

Comments on the “Fringe Theory” of Hong Kong in the New Era

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Abstract: As the center of Asia Pacific economy, Hong Kong has been playing an important role in China’s economic development. However, with the continuous and rapid development of mainland cities, the economic gap between Hong Kong and the mainland has gradually narrowed, which has led to a series of doubts about the marginalization of Hong Kong. This paper uses SWOT analysis to refute a series of viewpoints such as “Hong Kong’s marginalization” and “Hong Kong will be replaced by the mainland”.

Key words: Economic relations between Hong Kong and the mainland; Marginalization; SWOT analysis

1. Strengths

(1) Hong Kong has a good economic foundation. The government of the Hong Kong Special Administrative Region (HKSAR) has a relatively large fiscal surplus. Its investment environment and legal system are more advanced and perfect than those of the mainland, and its competitiveness is relatively strong.

(2) Hong Kong is the key target of national policy. In the 13th five year plan proposed at the Fifth Plenary Session of the 18th CPC Central Committee, the central government attaches great importance to the following contents: First, support Hong Kong to consolidate and enhance its position as the international financial, shipping and trade center, and the global offshore RMB business hub and international asset management center; Second, give prominence to supporting Hong Kong’s position and function in China’s economic development and opening up; Third, support the deepening of cooperation and exchanges between the mainland and Hong Kong; Fourth, continue to support the construction of a quality life circle in the Greater Pearl River Delta and accelerate the construction of Guangdong, Hong Kong and Macao cooperation platforms .

(3) As an important hub of global financial exchanges, Hong Kong plays an irreplaceable role in opening up to the mainland (See Table 1).

Table 1. Investment statistics of Hong Kong ,China in the mainland(2015-2018)

Index	Number of newly designed enterprises			Amount of foreign capital actually used		
	Quantity (unit)	Year on year growth rate (%)	Proportion in the whole country (%)	Quantity (unit)	Year on year growth rate (%)	Proportion in the whole country (%)
15	13146	8.03	49.47	863.9	6.3	68.42
16	12753	-3	45.71	814.7	-5.7	64.65
17	18066	41.7	50.7	945.1	16	72.1
18	39868	120.7	65.9	899.2	-4.9	66.6
Total	83833			3522.9		

Source: China Foreign Investment Report

According to Table 1, Hong Kong has always been an important source of foreign investment in the mainland. In 2016, the proportion of Hong Kong’s foreign capital actually used by the mainland declined for a short time, and then

rose rapidly in 2017, and the year-on-year growth also turned from negative to positive. In 2018, the proportion of Hong Kong's foreign capital actually used by the mainland of China reached the highest level in history, with a year-on-year growth of 120.7%. From 2015 to 2018, Hong Kong set up 833 enterprises in the mainland, with an actual investment of US \$352.29 billion. For a long time, both the mainland and Hong Kong have given full play to their respective advantages. With the deepening of China's opening to the outside world, there will be more room for cooperation between the two places.

(4) Hong Kong can serve as a firewall for the mainland. In the Hong Kong Wen Wei Po News, Zeng Junhua said that as an offshore center of RMB, Hong Kong is the world's largest offshore RMB capital pool with deposits of 1 trillion yuan. Moreover, the investment market is mature and can provide various investment products, such as funds, insurance, futures, etc., which can be used as a firewall to reduce the impact of foreign market fluctuations on the Chinese market.

2. Weaknesses

Whether Hong Kong can successfully transform itself is also an important factor to avoid marginalization.

