Hong Kong and Shanghai as Global Service Hubs: Rivalry or Complementarity?

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September 2009

Shanghai-Hong Kong Development Institute
Occasional Paper No. 20

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Current Research Interests

Economic integration of the Chinese Economic Area (Chinese Mainland, Taiwan, and Hong Kong)
Trade and Investment of Chinese economy.

Acknowledgements

The author wishes to acknowledge research support from the Hong Kong Institute of Asia-Pacific Studies and the able research assistance of Miss Jessie Pang.

Paper prepared for the Conference on International Trading and Financial Hubs in East and Southeast Asia in Paris, May 27-28, 2009.

Downloadable at: http://www.cuhk.edu.hk/shkdi/OP/OP20.pdf

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香港與上海作為全球服務樞紐：競爭或互補?

Abstract:

Hong Kong and Shanghai are the only Chinese cities that can aspire to be global financial centres and service hubs on a par with London and New York. This paper traces the development of the two cities and analyzes their hub status in transportation, international trade, and financial services, paying special attention to areas of rivalry and complementarity.

摘　要

香港及上海是中國兩個有條件發展成為全球金融中心及服務樞紐的城市，與倫敦及紐約並駕齊驅。本文探索滬港雙城的發展過程，分析兩個城市在運輸、國際貿易及金融服務這三方面的地位，並着重探討其競爭與互補的領域。

1. Introduction

Hong Kong and Shanghai share a common history as two of the five trading ports along the coast of China forcibly opened by the West under the Treaty of Nanking in 1842 following the Opium War. Hong Kong was then a mere fishing village, and Shanghai was then a small local town. However, both are strategically located: Hong Kong has the best port not only in the Pearl River Delta (PRD) but also in South China. Shanghai is situated at the mouth of the Yangzi River, the greatest waterway in China.

Both ports developed rapidly under western influence. Hong Kong became the entrepot of South China. Shanghai became not only the hub of the Yangzi River Delta (YRD), but was also China's largest city, port, and industrial centre. Before World War II, while Hong Kong was a regional port handling South China's external trade, Shanghai was already a global city. In the 1920's, Shanghai was known as the Wall Street of the Far East.

After the Communist came to power in China, Shanghai's service sector shrank due to the Marxian bias against services. Industrial development continued, and many large State Owned Enterprises (SOEs) were built in Shanghai. Shanghai's growth was above national average, and Shanghai was the number one sub-central city/province in GDP, industrial output, and exports in the pre-reform era (Sung 1999:1). However, Shanghai was no longer a global city as it was cut off from the world market.

The regime change in China threatened Hong Kong's entrepot economy. Hong Kong was cut off from its hinterland due to the Cold War in East Asia. China re-oriented its trade towards the Soviet bloc. As a result, Hong Kong lost its entrepot trade. However, the eclipse of Shanghai as a global city provided an opportunity for Hong Kong. Many of Shanghai's capitalists fled to Hong Kong, and provided the capital and skills for Hong Kong's export-oriented industrialization. The demand for services from the manufacturing sector stimulated the development of banking and business services. In the 1970's, Hong Kong began to emerge as an international financial centre.

The opening and reform of China in 1978 was a turning point for both Hong Kong and Shanghai. Beijing gave Guangdong special autonomy to experiment with economic reforms, and Hong Kong took advantage of China's opening to build a "world factory" in the PRD. While Guangdong raced ahead, Shanghai's growth fall behind the nation as it was burdened by SOE's and conservative bureaucrats trained in the tradition of the command economy. Guangdong surpassed Shanghai in terms of GDP in 1983, in exports in 1986, and in industrial output in 1989 (Sung 1999: 2).

It should be noted that other areas in the YRD that were not burdened by SOE's, e.g., Jiangsu and Zhejiang, also raced ahead in the early reform era. Jiangsu was famous for its dynamic Township and Village Enterprises (TVE's) (Sunan model), while Zhejiang was famous for the resilient private enterprises (Wenzhou model). However, Guangdong was clearly the front runner in the early reform era. Guangdong became China's number one province in inward foreign investment in 1979, in exports in 1986, and in GDP in 1989 (Sung 1999: 4).

The "world factory" that Hong Kong entrepreneurs built in Guangdong was largely supported by producer services sourced from Hong Kong. In fact, Hong Kong had a temporary monopoly in producer services in the China market in the early reform era as the development of China's services lagged behind its export-oriented manufacturing due to the Marxian bias against services. For instance, while foreign investment in manufacturing was promoted right from the beginning of the reform era, China did not allow foreign investment in ports till 1992, when Deng Xiaoping called for bolder reforms in his historic southern tour in support of economic reforms.

In the reform era, Hong Kong was rapidly transformed from a manufacturing centre into China's premier service hub. Hong Kong manufacturing, which had been the largest sector in both employment and GDP, shrank rapidly while the trade sector grew to be the largest sector of the economy. In the mid 1990's, Hong Kong handled around 60 percent of China's trade, 40 percent in the form of re-exports through Hong Kong (or entrepot trade), and another 20 percent in the form of "offshore trade" (i.e., trade not going through Hong Kong but are handled by Hong Kong trading firms). Hong Kong was also the source of over half of China's FDI

(Foreign Direct Investment) (Sung 2006: 152-169).

With China's opening, Hong Kong became a global service hub. From 1992 up till 2004, Hong Kong had been the world's busiest container port except for the year of 1998. The Hong Kong airport was the world's number two in terms of air cargo from 2002 to 2008. Hong Kong also vied with Singapore to be the largest international financial centre in East Asia.

Hong Kong's dominance in China's trade and investment has declined since the mid 1990's. This is due to two factors. First, Hong Kong lost its temporary monopoly in producer services as China developed its service sectors after 1992. For instance, the Shenzhen port developed rapidly (with the help of Hong Kong investment), and cargo was diverted from the Hong Kong port (Sung 2005: 77-78). Second, with the opening of Pudong in 1990, China shifted the regional emphasis of its developmental policy from Guangdong to Shanghai. Shanghai's official mission has been to become the "dragon head" of the Chinese economy. Shanghai is to become "three centres", namely, a financial centre, a trading centre, and an economic centre.

