Festival Hong Kong

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HONG KONG'S ECONOMIC RELATIONS WITH CANDA

(Mr. Francis Lo, Executive Director, Hong Kong Trade Development Council)

Trade links between Hong Kong and Canada go back well over a century. Many families in Hong Kong now have some Canadian connection. Air traffic between Canada and Hong Kong is so heavy that I have yet to take a Cathay Pacific flight to Vancouver that is not jam-packed. As a matter of fact, my wife was not able to get on the same flight with me this trip.

Hong Kong people today make a significant contribution to the Canadian economy. This takes the form not only of investment in Canada but commitment to the professions, arts and community relations. There are presently about 20,000 Hong Kong students in Canadian schools, colleges and universities. Not only does this benefit Hong Kong in gaining well-educated recruits into management and the professions, it also creates further bonds between our communities, particularly for the future.

For its part, Canada is well-represented in Hong Kong. There are 30,000 to 40,000 Canadian citizens resident there and a large and active Canadian Chamber of Commerce. Almost 100 Canadian companies have an office or representative in Hong Kong. Canada is the 16th-largest foreign investor in Hong Kong's manufacturing industries, with investments of C $22.8 million in factories producing electronic products, textiles and clothing. The sectors of most interest to Canadian companies in Hong Kong are banking, trading and services. Names like the Canadian Imperial Bank of Commerce, The Royal Bank of Canada, Crown Life Insurance, National Trust, Seagram, Manufacturers Life, Mitel and Northern Telecom are well known and highly regarded.

Given these very close ties, it is not surprising to see that there has been strong trade growth between Hong Kong and Canada. Total trade between us increased 15 percent in 1991 compared to the previous year, reaching a value of C $2.52 billion. In the first half of this year, it grew a further 28 percent over the corresponding period last year.

Canada is a major importer of Hong Kong products - our ninth-largest market in 1991. The territory's total exports to Canada rose 14 percent in 1991 to C $2 billion, and showed a further 32 percent increase from January to June. The main products Canada imports from Hong Kong are clothing, toys, textiles, travel goods, footwear and household equipment.

In the reverse direction, Hong Kong imported Canadian goods to the value of C $493 million in 1991, representing an increase of 21 percent over the previous year. In the first half of this year compared with last, growth of 14 percent was recorded. There was particularly strong growth in industrial goods such as paper and paperboard, vegetable materials, furs, also in tobacco products and foodstuffs. Hong Kong is also a growing market for high-value consumer items and brand-label products.

Per capita GDP this year is the second highest in Asia after Japan. With personal income taxed at only 15 percent in Hong Kong, and steady economic growth, the territory is fast catching up with North America in terms of real spending power. Its potential as a consumer market for Canadian products is further boosted by tourism. We have more tourists than inhabitants. This year, we expect to have more than six million tourists, not counting the millions of visitors from China. In 1991 receipts from the territory's tourist industry reach C $5.9 billion.

By far the fastest area of growth in trade between Hong Kong and Canada has been re-exports. They were up 30 percent last year over 1990 and rose by 46 percent in the first half of this year over the same period in 1991, with clothing, toys and footwear dominating. More and more Canadian products are finding their way into China through Hong Kong. In 1979, at the start of China's "Open Door" policy, only one percent of Hong Kong's imports from Canada were re-exported to China. This year, that figure has risen to 26 percent.

Just as Hong Kong is Canada's bridge to Asia's new markets, Canada offers a springboard for Hong Kong into the enlarged North American market. With the North American Free Trade Agreement, Canada can play a stronger role in the marketing and distribution of goods from Asia. It will also help facilitate the expansion of business services from one region to another, in support of increased trade and investment flows.

Canada and Hong Kong have long enjoyed strong bi-lateral ties. NAFTA, along with the vigorous economic growth of Asia, will give our economic partnership added impetus and a new dimension. Hong Kong and Canada already have a geographic advantage as dual gateways facing each other across the Pacific. The challenge, now, is for us to bring our regions closer together so that all can use these gateways to access the world's most important new markets for products and services.

CANADA'S INVESTMENT IN HONG KONG. A BROAD PERSPECTIVE

(Mr. John Higginbotham, Commission for Canada)

A broad perspective for "investment" will be presented here.

