

The 19th Asialink Lecture, University of Melbourne
2 October 2003

**"Hong Kong and the PRD:
Catalysts for Sustaining China's Economic Growth"
Speech by Dr Victor K. Fung
Chairman, Li & Fung Group**

Distinguished Guests, Ladies and Gentlemen,

It gives me great pleasure to be the Guest Speaker for the University's Asialink Lecture this year and to share my views with you on the latest developments in Hong Kong and China.

The Pearl River Delta phenomenon

The title that I have chosen for this talk is "Hong Kong and the PRD: Catalysts for Sustaining China's Economic Growth". For those of you who have been tracking the development of Asia, in particular China, the rise of the Pearl River Delta (PRD for short) as a regional economic force should be a highly interesting and unique phenomenon. In no more than two decades after the introduction of economic reforms by Mr Deng Xiao-ping in 1978, the PRD has become a regional manufacturing base supplying to major consumer markets in North America and Europe. From a manufacturing base, the Delta is gradually transforming into a service economy. This transformation is the force behind much of China's economic growth. For watchers of the PRD, the question in their mind is always "what next?" and prediction is difficult.

Why? Because in terms of scale and speed, the economic transformation of the PRD is simply unprecedented. Covering an area of over 40,000 square kilometers, the PRD has a population of some 40 million. In 20 years, it has been transformed from a piece of farmland in the southern tip of China where the predominant economic activities were rice-growing and fishing into China's principal manufacturing hub of consumer goods. From 1980 to 2000, the PRD's GDP was growing by an average of 17% per annum. By 2001, its GDP was nearly US\$90 billion and per capita GDP nearly US\$3,400, which is probably the highest in China. The PRD now accounts for about 40% of China's import and export trade. In 2001, the value of its exports reached US\$85 billion. The number of enterprises with foreign participation is about 40,000. All these are very impressive achievements indeed.

For us in Hong Kong, the future development of the PRD is always an interesting subject because we are neighbours and close partners in social, cultural and economic development. When looking at China, the PRD's development should also be of interest to you because it has a close bearing on the economic landscape of the entire Asia Pacific.

China in the Pacific Century

Some commentators have dubbed the new millennium as the Pacific Century,

implying that Asia Pacific would become the economic inspiration of the world. The region is characterized by a dynamism and resilience that is unique and not often found even in some advanced economies. A clear illustration of this point is the quick rebound of many Asian economies from the 1997 regional financial crisis. This characteristic re-defines the Asia Pacific as a powerful force in the age of globalization, distinguishing us from other regional economies.

That the Asia Pacific region is expected to move gradually to the center-stage of the global economy is due to a number of factors, including the dynamism and resilience I mentioned just now. Another crucial factor is China. Indeed China is rapidly changing the economic landscape of Asia. For example, her entry into the World Trade Organization and the potential business opportunities that arise as a result, not only in China alone but also in other parts of the Asia Pacific, have rekindled multinationals' interest in investing in this part of the world.

The 21st century will be full of excitement and good opportunities for the Asia Pacific economy. I would expect Hong Kong, backed by the vast hinterland of the Mainland of China and in close proximity to the economic powerhouse of the region, namely, the Pearl River Delta, to assume a more prominent role in the Pacific Century. However, Hong Kong does not exist in isolation. As an international city, Hong Kong has always been a close economic partner to the rest of the world. Opportunities for Hong Kong in the Pacific Century, I believe, should also translate into opportunities for other regional players.

The Hong Kong-PRD Link

For us, the integration of Hong Kong and the PRD is the hottest subject today. I am a strong believer in Hong Kong-PRD integration because of the benefits it will bring to the "two economies". We say "two economies" only because we want to remind ourselves that there is "one country, two systems" and that will remain for at least 50 years. But deep down we know it is increasingly difficult, if not impossible, to treat Hong Kong and PRD as two distinct and separate entities when we talk about economic development in this part of the world. This development is irreversible and I think the Greater PRD region covering both Hong Kong and Macau will become one of the key drivers, if not the key driver, of growth for China and the Asia Pacific region in the 21st century.