The choice of Shanghai can be explained by economic factors such as Shanghai's abundance of skilled manpower and strategic location at the mouth of the Yangzi River. Political factors also played a role. Beijing does not want to put all its eggs in the Hong Kong basket because the political loyalty of Hong Kong could be doubtful. For instance, Hong Kong actively supported the pro-democracy students in the Tiananmen incident of June 4, 1989.

Since 1990, Shanghai has enjoyed favourable policies and has grown much faster than the national average. Shanghai's container throughput and also stock market turnover surpassed those of Hong Kong in 2007. Despite the rapid development of Shanghai, Hong Kong is still ahead of Shanghai as a financial centre and services hub. For instance, in the latest ranking of financial centres according to The Global Financial Centres Index 5 (City of London Corporation: 2009) released in March 2009, Hong Kong ranked was the 4th (after London, New York, and Singapore), while Shanghai rank was a distant 35th. As the rule of law is a very important element in the rank of financial centres, Hong Kong is expected to maintain a lead over Shanghai for some time to come.

With the 2008 financial Tsunami and the decline of the US, China has to play a more active international role. Beijing is determined to gradually allow the RMB (Renminbi) to become an international currency. On April 29, 2009, Beijing unveiled a master plan to transform Shanghai into an international financial and shipping centre by 2020, in line with China's economic power and the growing importance of the RMB (Hang Seng Bank, 2009). While Shanghai has long harbored ambitions to become an international financial centre, it is noteworthy that Beijing affirmed that it would push ahead with the opening and reform of its financial system right after the global financial crisis.

While Beijing is determined to liberalize to open its financial system gradually, there is no fixed timetable. China's closed capital account has been its best defense against external financial crisis, as evidenced by the Asian Financial Crisis of 1997 and the global financial Tsunami of 2008. To open up its capital accounts, China's financial system must be robust enough to absorb large external shocks. Hong Kong is the only Chinese city to have a fully open financial system. Moreover, Hong Kong's system has successfully weathered the shocks of 1997 and 2008. It is clear that, in pursuing financial liberalization, China can benefit a lot from Hong Kong's experience and infrastructure in finance. In the 2009 Government Work Report delivered in March, Premier Wen Jaibao affirmed that China would consolidate Hong Kong's position as an international financial centre. To further its reform and opening, China has adopted a "dual financial centres" model that would utilize the comparative advantages of both Shanghai and Hong Kong (Bank of East Asia, 2009).

This paper is organized as follows. Besides the introductory section, section two compares the macroeconomic indicators of Hong Kong and Shanghai as well as those of the PRD and YRD, the hinterland of the two hubs. Sections three and four compare the two cities as transportation and trading hubs respectively. Section five examines the two hubs as financial centres. Section six concludes.

2. Macroeconomic indicators of the two cities and two deltas

Table 1 shows the 2008 macroeconomic indicators of the two cities. Shanghai is much larger in area and population, but the GDP of Hong

Kong is slightly higher. While Shanghai's GDP is likely to surpass that of Hong Kong soon, Hong Kong's per capita GDP will still be higher than that of Shanghai for a long time: The 2008 per capita GDP of Hong Kong is nearly three times that of Shanghai.

For total exports, Hong Kong's 2008 exports of USD 363 billion were slightly lower than the USD 393 billion of Shanghai. However, it is very tricky to compare the exports or the trade of Hong Kong and Shanghai. Relative to Shanghai, Hong Kong's trade is biased upwards in some ways, but understates Hong Kong's status as a trading hub in other ways. Hong Kong's trade is biased upwards because Hong Kong is a separate customs territory while Shanghai is part of the customs territory of China. Flow of goods between Hong Kong and the Mainland (which is a large part of Hong Kong's trade) would appear in Hong Kong trade statistics, while flows between Shanghai and the rest of China would not appear in trade statistics at all. However, Hong Kong's trade does not capture all of Hong Kong's activities as a trading hub because Hong Kong is an important centre of offshore trade (which is handled by Hong Kong traders but does not go through Hong Kong customs). Hong Kong is also an important centre of transshipment (Transshipped goods go through the Hong Kong port but do not go through Hong Kong customs). A comparison of Hong Kong and Shanghai as trading hubs that takes into account the above caveats is presented in section 4 of this paper.

For exports produced locally, Hong Kong exports were only 7 percent of that of Shanghai. Hong Kong's manufacturing has largely relocated to the Mainland while Shanghai has remained an important manufacturing centre.

As for the indicators that are closely related to the cities' status as service hubs, Hong Kong has a huge lead over Shanghai. For the share of the tertiary sector in GDP in 2007, Hong Kong's share was 89 percent while that of Shanghai was only 53 percent. In 2007, Hong Kong's inward FDI was over five times that of Shanghai, while Hong Kong's outward FDI was nearly a hundred times that of Shanghai. In mid 2008, Hong Kong has 1,298 multinational regional headquarters while Shanghai only has 201.

However, Shanghai's growth rate is much higher than that of Hong Kong. This is expected as economies with a lower level of development

tend to growth faster than mature economies. For instance, in the YRD, both Jiangsu and Zhejiang has grown faster than Shanghai. Shanghai's growth is likely to slow down as it reaches a higher level of development. The fact that Shanghai is now growing faster does not imply that Shanghai will inevitably surpass Hong Kong in the level of economic development.