The Hong Kong Industry Department in their Survey of Overseas Investment in Manufacturing Industries in 1991 ranked Canada 16th - slightly behind the Virgin Islands and marginally ahead of Panama! At the same time almost 20,000 Hong

Kong students are here in Canada, absorbing Canadian values and establishing Canadian roots. Over the last five years, over 100,000 people of Hong Kong have chosen to come to Canada to make it their home.

As important as business relations are, Canada's stake in Hong Kong has far more significant dimensions. The first is Canada's investment in human linkages. Viewed from the perspective of the stake holders, Canada's purposeful investment in both facilitating immigration flows and in education are paramount.

Canada created an intense network of human linkages with Hong Kong. Investment in the human dimension assures Canada of a high profile, of a sophisticated and up to date knowledge of things Canadian, and a clear perception of the opportunities - and difficulties of doing business in Canada.

This long standing and growing investment in Hong Kong assures Canada thousands of pairs of eyes and cars on the ground in Hong Kong, a host of entrepreneurial self-starters who already like to think " Canadian" as they respond to the breath-taking growth in the Hong Kong economic region. And all of this is enveloped in large measures of good will that most precious of attributes which in many businesses is among the most valuable of its assets.

To many, this purposeful and crucial investment in people to people linkages appears to have happened by accident. There is a danger that we sit back and assume that the building of these bridges, the mutual understanding, the knowledge and the good will -will continue and grow automatically.

We are tempted to think of immigration flows only in terms of inward investment to Canada rather than as the establishment of a precious human and entrepreneurial link back to Hong Kong. In fact, "investment" in these links back to Hong Kong provides a ready-made channel for Canadian firms anxious to tap Asian markets but short on experience in the region.

We may think of education in terms of trade in services - which incidentally, we estimate generates some $200 - $300 million per year for the Canadian economy. But we should go further. The investment element of this flow is an investment in our future presence in Asia. It must be recognized as such and nurtured and strengthened as with any sound investment.

Canada has also put considerable effort into helping build confidence in the political, social and economic future of Hong Kong. Every business person knows that investment does not occur in a vacuum: if the political, social and economic fundamentals are wrong, investment and business shy away.

Hong Kong faces a major watershed in its future and the question in many boardrooms today is: what will it mean for business and investment? I don't have the answer and I don't think anybody does. But that doesn't mean that we all should step aside to wait and see. During his historic visit to Hong Kong last year to launch Festival Canada '91, Prime Minister Mulroney pledged Canadian support for Hong Kong as it faced the momentous challenges posed by the transition of 1997.

Mr. Mulroney called Hong Kong " a monument to human energy and intelligence, self-reliance and enterprise". There is no better example of the ability of the human spirit to overcome adversity than Hong Kong. It has earned the unabashed admiration of the world; and we will do everything in our power to help the territory remain an engine of prosperity and growth benefiting Asia and the world".

To this end, over the last four years, Canada has signed agreements in a range of several key areas; air services, legal assistance, environment, civil service exchanges, and film production. We are negotiating an agreement to promote and protect investment in our respective territories, and an agreement to enhance transfer of criminals. We have just begun discussions on cultural co-operation. We have begun a Parliamentary Friendship Group with the Hong Kong Legislative Council, only the second country to do so.

MANUFACTURING OPPORTUNITIES IN HONG KONG

(Mr. Herbert Liang, President, The Chinese Manufacturers' Association of Hong Kong)

Some people have expressed doubts about the future of Hong Kong's manufacturing industry. They have heard that Hong Kong industrialists have moved production "en masse" to neighbouring countries during the past few years. Speaking in my capacity as President of the Chinese Manufacturers' Association of Hong Kong, I can assure you that our manufacturing industry is still very much alive and continues to make a significant contribution to Hong Kong's economic growth.

It is true that many Hong Kong manufacturers have shifted their production to lower-cost areas in the region, especially to southern China, and that the size of Hong Kong's manufacturing workforce has dwindled from about 1 million in the late 70's to around 670,000 today. However, this does not spell the end of our manufacturing industry. Rather it underscores its entry into a more advanced stage.

Hong Kong has become one of the leading foreign investors in Thailand, Malaysia, the Philippines, Indonesia and Vietnam, as well as southern China. Diversification is allowing Hong Kong manufacturers to benefit from an international division of labour, to capitalize on the comparative advantages of different regions, to increase capacity and to use offshore manufacturing in developing countries as a means of entering their markets.

