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Shanghai: Another Hong Kong?

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Introduction

Shanghai and Hong Kong are both well known internationally as leading business and economic centers in Asia. Shanghai's reputation was established primarily before the Second World War when it was one of the most open and secure cities in a land of unending turmoil; it became known to some as an "adventurer's paradise". Hong Kong emerged onto the international scene after the Second World War as one of Asia' greatest economic miracles and the world's freest economy. In some ways, Hong Kong's rise was partly a consequence of Shanghai's decline after China embarked on a course of socialist experimentation.

Table 1: Major Indicators in 2001

	Hong Kong	Guang-dong	Greater PRD*	Shanghai	Jiangsu	Zhejiang	Greater YRD
Area (sq km)	1,099	179,757	180,881	6,300	102,600	103,636	212,536
Population (mn)	6.8	85.2	92.4	16.1	73.5	45.2	125.3/ 134.8
GDP (USD bn)	164.0	129.0	298.8	59.8	114.9	81.5	256.3
GDP per capita (USD)	24,118	1,509	3,233	3,715	1,562	1,804	2,029
Industrial structure:							
--Industry	9%	44%	24%	43%	45%	46%	45%
--Services	83%	40%	65%	51%	37%	38%	41%
Total trade (USD bn)	391.6	176.5	572.7	120.5	51.4	32.8	204.7
--Exports (USD bn)	190.1	95.4	287.8	68.0	25.1	23.0	116.1
--Imports (USD bn)	201.5	81.1	284.9	52.5	29.4	9.8	91.7
FDI (USD bn)	22.8	13.0	35.8	4.4	7.1	2.2	13.7
Loans & Advances of Banks (USD bn)	280.2	158.2	438.4	103.2	80.6	78.3	262.1
Deposits in Banks (USD bn)	436.8	234.7	671.5	135.9	117.2	106.6	359.7

Note: Greater Pearl River Delta (PRD) includes Hong Kong, Macao and Guangdong; Greater Yangtze River Delta (YRD) includes Shanghai, Jiangsu and Zhejiang.

Today Hong Kong is well ahead of Shanghai in terms of total and per capita Gross Domestic Product (see Table 1). Hong Kong's GDP is nearly 3 times that of Shanghai and per capita GDP is more than 6 times. Total trade intermediated by Hong Kong is more than 3 times that of Shanghai. The loans and advances made by the banking sector in Hong Kong is about 3 times that in Shanghai, and similarly for bank deposits. Foreign direct investment flow into Hong Kong in 2001 was 5 times that of Shanghai. Hong Kong's economic accomplishments today are being achieved with a population of less than 7 million, while Shanghai has over 16 million.

Nevertheless the economic growth of Shanghai is nothing short of spectacular. The city has been able to achieve an annual growth rate in excess of 10 percent in the past 10 years (see Table 2). Hong Kong's growth rate in the same period is only one-third that of Shanghai. If these growth rates were sustainable into the future, Shanghai would overtake Hong Kong in less than 15 years. And it will take 20 years for Shanghai to catch up in terms of per capita GDP. Such mechanical projections may not be justified, but the idea that Shanghai will rapidly narrow the gap and Hong Kong's current lead may be eroded cannot be dismissed.

Table 2: Average Annual Growth Rates of Major Indicators in 2001

	Hong Kong	Guang-dong	Greater PRD*	Shanghai	Jiangsu	Zhejiang	Greater YRD
Real GDP							
1978-88	9.0	13.6		9.9	15.1	16.1	
1989-97	4.9	15.0		10.7	12.8	13.4	
1998-01	2.2	10.0		10.3	10.5	10.4	

Despite Shanghai's delayed re-integration with the world economy, its impressive achievements have caught the world's attention. Shanghai is increasingly seen as Hong Kong's competitor. Competition between the two will grow against the background of a more open mainland market as a result to China's accession to the World Trade Organization (WTO). There are concerns that the role of Hong Kong as a gateway to China will diminish with the emergence of Shanghai. Such concerns exist even in Hong Kong, where confidence has been shaken in recent years after the collapse of asset prices, slow economic growth, rising unemployment, and unending deflation.

Will Hong Kong remain attractive to foreign multinational companies? Will Hong Kong's economic hinterland in the Pearl River Delta (PRD) be overshadowed by Shanghai's hinterland in the Yangtze River Delta (YRD)? Will Shanghai eventually eclipse Hong Kong's role as a financial center? Is the pool of talent in Hong Kong competitive with Shanghai's; for example, there have been concerns that the English language speaking skills in Hong Kong are deteriorating? Is Hong Kong's high cost structure a noose by which Hong Kong would eventually hang itself?

