

# *Analysis of the development of the Hong Kong industry in comparison with the structure of the Shanghai industry*

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**Abstract:** In recent years, Hong Kong's economic growth has slowed down. In order to adapt to the changing times and maintain its advantages and position, Hong Kong needs to restructure its industry in time to seize the opportunities and meet the challenges. Similar to Hong Kong, which is in the Pearl River Delta economic circle, Shanghai is located in the Yangtze River Delta economic circle with rapid economic development. Against the backdrop of enhanced connectivity between Hong Kong and the Mainland, analyzing the changes in Shanghai's industry structure and the characteristics of its contemporary structure, and identifying the similarities and differences between them, we can get some suggestions for the development of Hong Kong's industry, thereby promoting the common progress of Hong Kong and Shanghai.

## **1. General Situation Analysis**

The natural geographical advantage of proximity to the sea was the basis of Hong Kong's own economic activities until the 1950s. When from 1950 to 1960, Hong Kong moved from re-export to processing and also opened the way for the transformation and development of the industry. As it can be seen from Table 1, the secondary industry of Hong Kong accounted for more than half of the economy in 1960, which means that manufacturing developed rapidly at that time. Also, compared with Shanghai, which accounted for over 70% of the secondary industry during the same period, the GDP per capita was higher than Hong Kong's at this time. At that time, China established not long ago that it was in urgent need of industrial development to promote its economy, so Shanghai focused on the secondary industry to develop its economy accordingly. At the same time, Hong Kong was more subject to international influence. As the US-Soviet hegemony led to drastic changes in the world pattern, the processing industry developed rapidly in Hong Kong, relying on its own shipping advantages and cheap production costs.

From 1960 to 1985, industrial structure of Shanghai remained virtually unchanged and its GDP per capita doubled. However, GDP per capita of Hong Kong grew by leaps and bounds, exceeding it by more than ten times. The rapid growth of the tertiary sector, almost doubled that of the secondary sector, indicating that Hong Kong was gradually shifting its development focus towards the service sector. At this time, the mainland was still in the period of basic economic development, and the gross domestic product of the secondary sector was still the main source of economic in many cities. In contrast, Hong Kong kept pace with international economic trends, rapidly transforming and upgrading its service sector and shifting its underdeveloped low-end

manufacturing industries to the lower-cost Pearl River Delta.

From 1985 to 2018, the tertiary sector accounted for an increasing share of Hong Kong, even nearly 99% in 2018. Also, the GDP per capita also kept increasing. During this period, the share of the tertiary sector of Shanghai continued to rise and began to account for close to 70%. Because Hong Kong was returned to China and the policy of "One Country, Two Systems" Implemented, Hong Kong can have a relatively free economic environment to develop. And then, it gradually became one of China's exports to all over the world, and its service sector grew rapidly. Shanghai was also supported by the state and moved along international industry trends.

We can see that the trend of change in industry is from manufacturing to services in both Hong Kong and Shanghai. It is just that Hong Kong's tertiary sector is growing rapidly and accounts for a huge share, while Shanghai's tertiary sector is growing more slowly. From 2008 to 2018, although Hong Kong's GDP per capita was much higher than Shanghai's, the growth rate was slower than Shanghai's. This may be due to the different pace and pattern of change in Hong Kong in the transformation of the industry, which affected the growth rate of its GDP.

Table 1 Changes in GDP per capita in Shanghai and Hong Kong and the respective shares of the three major industries in GDP

region	item	1960	1975	1985	1997	2008	2018
Shanghai	GDP per capita(dollar)	618	1265	1298	3106	9779	20398
	Primary industry (%)	2.67	4.03	4.2	2.26	0.8	0.3
	Secondary industry (%)	77.88	77.18	69.8	52.21	43.5	29.8
	Tertiary industry (%)	19.45	18.79	26.0	47.03	55.7	69.9
Hong Kong	GDP per capita(dollar)	429	2235	6419	26762	31519	48717
	Primary industry (%)	8.0	1.6	0.7	0.13	0.1	0
	Secondary industry(%)	52.2	32.1	29.6	14.6	2.7	1.1
	Tertiary industry (%)	39.8	66.3	69.7	85.2	97.2	98.9

Source: Shanghai Statistical Yearbook; Hong Kong Economic Yearbook; World Bank Open Data Platform

## 2. Analysis of structural changes in the industry

Both Shanghai and Hong Kong are shifting towards the service sector, but recently Hong Kong's economic growth has weakened. The speed and pattern of the shift in manufacturing and services may be the influencing factor.

### 2.1 Hollowing out of manufacturing upgrades

As it can be seen from Table 2, Shanghai's manufacturing industry is dominated by heavy industries, while Hong Kong's manufacturing industry is dominated by light processing industries, which is mainly concentrated in labor-intensive industries such as food processing, metals, rubber and plastics. The total profit of Shanghai is nearly ten times that of Hong Kong. Among them, Shanghai's manufacturing industry has a high proportion of high-tech industries (electronic information manufacturing, biomedical manufacturing, etc.), while Hong Kong has fewer industries in this area, which is concentrated more in low-end manufacturing industries.