The diversification of Hong Kong's manufacturing industry is not confined to the Asian region. Canada has also attracted many Hong Kong investors, who have established production facilities here, especially since the signing of the Free Trade Agreement. We have seen many successful ventures and anticipate that Hong Kong manufacturers will further develop their presence in Canada as a result of the North America Free Trade Agreement.

Manufacturing can be divided into three stages. The first stage includes product design, market research and promotion; the second stage is the hands-on production process; and the final stage relates to inspection, quality control and packaging. At present, what is being shifted offshore or across the border is the labour-intensive part,the other functions are still retained within Hong Kong and administered by Hong Kong manufacturers. The local workforce is restructuring itself to meet the increasing demand for these support services.

In line with Asia's new era of borderless production and marketing, Hong Kong's domestic manufacturing industry is undergoing a transition from labour-intensive forms to more capital and technology-intensive structures. Offshore production has provided Hong Kong manufacturers with abundant land, material and human resources at competitive terms. At the same time it has enabled them to concentrate more on improving production technology, enhancing efficiency and developing new products. Hong Kong manufacturers now produce more sophisticated and higher value-added products. They offer a wider range of trade-related services, all of which are enabling Hong Kong to move upmarket while still remaining competitive. Skills of managers and entrepreneurs have also been upgraded.

After 40 years of competing successfully on world markets, Hong Kong manufacturers have learnt how to be adaptable, flexible and resourceful, how to deploy capital and labour resources efficiently, how to diversify risks in the marketplace and how to satisfy the ever-changing preferences and expectations of consumers. We realize that we have to improve the quality of our products through better design, continuous research and development, integration of advanced technologies and new materials, and fast-response to changing fashions or retail trends. To retain a competitive edge we also have to refine delivery systems. This involves computerisation of orders and of transport arrangements, so as to shorten production lead times and minimise wastage in shipping and warehousing.

Because of Hong Kong's strategic location in Asia the territory offers two major attractions for overseas companies investing in its manufacturing sector. First, companies using Hong Kong as a production base can build on the inroads it has already made in the emerging markets on its doorstep. Second, investors can make use of Hong Kong's highly sophisticated business infrastructure. Office bases in Hong Kong are able to provide technical and management support to production centres in other Asian countries. In fact, many Hong Kong manufacturers successfully operate satellite production centres in China and Southeast Asian countries to complement their local facilities. Increasingly, Japanese and Taiwanese firms are following this example, with positive results. Their regional headquarters in Hong Kong function as control and training centres for senior executives who are responsible for operating facilities elsewhere.

These foreign investors enjoy a low-tax, minimum regulation business environment. Our government doesn't subsidise or favour any company or industry. Rather, it provides the infrastructure which enables them to set up and to compete.

Industrial policy in Hong Kong stems from the government's Industry Department, guided by a council of industry and technology experts. They not only advise on how to respond to technological change, but are also charged with administering a fund to support private sector research and development.

Through this structure, Hong Kong offers a highly supportive framework for industry, providing land, technological backing and manpower training facilities. Land is made available through the Hong Kong Industrial Estates Corporation, which runs two industrial estates in the New Territories. They are designed for capital-intensive industries with a relatively high level of technology. Such has been the demand that the two existing estates are virtually full and a third is due to be completed in 1994.

For technological support, the government-subvented Hong Kong Productivity Council offers a wide range of training programmes, industrial and management consultancies and technical services. To help upgrade product quality further the Industry Department has, in addition, established the Standards and Calibration Laboratory, which is internationally accredited. In addition, the government is setting up an Industrial Technology Centre, which will be operational by next year. The centre is designed to encourage the growth of technology- based firms.

In the critical area of manpower training Hong Kong has taken steps to ensure a ready supply of technologically-literate managers during years to come. In addition to eight technical institutes and two industrial centres run by the Vocational Training Council, higher level courses are offered at Hong Kong's two Polytechnic and two Universities. A third university, the University of Science and Technology, opened last year. Together, these institutions will be responsible for doubling the current number of graduates by the year 1997.

To create this robust environment for industrial development, Hong Kong's public and private sectors have worked hand in hand. In so doing, they have attracted many overseas investors. At the end of 1990, the total value of direct overseas investment in Hong Kong was US $3.96 billion, involving almost 550 companies. The main sources of investment were Japan, the USA, China and the United Kingdom. Canada was the 16th-largest foreign investors in Hong Kong's manufacturing sector in 1990, with US $19.5 million invested in 11 factories in the territory.