Figure 1 shows the shares of the tertiary sector and the finance sector to GDP in Hong Kong and Shanghai. It is well known that the share of the tertiary sector to GDP tends to rise as the economy matures. Hong Kong is highly service-oriented: its share of tertiary sector to GDP rose from 72 percent in 1990 to 89 percent in 2007. As expected, the share of tertiary sector to GDP is much lower for Shanghai, indicating a lower level of development of services. Nevertheless, the share of Shanghai's tertiary sector to GDP rose rapidly from 31 percent in 1990 to 52 percent in 2000, showing rapid development of services in the period. However, Shanghai share remained at the level of around 52 percent till 2007 despite rapid economic growth in the period. This unexpected trend is related to the decline in the share of finance sector to GDP in Shanghai in the period, as analyzed below.

The growth of the finance sector in Hong Kong has been extremely rapid. The share of the finance sector to GDP in Hong Kong rose from 6.4 percent in 1990 to 18.7 percent in 2007, an increase of 12.3 percentage points. In comparison to the steady expansion of the finance sector in Hong Kong, the development of Shanghai's finance sector is extremely erratic. The share of the finance sector to GDP in Shanghai rose from 9.1 percent in 1990 to a peak of 16.4 percent in 1999, an increase of 7.3 percentage points, reflecting rapid development of the finance sector in the period. However, the share of the finance sector to Shanghai's GDP fell sharply thereafter to a low of 7.4 percent in 2005, and rebounded to 9.9 percent in 2007.

The erratic growth of Shanghai's financial sector can largely be attributed to the structural defects of China's stock market, which has been driven by government policy and also insider control and manipulation (Naughton 2007: 473). Wu Jinglian, a famous Chinese economist, repeatedly warned that China's stock market was worse than a casino. In 2000, the stock market reached a peak, and total market capitalization

approached 50 percent of China's GDP (Naughton 2007: 476). Starting 2001, China tried to reform the stock market by increasing transparency and information disclosure. This triggered a long decline in stock prices lasting five years. Many investors left the market as they inferred from the reform measures that the government would no longer prop up the market. By 2004, market capitalization fell to 24 percent of the GDP (Naughton 2007: 476), and Shanghai's financial sector reached a low point.

Due to economic prosperity from 2005 to 2008, another stock market bubble developed, leading to a rebound in the share of Shanghai's financial sector to GDP. The market peaked in late 2007, well before the 2008 Beijing Olympics. The financial Tsunami in the fall of 2008 compounded the woes of China's stock market. While all financial hubs suffer from boom-bust cycles, Shanghai's cycles are particularly prominent due to structural defects in China's stock market. Such cycles are harmful for Shanghai's development as a financial hub.

Table 2 shows of macroeconomic indicators of the two Deltas, PRD and YRD, 2007. The YRD is much bigger in area and economic size. It has been argued that, as Hong Kong is geographically part of the PRD, the GDP of Hong Kong (and also that of Macao) should be included in the GDP of the PRD for a fair comparison with the YRD. However, as the price level of Hong Kong (and also Macao) is much higher than that of Mainland's cities, the GDP of Hong Kong and Macao is biased upwards in terms of purchasing power parity.

A better method is to exclude Shanghai from the YRD for the comparison with the PRD because we wish to compare the economies of the hinterlands served by Hong Kong and Shanghai. Table 2 thus gives the economic indicators of the YRD excluding Shanghai. For brevity, this paper will refer to YRD less Shanghai as "YRD proper".

Table 2 shows that economy of YRD proper is substantially bigger than that of the PRD in 2007. In comparison with the PRD, YRD proper is bigger in terms of area (3.8 times), population (1.8 times), GDP (1.4 times), and inward FDI (1.9 times). However, the per capita GDP and exports of the PRD are respectively 30 percent and 15 percent higher than those of YRD proper.

In comparison with YRD proper, PRD has a higher growth rate of per capita GDP from 2000 to 2007. In fact, the PRD has grown faster than YRD proper throughout the reform era, excepting the late 1990s when the PRD suffered more from the Asian Financial Crisis as it had an economy that was more open. In the 2008 Financial Tsunami, the PRD may also suffer more than the YRD.

Summing up, the hinterland of Shanghai (YRD proper) is larger than the hinterland of Hong Kong (PRD) in terms of economic size, though the latter has a higher level of economic development. In comparison with Hong Kong, Shanghai has a larger natural hinterland, and this is an important advantage.

3. Hong Kong and Shanghai as hubs of transportation

This paper will compare Hong Kong and Shanghai as shipping hubs and air hubs. Hong Kong and Shanghai are not direct competitors in transportation because they serve different regions: Hong Kong serves the PRD while Shanghai serves the YRD. While Shanghai is recognized as the leading transportation hub in the YRD, Hong Kong's status as a transportation hub in the PRD faces the challenge of Shenzhen and Guangzhou. In transportation, Shenzhen and Guangzhou have lower costs, and they are also closer to the source of the cargo in the PRD.

Shenzhen and Shanghai ports have developed with the help of Hong Kong investment, and their container throughputs have approached or surpassed that of Hong Kong's. Figure 2 shows the container throughput of the world's four busiest container ports, namely, Singapore, Shanghai, Hong Kong, and Shenzhen. As mentioned above, Hong Kong had been the world's busiest container port till 2004. Largely as a result of cargo diversion to Shenzhen, Singapore surpassed Hong Kong in container throughput in 2005, and Shanghai surpassed Hong Kong as well in 2007. Shenzhen is also likely to surpass Hong Kong in a few years.

The Hong Kong port is expensive because Hong Kong forbids Mainland container trucks to drive to Hong Kong to protect the jobs of truck drivers in Hong Kong. As a result, the cost of carrying a container by truck to the Hong Kong port is around US$ 200 higher than that to the

Shenzhen port. Another problem is that transportation is land-intensive and Hong Kong is short of land. Container terminals and container yards take up a lot of land. Given that Hong Kong is land scarce, it is not surprising that Hong Kong will lose out to Shenzhen and Guangzhou in container throughput in the long run.