In the 1990s, Hong Kong exported its products to the world by moving these labor-intensive production factories to the Pearl River Delta region, manufacturing them at lower production costs and taking advantage of its own trade and transport advantages. However, as globalization has accelerated and transport has become more accessible, Hong Kong's transport advantage has

become less prominent. And the rising cost of production factors in the mainland has further reduced its competitive edge. This is when technology-intensive manufacturing becomes increasingly important in the competition. However, Hong Kong has completed its industry shift. In Hong Kong, most of the talent flowed to service industries such as finance and trade, which makes a talent gap in the manufacturing sector for technological upgrading. The manufacturing industry has subsequently become hollowed out and the output value is low.

Table 2 Share of output of major manufacturing industries and their total profits in Shanghai and Hong Kong in 2018 (RMB billion)

<b>Shanghai</b>		
Industry	Share of output (%)	Total profit(RMB billion)
Electronic information products manufacturing	27.02	236.43
Automotive manufacturing	28.62	1 077.68
Plant manufacturing	17.48	264.74
Boutique steel manufacturing	5.17	163.61
Petrochemical and fine chemical manufacturing	16.78	469.41
Biomedical manufacturing	4.93	157.35
Total	100	1055.11
<b>Hong Kong</b>		
Industry	Share of output (%)	Total profit(RMB billion)
Food, beverages and tobacco products	19.02	53.67
Chemical products and pharmaceuticals	6.41	26.89
Textile products and garments	2.04	3.79
Rubber, plastic, etc.	4.29	7.17
Paper products, printing, etc.	5.51	37.49
Metals, computers, electronic and optical products, machinery and equipment	56.67	32.45
Total	93.94	161.46

Source: Shanghai Statistical Yearbook; Hong Kong Economic Yearbook

## 2.2 Service industry out of touch with the mainland

It is a trend to develop a high service industry, but the prerequisite is that it is supported by the real economy. Hong Kong moved its light industries to the mainland a long time ago, laying a certain economic foundation for the transformation of the service sector. With the growing development of infrastructure in the mainland, the non-upgraded manufacturing industries transferred from Hong Kong have not been able to keep pace with the development of the mainland, which causes Hong Kong to miss out on the benefits brought by the development of manufacturing industries in the mainland.

In addition, service industries in Hong Kong are mainly finance, real estate, import or export trade and tourism. Its high level of service industry and free trade environment have always attracted thousands of people to invest in Hong Kong. However, the accelerated globalization process has boosted the development of the service industry in the mainland. Residents there have more choices that their demand has also increased. Gradually, Hong Kong and some developed cities in the mainland are competing with each other. The mainland has the support of its own manufacturing industries, which weakened edge in Hong Kong's service industries. Take Table 3 as

an example, in 2018, although both Hong Kong and Shanghai were among the top 10 global ports in terms of container throughput, the growth rate of Hong Kong was negative. This shows that the globalization of the world and the increase in international trade have had a knock-on effect on the innate advantage of Hong Kong's service sector.

Table 3 Top 10 global ports in terms of container throughput for 2018

Ranking	Port	Throughput (million TEUs)	Growth rate (%)	Region
1	Shanghai Port	4201	4.4	China
2	Singapore Port	3660	8.7	Singapore
3	Ningbo Zhoushan Port	2635	7.1	China
4	Shenzhen Port	2574	2.1	China
5	Guangzhou Port	2187	7.4	China
6	Busan Port	2166	5.7	South Korea
7	Port of Hong Kong, China	1960	-5.7	Hong Kong, China
8	Qingdao Port	1932	5.5	China
9	Long Beach Port	1755	3.9	United States
10	Tianjin Port	1601	6.2	China

Source: Office for National Statistics

### 3. Insights and recommendations

#### 3.1 Enhanced research and innovation capabilities, simultaneous industrial transformation and upgrading

According to the Global Competitiveness Report 2018 released by the World Economic Forum, the performance of Hong Kong in terms of innovation capability is average, ranking only 26th in the world. Hong Kong's well-developed modern service industry system has attracted many talents in this area, while passively losing some talents in other areas, such as scientific research and innovation talents. At present, the world is characterized by intelligence. Hong Kong should follow the trend and use intelligence to enhance its advantageous industries. It should also industrialize the results of scientific research and encourage the listing and development of the Growth Enterprise Market. It should not be limited to the traditional service industry and repeat the problem of the talent gap in the transformation and upgrading of the manufacturing industry.

#### 3.2 Seizing the opportunity of the development of the Guangdong-Hong Kong-Macao Greater Bay Area to strengthen ties with the mainland

The New York Bay Area, the San Francisco Bay Area and the Tokyo Bay Area are three of the world's most economically developed bay areas today. They have an efficient ability to allocate resources. Their highly developed service industries and reliable manufacturing base have brought them high rates of economic development. At present, the service sector in the PRD region is at a low level, but the manufacturing sector has reached a bottleneck at the current level. There is an urgent need for a well-developed modern service industry to match it to provide support in finance, logistics and other fields. Hong Kong should seize this opportunity to develop in partnership with the manufacturing sector in the PRD region. Backed by the foundation of the real economy, it can help Hong Kong to promote the development of the modern service industry in the direction of high

value-added.

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