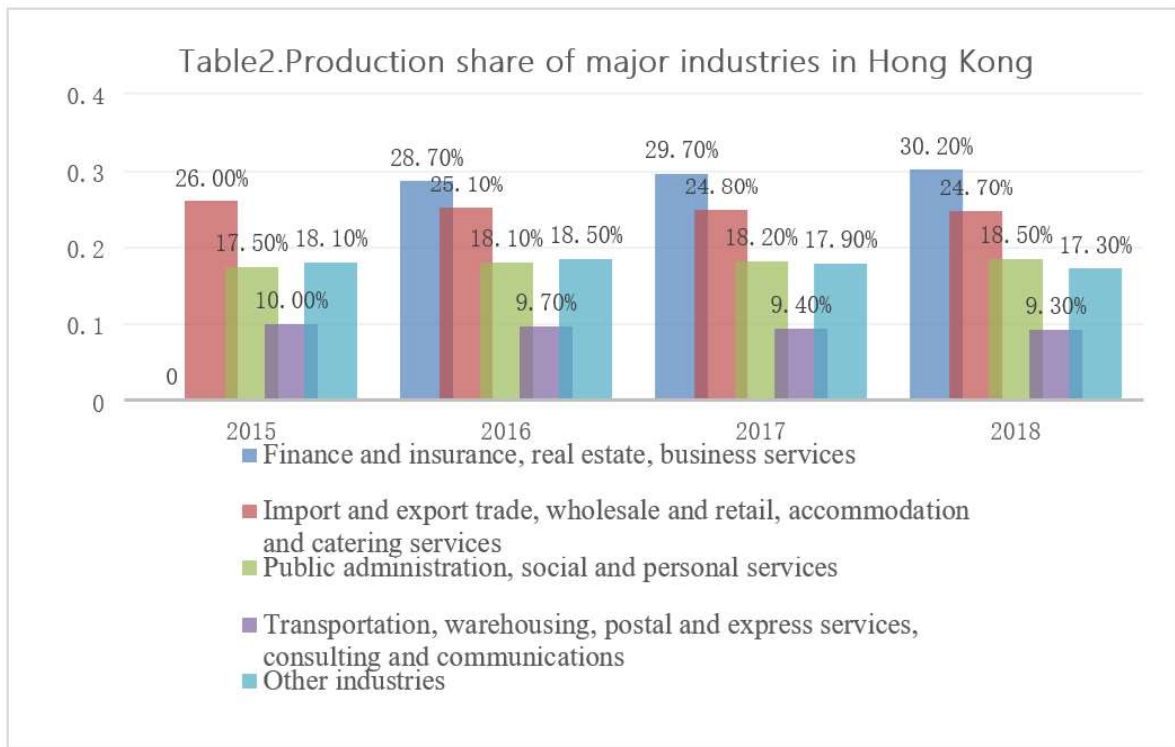
(1) Hong Kong has inherent disadvantages, but it has achieved successful development through the first transformation. Hong Kong's small size and lack of natural resources restrict its economic development. Its economic limitations only depend on external conditions, and only through economic and trade activities with other countries and regions can it give play to its advantages. However, Hong Kong made use of its natural geographical conditions to learn from each other and completed its first transformation from the early 1950s to the late 1970s, becoming a prosperous region for import and export trade.

(2) Hong Kong has acquired disadvantages, but it has achieved successful development through the third transformation. In the late 1990s, the development of Hong Kong began to be unbalanced. Its economic growth mainly depended on the financial industry and real estate industry, while the proportion of manufacturing industry decreased greatly. At the same time, under the impact of the Asian financial crisis in 1997, Hong Kong's economy experienced negative growth in 1998 and once fell into the "severe winter" of economy, which made Hong Kong's international competitiveness continue to decline. However, Hong Kong continues to improve the output efficiency of economic resources. From import and export trade to general light industry, to advanced manufacturing industry, and service industry, the intensity of capital and technology is increasing. Finally, through the third transformation, we successfully get out of the predicament and further integrate into the global economy.^[1]

3. Opportunities

(1) Hong Kong needs to integrate into the overall development of the country. China is forming a new development pattern with domestic circulation as the main body and domestic and foreign double circulation promotion. As the chief executive of the Hong Kong Special Administrative Region, Mrs Carrie Lam, said, "the future economic development of Hong Kong should be more integrated into the overall situation of national development and seize the reformable opportunities brought about by national development." Integrating into the overall situation of national development is not to marginalize Hong Kong. Hong Kong should give full play to its unique advantages in financing, open up new development space and play a greater role in the new development pattern.

(2) Hong Kong's economy needs a new direction to realize the transformation of economic development (See Table 2).



Source: Hong Kong Annual Report

According to Table 2, the importance of various industries to Hong Kong’s economy varies. The contribution of the primary and secondary industries to GDP is relatively small. At present, services have become the backbone of Hong Kong’s economy, generally accounting for more than 80% of GDP. With the implementation of the reform and opening-up policy, the mainland economy has been developing continuously and transforming into the service industry, which has created opportunities for Hong Kong’s service industry. Cultural integration and the improvement of the market system make the mainland service industry develop in the direction of high added value, and enable Hong Kong to give full play to its competitive advantage in the service industry.

As a new economic industry, exhibition industry is the choice of the service industry and the new direction of Hong Kong’s economic development. Hong Kong has a profound historical relationship with the exhibition industry and enjoys a high reputation as the “International Exhibition City”. Therefore, it is fully equipped to develop the exhibition industry. While optimizing resource allocation and enhancing comprehensive competitiveness, Hong Kong can use exhibitions to enhance its international reputation. In addition, the development of exhibition industry can alleviate the employment difficulties and provide more employment opportunities. The exhibition industry is usually regarded as a high-value industry, which is related to the economic significance behind the exhibition. The loss of elite talents and high-quality projects has caused a huge blow to Hong Kong, but the exhibition economy can make up for the loss of talents to a certain extent and speed up the economic operation. Holding large-scale international conferences and exhibitions will not only bring high-quality goods, technology, talents, capital and information resources to Hong Kong, but also directly stimulate the development of Hong Kong’s commerce, finance, tourism and transportation industries.^[2]

4、 Threats

(1) Threats from free trade zones (Shanghai, Shenzhen). With the continuous rise of the mainland economy, cities such as Beijing, Shanghai, Guangzhou and Shenzhen are developing rapidly (See Table 3).