It is well known that Canada's manufacturing industry is technology-intensive and is particularly strong in technology research and development. Many technical achievements are developed and commercialized by Canada for application in other industrial environments. I believe there is plenty of scope for greater co-operation between Hong Kong and Canada, especially in the area of importing higher manufacturing technologies to Hong Kong or, through Hong Kong, to Asia.

To sustain their rapid growth, Asia's economies require more advanced technology and equipment to upgrade their industrial and agricultural facilities. Nowhere is this more evident than in China. Forty-five percent of Hong Kong's domestic machinery exports go to China and 55 percent of our machinery imports are re-exported to China. Between them, China and Hong Kong provide a natural market for Canada's machinery exports - and a natural conduit.

Hong Kong's leading role as a manufacturing service centre to China is destined to become more important. With a new century will come new industrial frontiers. There is great potential for Hong Kong to act as a catalyst in converting the virtually untapped scientific research capability of China into advanced industrial processes. In all of this, Hong Kong will be looking for partners with a strong technological base. Canada's participation in this endeavour is welcome.

HONG KONG'S ECONOMIC RELATIONS WITH CHINA. THE PEARL RIVER DELTA

(Mr. T. H. Chau, Hong Kong Secretary for Trade and Industry, Hong Kong Government)

THE ECONOMIC POWERHOUSE OF CHINA

Many know about the "Four Dragons" of Asia: the newly-industrialized economies of Hong Kong, Singapore, Taiwan and South Korea. The emergence of another "dragon in Asia, the Pearl River Delta in southern China's Guangdong Province adds an important dimension to Hong Kong's value as Canada's bridge to Asia.

With its Special Economic Zones and open coastal cities, southern China has become the economic powerhouse driving the Chinese economy into the 21st century. Its impact is already being felt on the overall expansion of Asia as a regional market for Canadian exports of goods and services. What began 14 years ago as a controlled economic experiment in the laboratory of the Pearl River - Delta has become the blueprint for China's massive economic reform programme. The catalyst for the delta's growth has been its interaction with Hong Kong's economy.

HOW THE RELATIONSHIP STARTED

To understand the magnitude of what is happening in Southern China - and gradually spreading throughout the nation - it pays to spend a moment on the genesis of the special relationship between Hong Kong and the delta. Only fifteen years ago, the Pearl River Delta was an agrarian economy. Its low-lying landscape, stretching across some 45,000 sq. km., was dominated by rice paddies. Aside from the city of Guangzhou and some other cities, people lived mainly in the hundreds of villages from which many Chinese migrants came to Canada in the last century. By our standards, living conditions in the delta of the late 70's were not high - though better than in most other parts of China. People's lifestyle centred around farming and fishing, and was simple.

In late 1978, China's leaders made an important decision to open up China. That decision changed the delta forever. As part of the new policy, a Special Economic Zone was set up in the country town of Shenzhen, directly across Hong Kong's border. The aim was to attract Hong Kong and other overseas investors into the zone to set up light manufacturing plants. In exchange, investors were given tax breaks and other preferential treatment. The new policy brought together what China was looking for and what Hong Kong needed, in their respective stages of development.

Hong Kong's industrial sector was in danger of losing its competitive edge in world markets because land and labour shortages were forcing up production costs. The territory's manufacturers seized the opportunity to use the new zone, with its abundant land and low-cost labour, as an extension of their own production base. They were spurred by the fact that Hong Kong and the Pearl River Delta enjoy close ethnic and family ties, speak the same language and are within two or three hours of each other. Shenzhen quickly became the half-way house between rural Guangdong and industrialised Hong Kong.

Guangdong Province as a whole - of which the Pearl River Delta is a major part - is now home to about 60 million people. There are some 16,000 factories owned or operated by Hong Kong companies and other overseas investors. They have put in an estimated US $8 to 10 billion in joint venture processing and employ three million mainland workers - more than four times the size of Hong Kong's own industrial workforce. The Province now contributes nearly nine percent of China's total GDP. Last year Guangdong's industrial output rose by 27 percent - double the national average of 13% - and has averaged 25 percent a year in the past five years. At that rate, the industrial base doubles in size every three years.

In the spring of this year Mr. Deng Xiaoping made a much-publicised visit to Guangdong. He declared the economic experiment a success and urged other provinces to follow suit. He reaffirmed the theme that China's open door policies would become more far-fledged and its economic reforms, more comprehensive.