For Hong Kong, the PRD has always been our closest economic partner, even way before China's economic reforms and open-door policy. China's economic reforms started in the late 1970's. Within 10 to 15 years, 70-80 percent of Hong Kong's manufacturing activities has migrated to the PRD. Today 70% of investments in the PRD comes from Hong Kong and 10 million workers in the Delta work for HK investments. Up to 160,000 Hong Kong citizens are working in the Delta. In the meantime, many Japanese and Taiwanese manufacturers have been following our footsteps to set up production lines in the Special Economic Zones in the PRD. Very quickly the PRD has become the so-called "factory of the world". With the PRD as our factory, Hong Kong was able to concentrate on the development of higher value-added services.

Today Hong Kong is a service economy. Our services are largely trade-related. Aside from import and export, transportation, warehousing, logistics, etc., a large part of our financial and professional services are supported by our import and export trade, including re-export because Hong Kong is still a key transfer point for goods that go in and out of China through the PRD.

Indeed the SARS crisis earlier this year has brought home the message of how closely we are linked to the Pearl River Delta (PRD). It originated in Guangdong and soon spread to neighboring Hong Kong. We share PRD's good things as well as not-so-good things. The economies of both Hong Kong and the PRD suffered as a result. However, out of the SARS crisis, opportunities have arisen for the two places to forge closer cooperation and stronger ties. We are now working closer together in dealing with healthcare issues and we have now set up a formal communication mechanism for the future. Furthermore, there have been talks of coordinating environmental protection in the PRD, covering Hong Kong and Macau, to ensure sustainable development in the long term. I have reason to believe that such ideas will become realities at a faster pace after SARS.

Of great importance for our economy, of course, is how we can work closer together so that we can advance ourselves in terms of economic development and growth. For Hong Kong and for other economies in the Asia Pacific, the growth and transformation of the PRD will present important opportunities, and that is the main theme of my talk today.

Greater PRD – a giant market and key driver of regional growth

I have mentioned that from 1980 to 2000, the PRD's GDP was growing at an average of 17% per annum. This is projected to double in the first decade of the 21st century. With a population of 40 million and virtually unlimited potential for further growth, the Delta should now be regarded as a huge market for products and services.

Positioning Hong Kong as PRD's service provider

Let's look at how Hong Kong is positioning itself for it.

The combination of Hong Kong's and the PRD's resources and expertise has contributed to the transformation of the PRD into a manufacturing hub of the region. As the PRD moves on to its next phase of economic development that is more service-led, there is no reason why Hong Kong, as a leading service center of the region, cannot play a prominent role in that process. Hong Kong has great potential for playing that role and is now in the best position to unleash that potential.

The PRD is becoming increasingly keen on developing higher value-added services. The Guangdong Government is planning to build the PRD into a logistics hub. The idea is to develop the PRD, with Guangzhou and Shenzhen as the axis, into a logistics base for the Mainland of China and even the entire Southeast Asian region. This plan will clearly involve a greater degree of cooperation with Hong Kong and Macau.

The Hong Kong advantage

In that regard, Hong Kong has many advantages. Hong Kong is not only the world's busiest container port in terms of throughput but also the world's No.1 international air cargo center. The Hong Kong International Airport handles over 2.3 million tonnes of air cargo a year, and that tonnage is projected to grow at a rate of 6% a year in the next 20 years. Of these 2.3 million tonnes of air cargo, about 70% originate from the PRD.

Trading, the operation of container ports and cargo handling are still our biggest strengths, and these will enable us to play a leading role in the Greater PRD logistics hub project. In addition to investments in the logistics infrastructure, including port facilities, roads and bridges, we can anticipate enormous demands for management and professional expertise in logistics as well as marketing and networking with international players. This, I think, is where Hong Kong can play a key role.