The Importance of Information and Market Institutions

The question of whether Shanghai will be another Hong Kong has to be set in the context of longer-term developments. One must look beyond the current cyclical downswing. And the appropriate factors one has to examine are the presence of market institutions and their future prospects. These involve the sanctity of the rule of law, protection of private property rights, maintenance of a level playing field, open and competitive markets, a stable and convertible currency, and predictable fiscal regimes. These market institutions have to be supported by legal and political institutions.

Hong Kong is still regarded today as the world's freest economy because of its market institutions. The Heritage Foundation and the Fraser Institute have until now consistently rated Hong Kong ahead of any other economy. China's ratings have been improving, but are still in the lower quartile.

Within China, the development of market institutions in Shanghai is decidedly above average but it is not leading. Professor Fan Gang and his colleagues at the National Economy Institute of the China Economic Reform Research Foundation have been constructing an index of the development of market institutions at the provincial level, including the directly administered cities of Beijing, Tianjin, Shanghai and Chongqing (see Table 3). The leading province is Guangdong. Shanghai ranked sixth and is even behind its two neighbors Chekiang (ranked 2nd) and Jiangsu (ranked 4th). Shanghai's score in 1999 was 6.59 out of a maximum possible sore of 10 against Guangdong's 8.33. Even within China the gap between first and sixth is quite significant.

Table 3: 1997-1999 Index of Market Development

	Shanghai			Jiangsu			Chekiang			Guangdong		
	1997	1998	1999	1997	1998	1999	1997	1998	1999	1997	1998	1999
Provincial Level Rank	6	9	6	4	4	4	2	2	2	1	1	1
--Score (max=10)	6.41	6.46	6.59	6.73	6.90	7.04	7.90	8.21	8.24	8.07	8.29	8.33

Source: Fan Gang etal, **China Market Development Index**, National Economy Institute, China Economic Reform Research Foundation, 2001.

The ratings conducted by the China Economic Reform Research Foundation are not directly comparable with those of the Heritage Foundation and the Fraser Institute. But it is reasonable to surmise that if the same scoring system were to be applied to Hong Kong then it would have easily hit maximum.

Market institutions are particularly important to small and medium enterprises because they do not have the clout of large companies to negotiate private contracts with the government to protect their business investments. Large multinational companies that invest in developing and transitional economies where the market institutions are weak can sometimes succeed in extracting state guarantees to partially mitigate contractual risks. Unfortunately small and medium companies do not have the same luxury that allows them to manage such system risks. As a consequence, economies with weak market institutions do not receive substantial amounts of investment from small and medium companies. And oftentimes the presence of foreign investments succeeds in creating little more than enclave economies.

The great promise of new business opportunity that China's accession to the WTO has created is easier access for all companies, large, medium and small. But the cost of market entry and of doing business for small and medium companies remains non-trivial in China's developing and transitional economy.

China's market is both alluring but far from being hazard free. For small and medium enterprises that are contemplating entering the Chinese market, Hong Kong provides a unique platform to help mitigate some of those risks. In addition to providing a business environment that is familiar and supportive of doing business in China, it has over 100,000 companies that have experience in doing business there. This means hundreds of thousands of executives and workers in Hong Kong have accumulated years of knowledge about the Chinese market and many of its other institutions. The wealth of knowledge that is concentrated in Hong Kong is unrivalled and is unlikely to be rivaled anytime into the future.

At a deep level, markets are ruled based structures that allow information to flow through them unfettered. It is an information node. Hong Kong is the information node for the Chinese market as a whole. It is arguable that the best market information about Beijing is in Beijing, the best market information about Tianjin is in Tianjin, the best market information about Chongqing is in Chongqing, and so on. But information about specific markets in China is second stage knowledge. For businesses, the first stage knowledge starts with the Chinese market as a whole. Such information is less likely to be obtainable in any other city in China due in part to the fragmentation of China's market and, hence, its information networks.

Chinese businessmen have been coming to Hong Kong to explore opportunities outside China. International businessmen have been coming to Hong Kong to explore opportunities within China. Everyone who comes to Hong Kong to obtain information brings information to Hong Kong, and by so doing further enhancing the role of Hong Kong as an information hub. The first mover advantage in the creation of an information hub is enormous because the economies of scale characteristics of information networks are in operation.