Hong Kong's lead in air transportation is likely to last longer. In comparison with sea transportation, air transportation has higher value added and is less affected by high labour costs. Table 3 compares air traffic in Hong Kong and Shanghai. While Hong Kong still has an edge, Shanghai is closing in very fast.

In the last 7 years, the Hong Kong airport has been the world's number two in terms of air cargo. As late as 2001, the airfreight and passenger traffic handled by the Hong Kong airport were over twice that of Shanghai. In fact, in 2002, the airfreight handled by the Hong Kong airport was as large as all the 147 airports of the Mainland combined. However, the Mainland developed extremely rapidly. Shanghai has closed in on Hong Kong in both air cargo and passenger traffic.

Hong Kong faces intense competition in the PRD in air transport. The PRD, which is not large, is crowded with four international airports: Hong Kong, Shenzhen, Guangzhou, and Macao. Guangzhou is a formidable competitor as it is one of Mainland's three major air hubs: Beijing in the North, Shanghai in Central China, and Guangzhou in the South. The capacity of the new Guangzhou airport is as large as Hong Kong's. Moreover, Guangzhou has already started construction of a third runway that will be completed by 2010. Due to the lack of land in Hong Kong, building a third runway is very expensive. Even if Hong Kong decides to build one, it will only be ready by 2018 at the earliest. Guangzhou has reserved land for a total of five runways, while it is not possible to build more than three runways at the Hong Kong airport.

Presently, the Hong Kong airport has a significant advantage over Guangzhou in terms of quality of service and international connectivity. In terms of international airlinks, HK has over 110 airlinks versus 60 for Guangzhou. However, Guangzhou's airlinks have grown very rapidly. Given the much larger population of YRD relative to the PRD, Shanghai's air traffic is likely to surpass Hong Kong's. Guangzhou's air traffic is also

likely to surpass Hong Kong's in the long run due to the lack of land in Hong Kong to build additional runways.

As airports and container ports are land-intensive, Hong Kong will lose out in services that are directly related to the physical movement of cargo, e.g., shipping, air freight, trucking, warehousing). Hong Kong has to concentrate in its area of comparative advantage: logistics, headquarter functions, and trade-supporting services not directly related to movement of cargo, e.g., intermediation, trade finance, and insurance. Such services are not land-intensive as they can be housed in high rises.

4. Hong Kong and Shanghai as trading hubs

This paper compares Hong Kong and Shanghai as hubs of China's trade. Specifically, we compare the shares of China's trade handled by Hong Kong and Shanghai[1]. Nearly all of Shanghai's trade is China-related, though a very small amount of non-China-related trade may go through Shanghai's bonded zone, e.g., Japanese goods may be re-exported via Shanghai's bonded zone to third countries. As Hong Kong is an entrepot and a separate customs territory, Hong Kong's non-Mainland-related trade is substantial. However, in the reform era, Hong Kong's trade is increasingly oriented towards the Mainland as Hong Kong re-emerged as

[1] There are two ways to compare Hong Kong and Shanghai as trading hubs. First, we can compare the total international trade (including China-related trade and non-China-related trade) handled by Hong Kong and Shanghai. Second, we can concentrate on comparison of China-related trade. The second comparison is more meaningful because Hong Kong and Shanghai are rival hubs in handling China-related trade. The two hubs do not compete much in non-China-related trade. Moreover, comparing the total international trade of Shanghai and Hong Kong is statistically misleading. Relative to Shanghai, Hong Kong's trade is biased upwards because Hong Kong is a separate customs territory and Shanghai is part of the customs territory of the Mainland. Mainland goods re-exported via Hong Kong are counted twice in Hong Kong trade: the first time when they are imported into Hong Kong and a second time when they are re-exported. However, Mainland goods exported via Shanghai are counted only once. To avoid double counting, we act as if Hong Kong is part of the customs territory of the Mainland: Mainland goods re-exported via Hong Kong are valued as they left China customs (f.o.b. China), and third country goods re-exported via Hong Kong to China are valued as they enter China customs (c.i.f. China). Details of the valuation method are explained in Sung 2005: 74-77.

China's entrepot. In 2008, nearly 80 percent of Hong Kong's trade is Mainland-related. Of Hong Kong's Mainland-related trade, 95 percent are Mainland's trade via Hong Kong in the form of Hong Kong re-exports (i.e., Hong Kong re-exports of Mainland goods and also Hong Kong re-exports of third-country goods to the Mainland). The remaining 5 percent are Mainland's trade with Hong Kong itself (i.e., Mainland goods consumed in Hong Kong and Hong Kong goods consumed in the Mainland).

To compare Hong Kong and Shanghai as hubs of China's trade, we distinguish between the following three types of trade:

1. Trade arising from producers and users in Hong Kong (Shanghai),

2. Trade arising from producers or users outside Hong Kong (Shanghai), but is transported via Hong Kong (Shanghai), and

3. Trade arising from producers or users outside Hong Kong (Shanghai) that uses the intermediary services of traders in Hong Kong (Shanghai).

The determinants of the three types of trade are different. The first type of trade is relatively small in Hong Kong because Hong Kong manufacturing has largely relocated to the Mainland. However, Hong Kong's manufacturing base in the Mainland is still largely serviced from Hong Kong. As a result, the second and third types of trade are relatively large for Hong Kong. The second and third types of trade can be used to gauge the roles of Hong Kong or Shanghai as transportation and trading hubs respectively.

Trade that uses the intermediary services of Hong Kong (Shanghai) traders may be transported via Hong Kong (Shanghai). However, it is also possible for such goods to be transported via other ports. In the same way, goods that are transported via Hong Kong (Shanghai) may not involve intermediation by Hong Kong (Shanghai) traders. Conceptually, it is useful to keep the services of transportation and trading (intermediation) distinct.