HOW THE RELATIONSHIP WORKS

The economic partnership between Hong Kong and the Pearl River Delta combines the marketing and management expertise of Hong Kong with the low-cost manufacturing facilities of the province. Many companies now carry out labour-intensive processing work in China, while basing the higher value-added "front" and "back" ends of the manufacturing process - including product design and development, sourcing, marketing, quality control, packaging and shipping - in Hong Kong.

The result has been a change in the emphasis of manufacturing in Hong Kong. The focus is increasingly on higher-technology production, and on the control, support and servicing of operations in China and indeed elsewhere in the region.

By managing the relationship skilfully, Hong Kong has found a way to reduce production costs without sacrificing quality and turnaround time. The delta, meanwhile, gains in terms of technology transfer, employment opportunities, education for its workers and an economic boom with increased prosperity for all. Per capita GDP in the Special Economic Zone of Shenzhen stood at US $1,300 last year - more than four times that for the rest of China. Per capita GDP in Hong Kong is expected to exceed US $16,000 this year, the second highest in Asia after Japan.

South China's new industries - like Hong Kong's - are first and foremost export-oriented. Many of the raw materials supplying them are sourced from outside China. Hong Kong has, therefore, been able to resume its traditional role as entrepot for China. Over the past decade, the value of Hong Kong's trade with China has increased 12 fold in value terms, reaching US $64 billion last year.

Much of that growth is the result of the territory's outward processing arrangements with the Pearl River Delta and other parts of China. A recent survey by the Hong Kong Trade Development Council showed, that at least 80 percent of Hong Kong's manufacturers, including those in the electronics, toys and watch industries, have moved most of their labour and land-intensive production to Guangdong Province. About 33 percent of Hong Kong's total trade is now China-related, compared with only nine percent in 1978.

Nearly half of all China's exports are channelled to or through Hong Kong. Like Canada and the US, they are each other's number one trading partner.

Hong Kong has also been a catalyst in building a modern business infrastructure for the Pearl River Delta and other parts of southern China. Capital and know-how from the territory are helping to build highways, power plants and telephone systems, from which Hong Kong manufacturers using cross-border production facilities directly benefit.

The relationship between Hong Kong and the Pearl River Delta is, in other words, one of growing economic interdependence. Neither could expect to progress at their present rate without the other. This close economic relationship has come about largely in a natural, unplanned way, through day-to-day business contacts. That reflects the Hong Kong Government's philosophy of leaving business decision to the private sector.

The Trade Development Council has made the opening of China's huge consumer market a priority. Because of the Pearl River Delta's prosperity, Southern China has the greatest immediate potential as a market for consumer goods. The TDC's main strategy for gaining access to the retail sector has been to organize Hong Kong product promotions with mainland department stores. But they are product promotions with a difference. In the case of Guangzhou's largest department store, Nanfang Da Sha, the TDC undertook to supervise the physical renovation of the entire store. It re-designed sales floors, introduced new merchandising techniques and trained sales staff. In return, the TDC was given prime space for permanent retail counters showcasing and selling products made by Hong Kong companies.

FUTURE DIRECTIONS FOR HONG KONG AND THE PEARL RIVER DELTA

Just as Hong Kong has transformed itself into a service centre for the Pearl River Delta, Guangdong is becoming more sophisticated in relation to provinces further north. Guangdong's development strategy for the centre of the Pearl River Delta is to turn it into a commercial, trade and high-technology manufacturing centre.

Largely because of the success of the Hong Kong-Pearl River Delta relationship, Beijing is pursuing new directions in economic reform which go beyond the manufacturing sector. The Chinese Government announced recently that it would open the nation's commercial sector to foreign participation. For the first time, foreign companies can take part in domestic trading, retail and wholesale, business. In a nation of 1.2 billion people the implications are immense. There are some nine million retail enterprises throughout China. Total sales of consumer goods amounted to US $274 billion, nationwide, in 1991 - an increase of 6 times over 1978.

What began in the paddy fields of the Pearl River Delta in 1978 is now changing the economic direction of the world's most populous nation. Influenced by the lifestyle and fashions of Hong Kong, the delta's newly-prosperous workforce is setting consumer trends and raising expectations about standards of living throughout China. For its part, Hong Kong has moved up from 18th to 10th place in the league table of the world's trading entities since the Shenzhen Special Economic Zone was created. This would not have been possible without the abundant land and labour supplies of the Pearl River Delta or without China's ongoing commitment to economic reform.