Once an information hub has been created for one set of markets, say the Chinese market, there is the possibility of it evolving into an information hub for other markets by virtue of the operation of the forces of economies of scope. Hong Kong therefore has the distinct advantage of being not just a gateway to China, but also to the rest of Asia. As businessmen from different parts of world come to seek information, they bring information about opportunities from different parts of the world to Hong Kong.

In this respect the present advantage of Hong Kong over Shanghai is considerable and will remain to be so in the future. As China's markets become further liberalized and less fragmented, Shanghai would certainly become even more attractive. But by then Hong Kong would have become an even more formidable information hub.

The role of Hong Kong as China's information hub is already mirrored in the way some multinational companies (MNCs) are devising their own China strategies. A growing number of Hong Kong based companies have moved their China division from Hong Kong to Shanghai, as their "China headquarters". But they have retained Hong Kong to be their regional headquarters for the Asia-Pacific region.

According to a survey conducted by my colleagues at the University of Hong Kong in 1998, Hong Kong was ranked by MNCs as leading in almost every aspect, except the cost of doing business, over Shanghai as a location for regional headquarters (see Table 4). With China joining the WTO, Shanghai is likely to gain a higher score in terms of centrality to the market, but rankings are unlikely to be altered for other categories.

Table 4: Attractiveness as Regional Headquarters in the Future

	Hong Kong (mean score)	Shanghai (mean score)
Centrality to important markets	4.2	3.7
High quality local managers	4.2	2.8
Financial services	4.4	2.8
Supporting and supply industries	3.6	2.9
Transportation infrastructure	4.2	2.9
Communications infrastructure	4.4	3.0
Technological environment	3.9	2.8
Cost of doing business	2.4	2.9
Government economic policy	3.4	2.5
Political cleanliness	3.2	2.2
Rule of law	3.4	2.3
Quality of life for executives	3.8	2.5
--Overall attractiveness for RHQs	4.0	2.8

Note: 1=Very unimportant; 2=Slightly unimportant; 3=Neutral; 4=Slightly unimportant; 5=Very important.
Source: Michael Enright and Edmund Thompson, University of Hong Kong, 1998.

Some MNCs may choose Shanghai as a base for managing their China operations, particularly if their business are physically concentrated in central and northern China. Among banks that have a strong Hong Kong base, such as HSBC, Standard Chartered Bank and Bank of East Asia, some have relocated their China divisions from Hong Kong to Shanghai, but their regional business remains in Hong Kong.

The importance of Hong Kong for MNCs' operations is set to increase with the emergence of a new breed of smaller MNCs. These smaller MNCs will have a strong interest in investing in China. But their relative lack of experience in the market and their leaner corporate structures make Hong Kong a great attraction to them.

The Financial Centers in Hong Kong and Shanghai

Hong Kong’s role as China’s international financial center does not appear to have been eclipsed after its return to Chinese sovereignty. Shanghai’s role as an international financial center is growing but the gap between the two cities remain considerable and Hong Kong continues to have an important role to play in managing China’s financial resources and risks.

Hong Kong has been the most important source of international capital for the Mainland. Cumulative foreign direct investment (FDI) from Hong Kong was estimated at about US$171 billion as of 2000, or about 55 percent of China's total FDI. Although the share of FDI flows from Hong Kong has decreased recently; it still accounted for more than one-third of total FDI flows to the Mainland in 2000.

All but one of the 58 Chinese state-owned enterprises (SOEs) listed abroad at end-2001 were listed in Hong Kong, having raised a cumulative of US$16.6 billion. In 2000, China-related companies (both so called "red-chip" and "H-shares") raised a record US$44 billion in the Hong Kong market.

China has raised more than US$23 billion in the Hong Kong bond market (out of $28 billion placed outside the Mainland) in the last 10 years. Seven Mainland sovereign bonds were issued in Hong Kong, and 18 Mainland issues of non-government bonds were listed on the Hong Kong exchange at end-2000.

The stock of Hong Kong banks' direct lending to Mainland entities totaled some US$37 billion in 1999, or about 70 percent of total foreign bank lending to the Mainland. Lending to the Mainland by Hong Kong banks has since declined, in part due to the financial problems of some debtors.

Hong Kong banks have also been active in arranging syndicated loans and floating rate notes for use in the Mainland. At the peak in 1998, syndicated loans to the Mainland of China arranged by Hong Kong banks totaled $5.6 billion.

