, real estate deals and other financial transactions from mainland China ... Hong Kong has certainly benefited given its economy is very closely connected to mainland China," she said.

Days before the 20th anniversary of the handover on July 1, the Hong Kong government released a set of statistics highlighting the city's achievements. Its GDP grew from about HK\$1.3 trillion (S\$229 billion) in 1997 to roughly HK\$2.5 trillion in 2016.

Other achievements include a roughly 50 per cent increase in GDP per capita and about a 2.5 times increase in fiscal reserves in the past 20 years.

Impressive as the numbers are, there have been reports of Hong Kong slipping down rankings of global financial centres and container ports.

Singapore was ranked third in a Global Financial Centres Index published earlier this year, with Hong Kong in fourth place. Shanghai was placed 13th this year, up three places from the year before.

In 2015, Hong Kong was in third place.

Hong Kong's ranking is believed to have been affected by political instability following a mass civil disobedience movement in 2014, as well as unstable Chinese financial markets.

For container port rankings, Shanghai and Singapore are now ranked first and second respectively. Hong Kong has slipped to fifth place, from first place in the early 2000s.

During the past few years, the Chinese-ruled city has seen its advantage as a shipping hub eroded as the main-

# 20 years after handover, Hong Kong stands at an economic crossroads



**An aerial view of the 18sqkm Qianhai area, in the southern Chinese city of Shenzhen, near Hong Kong. Companies registered in Qianhai that meet certain criteria enjoy a preferential tax rate of 15 per cent, compared with the standard 25 per cent. PHOTO: REUTERS**

land continues to liberalise its trade and shipping policies.

High cost has also been a factor. Terminal handling fees in Hong Kong are said to be about 30 per cent higher than at other ports in the Pearl River Delta.

Experts have also said that Hong Kong's international airport may soon be edged out by Guangzhou as a hub.

Professor Ting Wai, who is with the department of government and international studies in Hong Kong Baptist University, noted that many foreign businessmen feel they no longer need Hong Kong as a gateway to China.

"They can directly invest in China. So Hong Kong is losing this role as a middleman and as a gateway," he said.

However, Prof Ting noted that Beijing has been talking up Hong Kong's significance as a financial centre for supporting President Xi Jinping's signature Belt and Road Initiative (BRI).

"I think this is the last important function of Hong Kong. We are a real international financial centre ... Mr Leung (Hong Kong's former chief executive Leung Chun-ying) always called us a super-connector. We can link, for example, Chinese enterprises that want to invest in Kazakhstan. We can become an arbitration centre since our rule of law is still well respected," he said.

Dr Witman Hung, the principal liaison officer in Hong Kong for the authority managing the Qianhai development zone in Shenzhen, concurred.

"In Hong Kong, just like in Singapore, we have a common law regime. It makes it a very natural place for a global asset management centre for Chinese enterprises," he said. "Right now, the BRI is just at its beginning,

there will be more and more of these projects. Hong Kong being connected to both the Western world and Chinese world, culturally and language-wise, we should be able to jump on the bandwagon and do it."

## GREATER BAY AREA

Dr Hung said another advantage that Hong Kong should capitalise on is its position within the "Greater Bay Area" — a central government initiative to integrate Pearl River Delta cities in Guangdong province with Hong Kong and Macau to form a global innovation hub.

"The problem is that Hong Kong is still seeking the next new engine of growth," he said.

"If Hong Kong is part of the Greater Bay Area, then there is a lot of critical manufacturing, and we will have a complete supply chain, from research in Shenzhen and high-tech manufacturing in Dongguan and Zhongshan."

The Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation zone, which is only one hour by car from Hong Kong, focuses on financial services, logistics, information services and start-ups.

Companies registered in Qianhai that meet certain criteria enjoy a preferential tax rate of 15 per cent, compared with the standard 25 per cent.

Several prominent banking institutions, such as the Hong Kong Shanghai Banking Corporation, China Construction Bank and Hang Seng Bank, have opened branches in Qianhai.

Construction of the Qianhai zone is expected to be completed in 2020.

Dr Hung asserted that Hong

Kong and Shenzhen can complement each other.

"Hong Kong is very strong in terms of finance, rule of law, free flow of information and money. But we lack the kind of innovation industry that Shenzhen is very strong in," he explained, adding that Shenzhen has been gaining a reputation for being the Silicon Valley of China.

"It (Shenzhen) is not there yet but has the highest GDP growth in terms of being tech driven ... It attracts talent from all over China. It also has more capacity in terms of land for development," he added.

"Without Hong Kong, Shenzhen lacks international touch ... Hong Kong has been well accepted as a part of the international community. Shenzhen is not."

However, it remains to be seen if Hong Kong enterprises are convinced about Qianhai's value proposition.

Out of about 100,000 companies registered in Qianhai, only about 4.5 per cent are from Hong Kong.

Mr Albert Lai, policy committee convener of The Professional Commons think tank in Hong Kong, said the city's closer economic integration with the Pearl River Delta is a "natural development". He noted that ports in China have lower costs and are closer to the goods in demand.

But Mr Lai also said there might be drawbacks in Qianhai. "Despite all the talk of development, (what) they want is to have a slice of Hong Kong's financial sector," he said.

## STAYING OFF COMPETITION

Despite facing stern competition from Shanghai as a financial centre, Hong Kong still enjoys several advantages.

The city is known for having an open and competitive business environment, a sound regulatory framework, and low corporate tax rate.

It is also the world's largest offshore yuan centre and Asia's largest asset management centre.

Looking ahead, the government is attempting to beef up Hong Kong's credentials as a fintech hub, with the authorities actively renewing policies and processes to support the industry.

Civic Party Leader Alvin Yeung told TODAY in an interview: "Shanghai is still far from us (Hong Kong). We are part of the international system while they are still trying to join the club."

The opposition lawmaker added that the strong rule of law in Hong Kong acts as its "safety net", allowing the city to remain relevant as an international financial centre.

Dr Lai of NUS added that Hong Kong is much more sophisticated than Shanghai as a global financial centre, "in terms of the range of firms and actors, quality and depth of capital markets, financial products and services on offer, and the quality and experience of the labour pool".

"The different legal and regulatory environment accounts for a great deal of such differences. However, all of the above can change and are changing."