4.1 Hong Kong as a trading hub

Table 4 shows China's trade handled by Hong Kong through

re-exports and offshore trade. The first type of trade is not included in the Table because it is small, less than one percent of Mainland's trade since 2003. We focus on Hong Kong's role in serving "outside trade" (trade arising from producers and users outside Hong Kong). Re-exports (or entrepot trade) include re-exports of Mainland goods via Hong Kong to third countries, and also re-exports of third country goods to the Mainland via Hong Kong. Offshore trade does not go through Hong Kong customs, but Hong Kong traders play a middleman role in the trade.

Re-exports involve both transportation and intermediation. The goods are transported via Hong Kong, and they are also sold to a Hong Kong trader who later resells the good outside Hong Kong. The goods have to clear customs twice: The first time when they are imported into Hong Kong, and a second time when they are re-exported.

Like re-exports, offshore trade uses Hong Kong traders as intermediaries. However, offshore trade may not be transported via Hong Kong as the goods can be shipped directly from the source to the destination without touching Hong Kong. Hong Kong's China-related offshore trade is nearly as large as its China-related re-exports. Statistics on Hong Kong's offshore trade is obtained from surveys conducted by the government. Statistics of offshore trade are less detailed than those of re-exports because offshore trade does not go through Hong Kong customs.

It should be noted that part of offshore trade may also be transported via Hong Kong through transshipment. Transshipment is used when direct shipment is not possible or not economical. Due to the hub-and-spoke pattern in transportation, transshipment through a major hub (e.g., Hong Kong) that has frequent schedules is often faster or more economical than direct shipment.

Transshipment should be distinguished from re-exports. While transshipment goes through Hong Kong in transportation, it does not go through Hong Kong customs and is not part of Hong Kong's trade. In transshipment, the goods are consigned directly from the source to a destination outside Hong Kong. However, the goods are transported via Hong Kong and usually change vessels in Hong Kong. Mainland goods, for instance, may be carried by coastal vessels to Hong Kong, where they are consolidated into containers for ocean shipping. Though the goods go

through Hong Kong in transit, they do not go through Hong Kong customs because they are not consigned to a buyer in Hong Kong. The value of transshipment cannot be obtained from customs statistics, though its weight and volume are known from cargo statistics.

It should be noted that the two kinds of trade shown in Table 4 (re-exports and offshore trade) do not account for all of Mainland's trade handled by Hong Kong. Table 4 ignores a third possibility: Mainland's trade transshipped via Hong Kong that does not involve intermediation by a Hong Kong trader. Mainland traders may transship goods via Hong Kong to take advantage of Hong Kong's frequent shipping schedules even though Hong Kong firms do not play a role in intermediation.

This third possibility is ignored because the value of transshipment is not known. Moreover, adding the value of Hong Kong's China-related transshipment (say, estimates from survey data, or estimates crudely extrapolated from weight or volume of transshipment) to the value of China-related offshore trade involves double-counting because part of offshore trade is transshipped via Hong Kong. It should be stressed that Table 4 understates the share of China's trade handled by Hong Kong as it ignores transshipment not involving Hong Kong intermediation.

Table 4 shows the China's trade via Hong Kong in the form of re-exports grew much faster than China's total trade in the early reform era. Its share of China's total trade rose from 4 percent in 1979 to a maximum of over 40 percent in the mid 1990s. In absolute terms, it has grown nearly a hundred times in the period. The very rapid rise of Hong Kong's Mainland-related entrepot trade is partly due to the relocation of Hong Kong manufacturing to Guangdong which generates a huge amount of outward processing trade: Hong Kong firms supply their subsidiaries in the Mainland with raw materials and parts and components, and the processed output is often sold back to the parent firms in Hong Kong for re-export to the final market. Moreover, Hong Kong also handles a substantial amount of "pure re-exports", i.e., re-exports not related to outward processing. Mainland's demand for intermediation has increased with the decentralization of China's foreign trade system, and this demand is often channeled to Hong Kong due to its efficiency in intermediation[2].

[2] For a detail account of Hong Kong's entrepot role in Mainland's trade, see Sung 2005: 77-94.

However, with the further opening of China, the share of China's trade via Hong Kong in the form of re-exports declined from the peak of 41 percent in 1996 to 13 percent in 2008. This rapid decline can be attributed to two factors. First, as mentioned above, Shenzhen's container ports developed rapidly with Hong Kong investment, and cargo was diverted from Hong Kong to Shenzhen. Table 4 shows that, from 1996 to 2001, while the share of China's trade re-exported via Hong Kong was declining, the share of China's trade handled by Hong Kong's as offshore trade was still rising. This shows diversion of trade from re-exports to offshore trade, which is largely handled by Shenzhen ports.

Second, with Deng Xiaoping's 1992 historic southern tour, other provinces emulated Guangdong's export-oriented model, and China's exports shifted northward from Guangdong towards the Yangzi Delta and the northern coastal areas. Trade in the Northern areas is usually served by Shanghai or other hubs in the North rather than Hong Kong. The total share of China's trade handled by Hong Kong (as re-exports and as offshore trade) declined from the peak of 60 percent in 1997 to 28 percent in 2007.

While the share of China's trade handled by Hong Kong has declined rapidly since 1997, Table 4 shows that the decline is relative rather than absolute: The value of China's trade handled by Hong Kong as re-exports and offshore trade have grown quite rapidly. From 1997 to 2007, China's trade handled by Hong Kong has grown at the average rate of 12 percent per year. However, in the same period, China's total trade has grown even faster at the average rate of 21 percent per year.

4.2 Shanghai as a trading hub

Table 5 shows the following three different types of trade related to Shanghai in China Customs Statistics:

1. Imports and exports through Shanghai customs, or for brevity, "trade via Shanghai customs".

2. Imports and exports of consumers/producers located in Shanghai, or for brevity, "trade originating in Shanghai". More than half of "trade via Shanghai Customs" is "trade originating in Shanghai".