The growing presence of Mainland firms and capital raising activities has contributed to the development of Hong Kong's financial markets. For instance, the growing number of Mainland firms in the equity market has attracted an increasing amount of international funds to Hong Kong, with good returns: during the period 1996-2000, the "red chip" index was up 36 percent, compared to a return of 15 percent of the rest of the market.

The Mainland has become a major source of FDI in Hong Kong. By-end 1999, the Mainland had invested over US$100 billion in Hong Kong (about one-fourth of total inward FDI). Despite growing links, the financial markets of Hong Kong and the Mainland remain largely independent from each other.

With the Mainland opening up its financial sector, some foreign financial institutions will relocate their China-related activities from Hong Kong to the Mainland, especially Shanghai. Nonetheless, Hong Kong has advantages that will likely preserve its role as a center for China's international capital raising for the foreseeable future.

There was a time when the rapid growth in the stock markets in Shanghai and in Shenzhen led many people to question Hong Kong's future as a financial center. However, such views have quietly disappeared as major problems in China's stock markets (false company accounts, lack of transparency, administrative interference, very immature investors with strong casino mentality, etc,) revealed themselves in the past year. Indeed, it is becoming increasingly clear that the Shanghai and Shenzhen stock markets are still very immature and will take a long time before they could function as efficient capital markets.

Another popular view is that the role of Shanghai’s and Hong Kong’s financial markets does not wholly overlap. Hong Kong’s first line business is as a regional financial center for Asia. Its second role is as a conduit for foreign capital into the Mainland. Shanghai’s main role is mobilizing domestic funds to fuel the Mainland’s economic development. This view is driven in part by the recognition that the Chinese currency will not be convertible in the foreseeable future and capital controls will remain for some time to come.

Meanwhile, despite talks about banking reform for the past two decades, China's banks have yet to live up to what is expected of them. There is a huge pool of savings in China that is looking for a home. Money supply growth has averaged 20 percent annually in the past two decades. This rapid increase in personal savings threatens to ignite inflation during the early 1990s. In recent years, such rapid growth in savings threatens to produce financial bubbles. The authorities in Beijing are aware of the potential dangers to social stability if financial market risks are not well managed.

A new view has emerged about the potential for the financial markets in Hong Kong to help China manage the country’s financial resources and risks. But to achieve this, the flow of funds between Hong Kong and the Mainland has to be liberalized gradually and managed well. While this would boost financial market development in Hong Kong, at the same time, however, Hong Kong will probably have to pay a price in terms of having to manage the increased volatility spilled over from the Mainland to Hong Kong.

The doomsday forecast of the eminent decline of Hong Kong’s role as an international financial center is premature. Whether Hong Kong can have an even more expanded role in supporting China’s economic reform and development remains to be seen.

The Role of Hong Kong and Shanghai in their River Deltas

It is important to recognize that Hong Kong’s role in Mainland trade goes far beyond entrepot trade as a traditional “middleman”. A close examination of the recent trade statistics points to Hong Kong's critical role in China's development and in export trade in particular. Recent figures from China's customs showed the relative contributions to exports from domestic enterprises and foreign-invested enterprises (FIEs). In 2001, the total value of exports produced by FIEs exceeded exports of the entire domestic industrial sector for the first time since 1992.

In other words, the FIEs are the main driving force in generating exports for China, and data shows that they saw exports grow by 25 percent per annum between 1993 and 2001. Contrast this with domestic enterprises, and compound growth has only been at about 7.8 percent (see Table 5).

Table 5: China's export value in USD bn 1992-2001

Year	Domestic enterprises	Foreign-invested enterprises
1992	68	17
1993	67	25
1994	86	38
1995	102	47
1996	90	62
1997	108	75
1998	103	81
1999	106	89
2000	130	119
2001	133	133
Jan-April 2002	44	47

Source: Customs, China

The largest investors in China’s FIEs are from Hong Kong. The amount of each investment was relatively small, and thus did not attract much media attention. The largest portion of investments was made in Guangdong Province. In 2001, Guangdong received US$15.7 billion in FDI. Investments from or those that came via Hong Kong accounted for 60 percent of the total in 2001.

What China's customs figures indicate is that the FIEs form the most vibrant part of China's export oriented production capability with much of it in light industries. Hong Kong and the overseas-Chinese community by-and-large own these FIEs. To date, these FIEs have been able to grow without a "home market" – i.e., selling to the domestic Chinese markets - and they have had to deal with bureaucratic hassles as well as poor transportation infrastructure.