Table 3. GDP data of Beijing, Shanghai and Guangzhou over the years (2015-2019)

Index	Exchange rate of RMB to US dollar	Total GDP (RMB 100 million)				Year on year GDP growth			
		Beijing	Shanghai	Guangzhou	Hong Kong	Beijing	Shanghai	Guangzhou	Hong Kong
2015	6.2284	23, 014.59	25, 123.45	18, 100.42	19, 269.67	6.90	6.94	8.40	7.09
2016	6.6423	25, 669.13	28, 178.65	19, 547.44	21, 311.02	6.79	6.90	8.20	10.59
2017	6.7518	28, 014.94	30, 632.99	21, 503.15	23, 040.11	6.74	6.90	7.00	8.11
2018	6.6174	33, 106.00	36, 011.82	22, 859.55	23, 934.67	6.60	6.80	6.20	3.88
2019	6.8985	35, 371.30	38, 155.32	23, 628.60	25, 250.58	6.10	6.80	6.80	5.50

Source: National Bureau of Statistics

According to Table 3, we can see the GDP data of Beijing, Shanghai, Guangzhou and Hong Kong in the past five years: from 2015 to 2019, the GDP of the four cities showed a steady growth trend. Since 2017, the year-on-year growth rate of Hong Kong's GDP has declined. The total GDP of Beijing and Shanghai is always higher than that of Hong Kong.

However, it cannot be ignored that although Hong Kong's economic competitive advantage is weakening, its position is still difficult to be replaced in the short and medium term. It will take some time for RMB to become a free flowing international currency. As an offshore RMB center, Hong Kong is still a good platform. If Shanghai, Shenzhen and other cities want to become international financial centers, there is still a transition time, and it is impossible to reach the goal in one step. The outline of Guangdong, Hong Kong and Macao development plan also shows the differences of strategic positioning between Hong Kong and Shenzhen. The focus of each city's work is directional, and there is no subjective exclusion. Shenzhen will not replace Hong Kong. The same applies to other first tier cities in the mainland. Moreover, Hong Kong also has its own advantages, such as the integration of Chinese and Western cultures, the legal system of Hong Kong and the banking system. These are not the levels that the mainland can achieve in the short term, and the listing and financing of mainland enterprises in Hong Kong is also very convenient.^[3]

(2) The society lacks a sense of security and uncertainty still exists. From the economic point of view, the differences between the two economic systems, laws and regulations will still cause contradictions and affect the vitality of the city. From the perspective of political environment, the terrorist attacks in Hongkong, which began in June 2019, were through the terrorist attacks and the spread of COVID-19. Undoubtedly, Hongkong's economy and people's livelihood has been severely damaged. It has also aggravated the anxiety of some people in Hongkong. The economic dilemma in real life and the debate of social speech have an invisible impact on the people's thinking and social stability.

However, these can be controlled and improved step by step and will not "marginalize" or "replace" Hong Kong. On June 30, 2020, the law of the Hong Kong Special Administrative Region of the people's Republic of China on safeguarding national security was officially promulgated and implemented. As an international financial center, Hong Kong's national legislation is constantly improving to give it fairness and protection. More and more young people in Hong Kong have begun to go to the mainland to learn about the economic development, political system, rule of law and other aspects of the motherland. This is undoubtedly an additional layer of protection and understanding for Hong Kong's economy. With the development of medicine and the maturity of the new coronavirus prevention and control process, the economy and society under the epidemic situation are gradually approaching the normal state.

5、 Summary

Through the above SWOT analysis, we can draw the conclusion that "Hong Kong is marginalized and will be

replaced by the mainland” and “Hong Kong is useless” are not correct.

These theories ignore the historical advantages of Hong Kong and the development potential of renewable economy, and ignore the importance and cultivation of Hong Kong by the state. Apart from these fallacies, Hong Kong itself still needs to make continuous progress. With the support of the state’s active policies, Hong Kong should adjust its thinking, actively adapt to the new international economic situation, and actively integrate into the new dual cycle model at home and abroad. At the same time, Hong Kong should seize the opportunities brought about by the national development and constantly promote its own economic development in the wave of globalization.

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