The Hong Kong Economy under Asymmetric Integration: Structural Transformation or Dissolution?

Tsang Shu-ki

Abstract

Terms such as “structural transformation” and “re-positioning” have almost become clichés when applied to Hong Kong in the post-1997 era. They reflect the tension of an economy entering uncharted waters with no clear outlet. This paper analyses the three-fold doldrums in which it has been caught: (1) the difficulties of forming a viable cluster in an asymmetrical integration process with mainland China; (2) deep-seated problems in the Special Administrative Region (SAR)’s demographic trends and manpower quality; and (3) the lack of capable and committed parties of change to nurture, develop and maintain local competitive advantage.

The Hong Kong economy seems to be heading towards structural dissolution rather than structural transformation. Viewed from the perspective of the twists and turns of history, the relative decline of Hong Kong under a resurgent China represents a regional redistribution of affluence and a shift in geopolitical gravity. It has probably not been the intention of anyone that this should happen. Nevertheless, if structural...
dissolution turns out to be the fate of the SAR, it would be a consequence not of the shortage of financial prowess, but of the paucity of political will power and committed quality agents.

Introduction

The terms most frequently read and heard concerning the Hong Kong economy in the post-1997 era are “structural transformation” and “re-positioning.” They reflect the tension of an economy caught in turbulence and the widespread anxiety that the economy is entering uncharted waters with no clear outlet. Either vibrant growth or irreversible decline might be waiting somewhere ahead.

The unfolding flux has two major observable causes. Internally, there have been the adjustments that appeared to be inevitable after the imbalances, exuberance and short-sightedness built up in the pre-1997 period. The East Asian financial crisis in 1997–1998 and the dramatic impact on the HKSAR (Hong Kong Special Administrative Region) served as little more than the spark to ignite the blaze. Externally, there has been the sea change in the Chinese economy and its amazingly rapid rise. The allure of this has been felt all around the world. Hong Kong is just fortunate (or unfortunate) enough to be closest to the magnet.

To presage my perhaps idiosyncratic perspective and conclusion about the present state of the Hong Kong economy, its core troubles can be regarded as three-fold:

1. Forming a viable cluster within a wide and unfamiliar terrain like mainland China is inherently difficult. Being both “a blessing and a curse,” the “economic integration” between the mainland and the HKSAR is by nature asymmetrical: the former large, diversified, and forging ahead, and the latter small, struggling and “hollowing out.” Re-defining Hong Kong’s role in such a dynamic but lopsided context turns out to be a great challenge.

2. In any case, Hong Kong is confronted with several deep-seated and long-term problems in its demographic changes, the low average quality of human capital, and the shortage of local R&D and innovative efforts. The traditional reliance on “locational advantage” has been backfiring and a pillar of its “quality advantage,” which arose from the western traditions of law and order and civil service, does not provide a dependable guarantee for its competitive position given the rapid reform progress in the mainland.