An unpublished survey conducted in April 2002 by my colleagues and myself at the University of Hong Kong of 123,000 manufacturing and import-export companies based in Hong Kong, found that an estimated 63,000 companies (or 53 percent) have manufacturing operations on the Mainland. These 123,000 companies engaged a total of

477,000 workers in Hong Kong. The 63,000 companies with manufacturing operations on the Mainland employed a total of 389,000 workers in Hong Kong.

The survey found that an estimated 35 percent of the manufacturing firms reported that they have activity in the Mainland, whereas an estimated 55 percent of the import-export firms reported having so. Superficially the finding that a lower proportion of manufacturing firms than import-export firms reported having manufacturing operation in the Mainland may appear to be surprising. The fact of the matter is that many of the import-export firms are classified as such in Hong Kong simply because their manufacturing operations are across the border. They are thus traders in Hong Kong and manufacturers in the Mainland. For this reason it is not appropriate to think of these import-export firms as pure traders.

Manufacturing and import-export companies with manufacturing operations in the Mainland together hire a total of more than 11 million workers. An estimated 2200 of these companies had set up operations in the Mainland before 1976. The process has been on going ever since. At its peak, about 7500 companies set up operations in the year 1992 alone. Since 1997, a cumulative total of about 7400 companies have set up operations in the Mainland.

Guangdong Province has received the lion's share of this investment from Hong Kong based companies. And within Guangdong almost all of it is concentrated in the Pearl River Delta region. Hong Kong's manufacturing operations are also located in areas in the Mainland outside Guangdong. The Yangtze River Delta region had an estimated 2,600 factories working for Hong Kong, while the number in the other provinces is estimated to be around 3,000.

In Guangdong, 53,000 Hong Kong based companies have manufacturing operations there. They are divided into two main types of operations: foreign funded enterprises and factories under some other contractual forms (including sub-contract processing arrangements and management and operation control arrangements). The latter is unique to Guangdong and does not exist in any significant proportion in any other province. For this reason an examination of foreign funded enterprises in China would underestimate the economic role of Hong Kong companies in the Mainland.

Approximately 21,000 companies in Guangdong are foreign funded enterprises and 32,000 companies are under some other contractual forms. Foreign funded enterprises in Guangdong employ about 4.75 million workers and companies under some other contract forms engage 5.59 million workers. Together they are responsible for generating total employment in excess of 10 million workers in Guangdong.

The region continues to grow despite the onset of the Asian Financial Crisis in 1997 and the subsequent regional and global economic slowdown. Since 1997, new Hong Kong based companies have continued to invest in manufacturing operations across the border. The 63,000 companies based in Hong Kong employ less than 400,000 workers in Hong

Kong, but is responsible for generating more than 11 millions jobs on the Mainland, with over 10 million in Guangdong alone.

Hong Kong's trade story is therefore tied to manufacturing. Most of the production now takes place across the border. When China's exports do well, Hong Kong manufacturing-cum-trading companies make money. Hong Kong's recent economic data shows that growth is coming from external drivers in both the trade of goods and services. The region is arguably the world's most efficient light-manufacturing center and its lead could increase in the years to come if the public and private sectors in Hong Kong and Guangdong Province can continue to enhance the region's supply-chain efficiency in a sustainable manner.

The growth of the manufacturing base in the Pearl River Delta has transformed Hong Kong into a service economy. An economy whose dominant economic activity is producer services and not consumer services. Today's Hong Kong service economy accounts for more than 85 percent of GDP and this is in sharp contrast to Shanghai's much smaller service economy (see Table 6).

Table 6: Service Sector Indicators for Hong Kong and Shanghai in 2000

	Hong Kong	Shanghai
Service sector (% share of GDP)	85.4	52.2
--Financial service	23.2	15.2
--Wholesale, Retail and Import/Export	25.2	11.0
--Transportation and communication	9.6	6.7
Service sector (% share of employment)	79.0	41.8
--Financial service	17.0	1.4
--Wholesale, Retail and Import/Export	7.1	4.7
--Transportation and communication	41.1	12.6

Over the past two decades, Hong Kong industrial manufacturers have helped to turn China into a substantial production base for all kinds of products for the world market. It is instructive to note that China's foreign invested enterprises (FIEs) have become most competitive in light-industrial consumer products, where Hong Kong has played the most influential role. China is the world's sixth largest exporter today, selling US$266 billion in 2001, the bulk of which were consumer products.