Hong Kong has a good track record of business management. In particular, we also have strong capability and experience in the management of international trade, container ports and other related businesses. More importantly, our expertise and experience also cover managing businesses in the Mainland. Indeed Hong Kong managers have played and are still playing a very significant role in the transformation of the PRD to what it is today. With that track record, I have no doubt that Hong Kong managers can and will play a key role in logistics development of the Greater PRD region.

A logistics hub, by definition, is the center of a broad network of trade entities. In terms of networking, Hong Kong can also play an irreplaceable role.

Hong Kong is the natural gateway to the PRD and further inland. We are in fact the busiest air cargo center servicing an expanding network of some 135 destinations in 42 countries, including over 40 cities in the Mainland. In the whole PRD and, for that matter, the Mainland of China, only Hong Kong enjoys this network, and that is our most valuable asset that can contribute to the development of Greater PRD region as a logistics hub.

So much for logistics. Let me now turn to another exciting development that will reinforce Hong Kong's position in the PRD development.

Closer Economic Partnership Arrangement (CEPA)

Modeled on the North American Free Trade Agreement (NAFTA), the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the Mainland became a reality in June this year.

CEPA covers three broad areas, namely, trade in goods, trade in services, and trade and investment facilitation. Under CEPA, the Mainland agrees to apply zero import tariff from 1 January 2004 for exports from Hong Kong meeting the rules of origin requirements in some 270 Mainland product codes, covering such categories as electric and electronic products, plastic articles, paper products, textiles and clothing, chemical products, pharmaceuticals,

clocks and watches, jewelry, cosmetics, metals, etc.

CEPA also provides for liberalization in market access in 17 service sectors. The liberalization permits earlier access for Hong Kong companies and service providers to the Mainland market, ahead of China's WTO timetable. These services include management consulting, convention services, advertising services, accounting services, construction and real estate, medical and dental services, distribution and logistics, freight forwarding, storage and warehousing, transport, tourism, audiovisual services, legal services, banking, securities and insurance.

For trade facilitation, both sides agree to cooperate in areas like customs clearance, quality assurance, electronic commerce, trade and investment promotion and so on.

CEPA has given rise to numerous prospects for Hong Kong companies that want to establish a firmer foothold in the Mainland and will facilitate Hong Kong's integration with the PRD. At the same time, CEPA positions Hong Kong as the ideal gateway for multinationals and overseas SMEs to develop their businesses in the Mainland. Australian companies ought to closely examine this new opening, which allows them to access the Chinese market and provides a unique opportunity to grow their businesses in China.

Furthermore, China is in discussion with ASEAN on a regional trade agreement. All these developments are conducive to the PRD's transformation into a regional logistics and business hub.

Conclusion

I think the Pacific Century will be full of opportunities not just for the economic powerhouse called the Pearl River Delta. It will abound with opportunities for the whole Asia Pacific region as well. For Hong Kong, our future lies in stronger interaction and integration with the PRD, which is no longer a source of low-cost land and labor but our biggest potential customer. And Hong Kong is the ideal partner for companies wishing to participate in logistics development and other sectors in the PRD.

A logistics hub is by no means a "closed entity". Instead it should be a highly open entity because it has to be connected or networked with the rest of the world. In other words, opportunities arising from the PRD logistics hub are available not only to Chinese and Hong Kong players but also to participants from other parts of the world. As a leading economy in the Asia Pacific and with your expertise and experience in logistics, Australia can and should assume an important role in the region's logistics development in the coming years.

Indeed, in a survey conducted by the Hong Kong Trade Development Council in March and April this year, nearly 80% of EU companies considered Hong Kong to be a vital service base for expanding their business in the Mainland of China, particularly the PRD. More than half of them have already set up their regional headquarters or offices or branch offices in Hong Kong, and many

are using Hong Kong to explore marketing and sales opportunities in the PRD. That too may well be food for thought for the Australian business sector.

Last but not least, I must thank the University of Melbourne for inviting me to this gathering. It's been a great honor.

Thank you.