3. Imports and exports of importers/exporters located in Shanghai, or for brevity, "trade handled by Shanghai traders".

From the above three types of trade, we can derive "outside trade via Shanghai customs", i.e., trade originating outside Shanghai that goes through Shanghai customs, and also "outside trade intermediated by Shanghai traders", i.e., trade originating outside Shanghai in which Shanghai traders act as intermediaries. "Outside trade via Shanghai customs" is defined to be the difference between trade via Shanghai customs and trade originating in Shanghai[3]. "Outside trade intermediated by Shanghai traders" is defined to be the difference between trade handled by Shanghai traders and trade originating in Shanghai[4].

The data from China Customs Statistics shown in Table 5 largely start in 1992 (except for "trade via Shanghai customs", which starts in 1985), when Shanghai's economy and trade revived with the opening of Pudong in 1990. Trade data before 1992 is lacking. Fortunately, MOFERT (Ministry of Foreign Economic Relations and Trade) statistics on Shanghai's exports (but not on imports) are available for the pre-reform and early reform eras before 1992, and the results for exports usually hold for trade as a whole. The author has an earlier article (Sung 1996) using MOFERT statistics for analysis of Shanghai's exports before 1992. This paper will refer to the results of the earlier article in order to give a complete picture of Shanghai's trade from the pre-reform era to the present day.

Table 5 shows that the share of "trade via Shanghai customs" to the

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[3] We assume all trade originating in Shanghai goes through Shanghai customs instead of the customs of other cities because Shanghai is the foremost port of the YRD.

[4] We assume all trade originating in Shanghai is handled by Shanghai traders because Shanghai is the foremost trading hub of the YRD. The assumption is not strictly true as Central Foreign Trade Corporations in Beijing handle the trade of big SOE's located in Shanghai that are under direct central supervision, e.g., BaoShan Steel Works. As a result, trade handled by Shanghai traders was slightly less than trade originating in Shanghai from 1992 to 1997. However, with economic reforms, the trade of Shanghai's SOEs under direct central control has declined sharply in relative to Shanghai's trade. From 1998 onwards, trade handled by Shanghai traders have exceeded trade originating in Shanghai by an increasing margin.

national total declined from 21 percent in 1985 to 15 percent in 1991. The decline is a result of two factors. First, in the early reform era before 1992, the development of Shanghai's economy lagged behind that of Guangdong and the coastal provinces of Jiangsu and Zhejiang. The share of "trade originating in Shanghai" to the national total declined[5]. Second, in the pre-reform era, central planning dictated that a substantial amount of trade originating outside Shanghai, especially that originating in the GPRD, had to be shipped via Shanghai and be handled by Shanghai's state-run Foreign Trade Corporations (FTC's). However, in the early reform era, other provinces developed their own ports and FTC's. Trade originating outside Shanghai was diverted away from Shanghai's FTC's and the Shanghai port. From 1978 to 1992, the share of outside products exported by Shanghai's FTC's to the national total fell from 12 percent to 2.2 percent. The share of outside products exported via Shanghai customs fell from 12.5 percent in 1987 to 8 percent in 1990 (Sung 1996: 192). The opening of Pudong in 1990 was the turning point for the growth of Shanghai. Shanghai's trade soared, and the share of trade via Shanghai customs to the national total rose from the low point of 15 percent in 1990-91 to a record of 25 percent in 2005, and then declined slightly thereafter[6].

The rise in the share of trade via Shanghai customs to the national total since 1991 is due to the rapid growth of both "trade originating in Shanghai" and "outside trade via Shanghai customs". The share of "trade originating in Shanghai" to the national total rose from the low of around 9 percent in the early 1990s to over 13 percent in 2004. Given the rapid growth of production and consumption in Shanghai, the rise in the share of "trade originating in Shanghai" to the national total is expected.

"Outside trade via Shanghai customs" also soared. Its share of the national total rose from 6 percent of China's trade in 1992 (when data was first available) to a peak of 12 percent of China's trade in 2005 (but

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[5] The share of exports of Shanghai products to the national total declined from 18 percent in 1978 to 6 percent in 1992 (Sung 1996: 184). Data for trade (exports plus imports) is not available before 1992.

[6] The recent decline can be attributed to maturation in Shanghai's development and also the shift of the national development focus to other areas, including Tianjin in the North, and Chongqing in the West.

declined slightly thereafter). This shows the success of Shanghai port in serving trade originating outside Shanghai.

While the opening of Pudong revived the Shanghai port, it did not revive the rapid decline of Shanghai's FTCs in handling outside trade in the reform era. As mentioned above, outside exports handled by Shanghai FTCs declined from 12 percent of China's exports in 1978 to negligible amounts in the early 1990s. Table 5 shows that there was some increase in outside trade intermediated by Shanghai traders since 2000: "Outside trade" rose from close to nothing in 2000 to US$ 8 billion in 2008. While the absolute increase may appear substantial, US$ 8 billion was only 0.3 percent of China's trade in 2008. This shows that, unlike Hong Kong, Shanghai is not a big hub of intermediation for outside trade.

Summing up, while Shanghai plays a limited role as a hub of intermediation, it plays an important role as a transportation hub for China's foreign trade. The importance of Shanghai as a transportation hub as reflected in trade statistics is also supported by data already presented on Shanghai's container throughput and air cargo.

4.3 Shanghai and Hong Kong compared

Figure 3 compares China's trade handled by Hong Kong and Shanghai as trading and transportation hubs. The share of Mainland's trade handled by Hong Kong rose in the early reform era to a peak in the mid 1990's and then declined sharply. Hong Kong traders still handles a large volume of Mainland's trade, amounting to 28 percent in 2007.

The data shown for Hong Kong is entirely "outside trade", i.e., trade originating outside Hong Kong. However, including trade originating in Hong Kong would not change the overall picture because such trade is small: Less than one percent of Mainland's trade since 2003.