Hong Kong's manufacturing companies are specialists in a range of consumer products including consumer appliances, toys and games, textiles and garments, jewelry as well as accessories - the bulk of which are made in Mainland China for the international markets. Hong Kong's best companies in these areas are the top producers and managers of production capacities in the world. As managers of global production capacities, they are very much a part of multinational companies' global assembly processes.

Hong Kong provides the higher-end value services and does not compete with China in land and labor. Its entrepreneurs supply the capital and know-how in order to make good use of the production inputs across the border. It is the perfect marriage and can only get better if the Pearl River Delta can become an even more efficient supply-chain system for light industries. This vision is well recognized in Hong Kong, but not well known elsewhere. How the Pearl River Delta develops as a whole, will be fundamental to Hong Kong's own continued development in the longer term.

It must also be noted that in the supply of services to support manufacturing in China, Hong Kong has no competition. This is especially true in the trade-related services, since much of the services are often provided by the parent company in Hong Kong to its subsidiaries, affiliates and sub-contractors in China. Moreover proximity of location and the presence of an excellent and improving infrastructure make Hong Kong the greatest asset of the Pearl River Delta.

Both the Pearl River Delta and the Yangtze River Delta economies are vibrant regional economies of China. Both are important manufacturing bases of China and serve as important export platforms. The Pearl River Delta is serviced primarily by and from Hong Kong and the Yangtze River Delta is serviced from Shanghai. The great contrast is that while the majority of the factories in the Pearl River Delta are owned by companies from Hong Kong, but those in the Yangtze River Delta are not owned by companies from Shanghai. Given that Shanghai's producer service economy is relatively less well developed than Hong Kong's, it is entirely possible that Hong Kong based companies may still have an opportunity to contest that market.

The fact that Hong Kong is Shanghai's largest foreign investor, accounting for 42 percent of the total accumulated FDI in the city. Hong Kong entrepreneurs have shared with Shanghai their management expertise and business experience via widespread investment in Shanghai's financial services, infrastructure, real estate, and wholesale and retail trade. This means they are likely to benefit substantially from growth in the Yangtze River Delta region and from the rise of Shanghai.

Hong Kong's port operator Hutchison Whampoa owns 50 percent of Shanghai Container Terminals. It also has a 30 percent stake in the first phase of the Waigaoqiao terminal in Pudong. Many Hong Kong service providers have set up freight forwarding and logistics operations in Shanghai. It is estimated that a quarter of all foreign-invested freight forwarders in Shanghai are from Hong Kong. Obviously Hong Kong will not be able to perform the dominant role it now has in the Pearl River Delta region in Shanghai, but it will be one among many of the players to benefit from the growth there.

Hong Kong's Shortage of Talent

Hong Kong's 6.8 million labor force have leveraged its creativity and skills to the limit. Companies in Hong Kong whether local or foreign have complained about the shortage of talent and skills and of the high wages they have to pay. They have complained when the economy was booming before the onset of the Asian financial crisis and they still complain in the current economic recession. Part of the problem is that the education and training must be even more focussed on augmenting skill sets with a wider regional orientation. Another crucial issue is how much more talent can you get from the labor force of a city economy. More investment in education and training cannot be the whole answer. Hong Kong desperately needs an influx of talent and skilled manpower, but is being hampered by a Gortex border that has so far only been allowed to welcome the relatively unskilled from China's vast population.

As Hong Kong's economy continue to integrate with that of China's, the selective inflow of population from across the border to work in Hong Kong has to be addressed as a matter of great urgency. In this respect, Shanghai has a natural advantage, in part because of its well-educated labor force, and in part because of its unfettered access to China's vast talent pool.

Conclusion

Will Shanghai become another Hong Kong? If China continues to liberalize and integrate with the world economy, Shanghai will definitely become another Hong Kong. China's vast domestic economy, its savings pool, and the vibrancy of the Yangtze River Delta region are Shanghai's greatest assets. But the process will take time. Individuals and companies from Hong Kong will help it to achieve that goal and in the process also help build Hong Kong's unique role in supporting China's economic development.

In the post-war period, the talent from Shanghai that immigrated to Hong Kong helped rebuild Hong Kong's shattered economy to create one of the greatest miracles in Asia. One should note that while the arrival of managerial, professional, entrepreneurial, financial and industrial talent from Shanghai was largely forced upon them, the fact that they stayed in Hong Kong rather than leave testifies to the importance of creating a favorable business environment and the importance of market institutions in fostering economic growth. The long-term future of Shanghai will depend on this as well. This should be a lesson that the Shanghainese themselves know all too well from their own history.