How to build a global powerhouse in the delta *SCMP, June 23, 2003*

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The partnership between Hong Kong and Guangdong goes beyond the description of "front-end shop and back-end factory". Hong Kong is not merely an outlet for products manufactured in Guangdong. The partnership involves the division of labour between a producer services centre in Hong Kong and a manufacturing base in Guangdong. Together they constitute the core elements of the global supply chains managed out of Hong Kong.

Hong Kong's basic business model is based on shortening the time cycle for doing business and producing goods and services. In the two decades following China's opening, this model has been hugely successful. It builds on Hong Kong's early success as an export-oriented industrial economy. The model has continued to thrive since the Asian financial crisis of 1997-98. Hong Kong's prosperity will depend to a considerable extent on enhancing those features that have made this business model work.

Although core service functions remain in Hong Kong, the centre of gravity of the partnership is gradually shifting to Guangdong. The shift is sometimes seen at the company and worker level as a zero-sum game benefiting Guangdong at the expense of Hong Kong. This need not be the case.

The key challenge is not to arrest the process of integration but to further leverage the platform that has already been created. First, Hong Kong should scale up its activities in the Greater Pearl River Delta. Second, it should enhance the valued-added portion of the global supply chain that is naturally based in Hong Kong and is Hong Kong's competitive advantage. Third, it should use the greater delta platform to leverage the entire mainland, including the Greater Yangtze River Delta, both as a production base and as a market. If Hong Kong is ready to meet these challenges, then its loss is not Guangdong's gain. It is everybody's gain.

There are many areas where Hong Kong's competitive advantage cannot and will not be taken over by Guangdong or the mainland in the short run and even in the longer run. Moreover, competitive advantage is not static and can be augmented through investment and policy actions.

Industrial policy in Hong Kong must not be narrowly focused on fostering leading-edge technology industries or keeping a production base in Hong Kong. It should be focused more broadly on enhancing the overall competitiveness and vitality of all manufacturing activities and producer services in the Greater Pearl River Delta economy. The region's competitiveness in the future will depend on the smooth functioning of global product supply chains managed out of Hong Kong. One of the critical strengths of the region is its rapid-response capability. This has to be achieved through better co-ordination and co-operation among authorities in the region for the benefit of all.

Some of the most relevant policy implications are apparent. Companies surveyed in our study overwhelmingly cited Hong Kong's business environment as the main reason that they were based here. They liked its simple tax system and low tax rates, the absence of foreign exchange controls, the free flow of information, free trade, rule of law, and the independence of the judiciary. These advantages cannot be replaced by the mainland.

The most important practical issue that needs to be addressed is the reduction of customs delays and traffic congestion in the movement of goods by land across the border. The development of basic infrastructure, such as roads, bridges and border checkpoints - to shorten the time for moving goods and clearing customs - is an urgent concern. A bridge linking the western part of the delta with Hong Kong would open up new opportunities for foreign investment, as well as provide an alternative land-based access route to Guangdong. The benefits could amount to tens of billions of dollars each year.

There needs to be a relaxation of rules and regulations on the mainland that require factories to clear customs in their local cities, submit applications for moving goods across the border three days in advance, and use the same container driver, container truck, container box and container chassis in crossing the border.

There also needs to be better co-ordination between Hong Kong and Guangdong in research and development. Hong Kong has a good regime for the protection of intellectual property rights. Guangdong has an abundance of affordable R&D manpower. Instituting proper incentives to facilitate co-operation between the two places and between industry and universities in the region may have a considerable payoff.

We need to equip our own workers with the requisite skills to operate throughout the region. This also requires allowing more mainland professionals to work in Hong Kong through one-way permits and long-term two-way permits. Significant progress in these areas is essential for Hong Kong to develop a substantial R&D capability. For its part, Guangdong must provide greater transparency and a more uniform set of regulations, fees and charges.

The post-second world war Asian miracle was about the rapid, export-driven industrialisation of Japan and the other four Asian dragons - Hong Kong, Singapore, South Korea and Taiwan.

The Pearl River Delta economy in Guangdong is often called the fifth Asian dragon. If you look closely, however, you will find that the real dragon is the greater delta region - the metamorphosis of Hong Kong.

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