For Shanghai, the trade originating in Shanghai is about as large as Shanghai's "outside trade" because Shanghai is a large manufacturing centre (unlike Hong Kong). The share of "outside trade via Shanghai customs" to China's total trade doubled from 6 percent in 1992 to 12 percent in 2006. Including the trade originating in Shanghai, the share of total trade via Shanghai customs to China's total trade rose from 15 percent

in 1992 to nearly 24 percent in 2008. While Hong Kong's share (including offshore trade) is still higher than that of Shanghai, Shanghai's share is likely to exceed that of Hong Kong in the future because the trend of decline in Hong Kong's share has been quite sharp.

It might be argued that we should focus on "outside trade" rather than total trade (which includes trade arising from producers and users in Hong Kong/Shanghai) because our main interest is to analyze Hong Kong/Shanghai as service hubs in serving trade that originate outside the hubs. However, for a fair comparison of trade of Hong Kong and Shanghai, we should look at both "outside trade" and total trade. In terms of geography, Hong Kong's "outside trade" is biased upwards because Hong Kong is much smaller than Shanghai in area. Around half of Hong Kong's Mainland-related entrepot trade is outward-processing trade, i.e., trade involving the relocation of Hong Kong manufacturing to the Mainland (Sung 2005: 88-91). Shanghai is six times as large as Hong Kong in area: Shanghai is as large as Hong Kong, Shenzhen, and Dongguan combined. The relocation of Hong Kong manufacturing to Shenzhen and Dongguan is analogous to the relocation of manufacturing from the urban centre in Shanghai to the less urbanized periphery of Shanghai. A substantial portion of "outside trade" for Hong Kong would still be classified as "trade originating in Shanghai".

It must be stressed that Hong Kong's prominent intermediary role in "outside trade" cannot be entirely accounted for by outward-processing. Around half of Hong Kong's Mainland-related entrepot trade is "pure re-exports" not involving outward processing. Hong Kong is clearly an important hub of intermediation for "outside trade" while Shanghai's role as a hub of intermediation for "outside trade" is insignificant.

It is not surprising that Shanghai has greater success as a transportation hub than as a hub of intermediation. With the help of foreign investment and expertise, it is possible to construct modern container ports and airports in a short span of time. Shanghai has been able to expand its port facilities extremely rapidly. However, trading and intermediating require entrepreneurship and the accumulation of soft skills in marketing, logistics, and networking.

The remnants of the command economy in the Mainland also retard

the development of intermediary services in Shanghai because local governments in the YRD tend to protect their own trading companies. However, with further marketization and reform of the Chinese economy, it is possible that, in the future, Shanghai may play a more significant role in intermediation for trade originating outside Shanghai.

5. Hong Kong and Shanghai as financial centres

While Hong Kong was already developing into an IFC (International Financial Centre) in the 1970's, Shanghai's re-emergence as a financial centre only began in 1990 with the opening of Pudong. However, Shanghai's development has been extremely rapid.

Table 6 shows the stock exchange turnover of Hong Kong and Shanghai. In 1993, when data for Shanghai was first available, Shanghai's stock exchange turnover was only a quarter of Hong Kong's. However, by 2007, Shanghai's stock exchange turnover has surpassed Hong Kong's. In 2007, Shanghai's stock exchange ranked sixth in the world in market capitalization. Hong Kong's rank was seventh.

Table 7 shows the deposits and loans of banks in Hong Kong and Shanghai. In 1990, Shanghai's deposits and loans were only 8.2 percent and 7.8 percent of Hong Kong's respectively. By 2008, the gap has narrowed considerably: Shanghai's deposits and loans were 66 percent and 82 percent of Hong Kong's respectively. Given the much higher growth rate in Shanghai, Shanghai's loans and deposits should surpass Hong Kong's in a few years.

Hong Kong has a very small bond market due to its conservative fiscal policy. In 2006, the value of bonds listed in Hong Kong was only two percent of the UK and one percent of the US. Shanghai has a much larger bond market due to China's activist fiscal policy. At the end of 2007, the value of bonds listed in Shanghai was five times that of Hong Kong.

Given the vast size and rapid growth of the Chinese economy, it is expected that Shanghai's financial markets will surpass those of Hong Kong in scale. However, the quality of Hong Kong's financial markets is much better than those of Shanghai. This is reflected in the much higher scores

and ranks of Hong Kong in the Global Financial Centres Index in comparison with Shanghai (Table 8). Hong Kong has a huge lead in the rule of law, in free flow of information, in transparency of regulations, and in free and fair arbitration to resolve business disputes.

Though Shanghai's financial markets are quite large in size, Shanghai lagged far behind Hong Kong in international financial businesses as the RMB is not convertible on the capital account. For instance, at the end of 2007, Shanghai's foreign currency deposits were only 6 percent of Hong Kong's, and Shanghai's foreign currency loans were only 20 percent of Hong Kong's. Shanghai's foreign exchange market turnover was only 5 percent of Hong Kong's in 2007.

As mentioned before, China plans to gradually liberalize capital controls and internationalize the RMB in the long run. China has taken trial steps in this direction, utilizing the financial markets of Hong Kong. Since early 2004, China has allowed the development of offshore personal RMB business in Hong Kong, and Hong Kong residents could open RMB accounts, with daily exchange limits of RMB 20,000. Since mid 2007, China allowed its financial institutions, including the Ministry of Finance, to issue RMB bonds in Hong Kong. This would help to establish a benchmark yield for China's government debt, and also stimulate the development of the Hong Kong bond market. In April 2009, China allowed the mainland branches of Hong Kong banks to issue RMB bonds in Hong Kong (Bank of East Asia, 2009).

In July 2009, China started a pilot scheme to use the RMB for trade settlement in five cities, namely, Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan, and Hong Kong was allowed to settle in RMB its trade with these five cities. Besides facilitating Mainland-Hong Kong trade, which is very large, the scheme would also enhance the status of RMB, and promote the development of Hong Kong as a major offshore RMB business centre (Tse 2009).

The RMB is likely to be convertible on the capital account in the medium term, say, five to ten years, and Shanghai will be able to develop its international financial business more rapidly. However, the development of international financial business is highly dependent on free flow of information and a clean, transparent, and even-handed

regulatory environment. Given the corrupt and cumbersome bureaucracy in China, the development of a reputable legal framework and a transparent and fair regulatory environment is likely to require political reforms that are more time-consuming and risky than economic reforms. As long as Hong Kong can maintain its world-class standard in market regulation and quality of financial services, it will have an edge over Shanghai.

While Hong Kong has a big lead over Shanghai in quality of regulatory environment and institutions, Hong Kong cannot match the size of Shanghai's financial markets in the long run. The competition between Hong Kong and Shanghai in financial services will be very intense once China achieves capital account convertibility. Unlike transportation, in which the natural hinterlands of Hong Kong and Shanghai are separated, geographical distance is not at all important in financial transactions. Time zone is a factor in financial transactions, but Hong Kong and Shanghai are in the same time zone.

To avoid head-on competition with Shanghai, Hong Kong should specialize in niches such as derivatives, wealth management, and re-insurance. Hong Kong is way ahead in derivatives, not only because of superior financial expertise, but also because Hong Kong has a freer market than Shanghai. The Chinese government tends to put various restrictions on financial markets due to political and social considerations, e.g., China still forbids short selling and also restricts the magnitude of stock price movements. Hong Kong will have an advantage in derivatives for a long time to come.

Hong Kong's advantage in rule of law and protection of property rights is especially important in business insurance and re-insurance, which involve complicated contracts. Secure property rights is also important in wealth management. Mainland's many emerging millionaires like to put their wealth in Hong Kong. It is no accident that Hong Kong's fund management business has more than trebled in size from 2000 to 2005, rising from HK$1,485 billion to HK$4,526 billion. Hong Kong has become an important regional fund management centre, especially for Mainland funds. Hong Kong's fund management business is highly international, involving many non-Hong Kong investors and very substantial amounts of

assets outside Hong Kong/China and also outside Asia.

Capital account convertibility of the RMB poses threats as well as opportunities for Hong Kong. With a convertible RMB, Hong Kong will face intense competition from Shanghai in international financial business. However, Hong Kong will gain as a wealth management centre as Mainland wealth can flow freely to Hong Kong. Though wealth management business has suffered a lot from the financial Tsunami as investors have abandoned complicated structural products for "plain vanilla" products, investors' willingness to take risks will return with economic recovery.

6. Conclusion

In comparison with Hong Kong, Shanghai has an important advantage in location as it is the hub of the YRD, which is substantially larger than the PRD in economic size. However, Hong Kong has a big lead in quality of institutions such as rule of law, clean and transparent governance, and fair regulation. Quality of institutions is a most important long run determinant of the level of development.

Presently, Shanghai has a much higher rate of economic growth. However, Shanghai's growth rate will most likely slow down as its level of economic development approaches that of Hong Kong's. Shanghai needs to greatly upgrade the quality of its economic institutions. If Shanghai can upgrade the quality of its institutions to a level comparable with Hong Kong's, Shanghai may surpass Hong Kong in the level of economic development because Shanghai's natural hinterland is larger in economic size than Hong Kong's.

For a hundred years since the early 20th century, London and New York have been the world's only global financial centres. Given the size and dynamism of East Asian economies, and the big difference in time zone between East Asia and Europe or America, there is obviously the scope for a third global finance centre to emerge in East Asia. Presently, Hong Kong and Singapore are the leaders among East Asian financial hubs. However, in the long run, Shanghai is a serious contender. The crucial barrier to Shanghai's realization of its potential is the quality of its

institutions.

In political and economic governance, Shanghai is part of Mainland's system while Hong Kong is separated from the Mainland under "one country, two systems". This means that Shanghai has better access to the Mainland market. Moreover, Beijing is likely to favour Shanghai over Hong Kong in China's national development strategy, as Shanghai is politically more trustworthy and reliable.

However, the fact that Shanghai is part of Mainland's system imposes severe constraints on Shanghai's ability to reform and upgrade its institutions. Shanghai cannot change its legal system and political governance unless China does the same. The road to rule of law, clean government, and transparent regulation in China will be lengthy and perhaps tortuous as political reforms are likely to be more difficult and more risky than economic reforms.

With the rise of China, Beijing is determined to let the RMB to become an international currency. China has adopted a "dual financial centres" model that would utilize the comparative advantages of both Hong Kong and Shanghai. The liberalization and internationalization of China's financial system will provide many opportunities for both Hong Kong and Shanghai. For instance, both cities are involved in China's 2009 trail scheme to use the RMB for trade settlement. Several leading Hong Kong firms, including the HSBC, are planning to list in Shanghai (*South China Morning Post*, 30 April 2009).

In short, Hong Kong and Shanghai are the only Chinese cities that can aspire to be global service hubs. With the rise of China, the prospect of the two cities as global service hubs has an important bearing on the role of China in the future world economy.

Appendix

Table 1 Macro Economic Indicators of Hong Kong and Shanghai, 2008

	Hong Kong	Shanghai
Area (km^2)	1,104	6,341
Population (mn)	7	19
GDP (USDmn)	215,553	196,114
Share of tertiary tector in GDP (%) in 2007	88.6	52.6
Per capita GDP (USD)	30,892	10,385
Average growth rate(78-08)	4.30%	8.3%
Total exports (USDmn)	362,675[a]	393,344[b]
Exports produced locally	11,655[c]	160,539[d]
Inward FDI (USDmn)	43,667	7,920
Outward FDI (USDmn)	50,410	523
No. of headquarters of multinational companies (mid 2008)	1,298[e]	201[f]

Source: Hong Kong in Figures 2009, