

Hong Kong: City for Mainland Entrepreneurs

Hong Kong has been diagnosed with a collection of diseases. The stagnant economy, relocation of business, persistent deflation, lacklustre domestic spending and rising unemployment are all undermining people's confidence. Hong Kong people are becoming less sure of their role and competitiveness, in particular in the face of the rise of China. Questions hang in everybody's mind – is Hong Kong's economy on the road to nowhere? Or even: who needs Hong Kong?

In this prevailing mood of self-doubt, the growing market economy in the Mainland has quietly radiated hope. The emerging entrepreneurs and affluent individuals from the Mainland will play a growing role in the Hong Kong economy as investors and consumers in future. They will also play a key role in positioning Hong Kong as the business centre for the Mainland economy.

Our trump card: system advantage

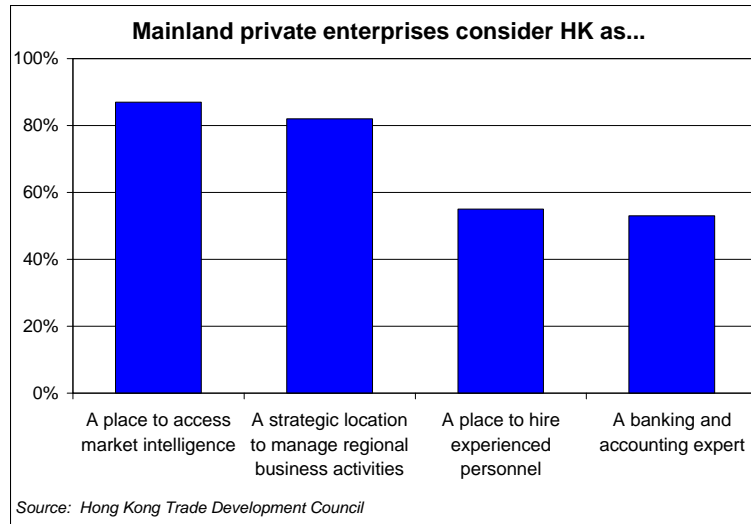
Hong Kong has suffered from an exodus of economic activities in the past few years. Northward migration of merchandise trading, retail sales, back office operations and company headquarters have been regular items in the news. Lower business cost and proximity to the market are strong selling points for Mainland cities.

The edge of Hong Kong is its system advantage. This includes the rule of law, high quality supervision and regulation, corruption-free civil services, sophisticated financial infrastructure and free flow of information. These advantages put Hong Kong at the top as the world's freest economy, according to a recent international poll.¹ However, facing record high unemployment, one cannot help but ask whether our system strength is enough to produce sufficient bread and butter business for the Territory in the long run.

Hong Kong attracts people for business

While Hong Kong people are less certain of how our system advantage plays out for our future, Mainland entrepreneurs have clear ideas of how to incorporate the Hong Kong factor into their business plan. According to a survey conducted by the Trade Development Council², Mainland private enterprises consider that no other city can replace Hong Kong as an international commercial and financial centre, and our fair and transparent legal system wins the highest recognition. Over 82% of respondents consider Hong Kong as a strategic geographical location to manage regional business activities. Around 60% believe Hong Kong is an ideal platform for seeking foreign capital and human resources. 55% said that they would consider to set up an office in Hong Kong when their companies further expand. Evidence of their high regard for Hong Kong's business standards and the financial system could also be found from the influx of Mainland enterprises listing in our stock markets and their hiring of Hong Kong managers.

Following the implementation of China's WTO terms in the next few years, Mainland private enterprises will see bigger scope for development, but at the same time face fierce foreign competition. There is an urgent need for them to expand their business as well as upgrade their management structure and corporate profile. Hong Kong has the software in place to fill in this gap. Collaboration between Mainland and Hong Kong enterprises would proceed rapidly in coming years.



Hong Kong attracts people to live

The impressive array of skyscrapers silhouetted against the Peak symbolises not only the advanced financial infrastructure of Hong Kong, but also the metropolitan nature of our society. From an individual perspective, the system of Hong Kong also provides quality consumption, a wide selection of wealth management products, peace of mind deriving from the rule of law and the travel convenience of holding a SAR passport. All these factors make Hong Kong an attractive place to live for Mainlanders.

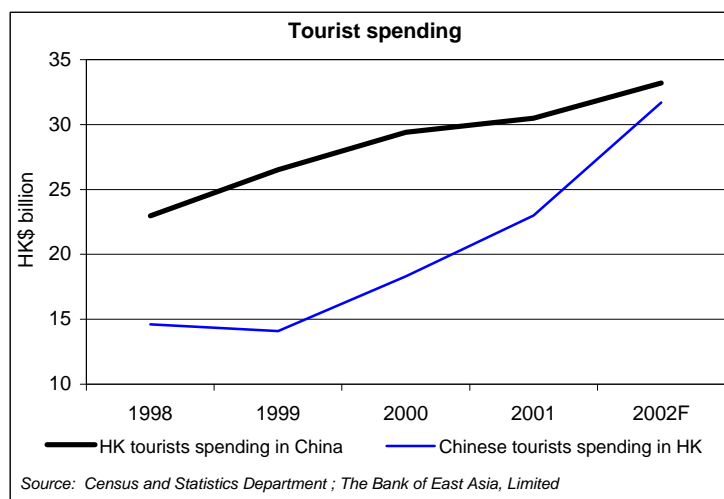
The economic take-off in China has given rise to a new group of entrepreneurs and affluent. Well-off Mainlanders' enthusiasm toward the Hong Kong lifestyle can be seen from the huge increase in Chinese tourist arrivals in Hong Kong. In the first five months of this year, Mainland visitors reached 2.5 million, up 46.7% over a year earlier. There cannot be a single dissenting voice about the wide assortment of quality consumption in Hong Kong, which make it a perfect place for the Mainland new affluent to enjoy the fruits of their success.

Immigration

As Hong Kong appeals to Mainlanders in business and living aspects, the logic naturally flows that Hong Kong should formulate a policy to attract Mainland business immigrants. Population policy is high on the agenda of the SAR government. The government should consider allowing more business immigrants as they have the potential to become the new drivers for Hong Kong's future economic development.

The most obvious and direct benefit will be seen in local spending. In the midst of sluggish domestic consumption, the surge of Mainland tourist spending is the lone bright spot. Spending by Mainland tourists provides a fascinating glimpse into the potential fortunes of Hong Kong. Statistics show that per capita spending by Mainlanders, which amounted to HK\$5,169, outpaced that of their US counterparts in 2001. Their shopping expenditure alone reached HK\$15 billion, which accounted for an amazing 10% of local total retail sales in 2001. Besides retail consumption, the arrival of Mainland business immigrants would also create significant demand in the property market and the financial institutions. Hong Kong could become the consumption centre for the Mainland affluent.

More importantly, the physical movement of Mainland entrepreneurs to Hong Kong would cement a personal relationship with the city. And with the better understanding of what Hong Kong could offer, Mainland private enterprises will accelerate the process of setting up operation in the Territory. Their rising concentration in Hong Kong would generate significant demand for our business services activities, and strengthen Hong Kong's role as the business centre of the Greater China region.



New form of integration

In most economic restructuring, growing pains precede benefits from new drivers. The retail sector of Hong Kong has suffered from the trend of local people spending in the Mainland in the past few years, before we later see the pouring in of Mainland tourists to Hong Kong. While we need to endure adjustments due to the emergence of more competitive Mainland cities, attention should now focus on how to build on our own strength and explore opportunities from the growing Mainland market.

System advantage is the strength and the brand of Hong Kong, while the growing private enterprises and the affluent are the two most exciting developments in the Mainland market. If our system advantage is able to attract the entrepreneurs to establish deeper personal relationship with our city, there is a good chance that clustering of Mainland entrepreneurs could emerge in Hong Kong and become the next new driver for our economy. The possibility of this new dimension warrants consideration in the review of our new population policy.

ⁱ Source: *Economic Freedom of the World: 2002 Annual Report*, The Fraser Institute, June 2002

ⁱⁱ Source: *Trade Watch*, Hong Kong Trade Development Council, June 2002