

## **Hong Kong's Competitiveness**

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### **1. Historical performance**

- GDP growth rate 7.5%
- Per capita income PPP adjusted 5<sup>th</sup> highest in the world
- Extremely low unemployment rate 2-3%
- 2<sup>nd</sup> most externally oriented most economy
- 8<sup>th</sup> largest trading economy
- 4<sup>th</sup> leading source of foreign direct investment
- Clusters of internationally competitive economies:
  - Light manufacturing and trading
  - Transportation
  - Financial and business services
  - Tourism and travel
  - Communications and media
  - Infrastructure and development
- International competitiveness is critical to HK because of its openness

### **2. Services economy**

- In the past two decades the service sector at its lowest point accounted for 2/3 of GDP
- Today it accounts for 85%
- Over 92% of inbound foreign direct investment in services
- Producer services dominate, not consumer or personal services
- Hence the economy rises or falls with business activity in HK, the Chinese Mainland, and the rest of the region
- Output per worker in manufacturing is 60% of that in services for the past two decades

### **3. Metropolitan economy**

- Transformation from an enclave economy to a metropolitan economy
- Economic structure is closer to that of New York, London and Tokyo than a national economy
- Emergence of HK as a major business centre
- Manufacturing has not declined, but expanded and relocated

- 1980: 100% production in HK
- 1997: 10% production in HK, 60% in the Chinese Mainland, 30% elsewhere
- Cost differential between most metropolitan economies and the hinterland is 20-30%, for HK it is 10 to 1 vis-à-vis the Chinese Mainland
- Production is decentralized, but management, coordination, financial and other professional functions are concentrated in HK
- This transformation took place in 10 years, New York took 40 years

#### 4. Knowledge based economy

Proportion of employees in the labour force

	1981	1996
managers and administrators	3%	12%
professionals and related	6%	17%
clerical	11%	17%
total	21%	46%

- HKTDC Survey:
  - 95% of manufacturing and trading firms intend to maintain controlling headquarters in HK
  - 90% intend to increase or maintain these functions in HK
- Multinationals having regional headquarters and regional office in HK is several times that of any other centre in the region
- Knowledge intensive economy is anchored in activities not industries
  - Management
  - Coordination
  - Finance
  - Strategy formulation
  - Product development
  - Advanced marketing
  - Generation of vital information
- Such an economy is more immune to the fortunes of particular industries-sectors but sensitive to a general business downturn

HK's Competitiveness and the Asian crisis

- Competitiveness of a metropolitan and knowledge-based economy are:
  - Dynamic private sector
  - Clean and supportive government
  - Strong local firms
  - Strong presence of overseas firms
  - Large firms that provide business infrastructure
  - Small entrepreneurial firms hustling after every deal
- These competitive advantages have not changed
- In relative terms HK has even strengthened vis-à-vis the rest of the region after the crisis

## **5. Implications**

- As we debate HK's economic future we must not lose sight of our existing competitive advantages
- HK should not be benchmarked against national economies, but against other metropolitan centres
- The relationship of the metropolitan centre to its hinterland is of critical concern
- HK's major long run constraint is its human resources
  - Education and training to extend its role as a management, coordination and financial centre
  - Immigration to replenish its entrepreneurial and risk taking spirit
- Quality of life and physical environment has to be enhanced to retain and attract a highly mobile knowledge intensive workforce
- Greater competition in the non-traded sector to ensure that wages and prices are not too high so as to price itself out of the global market place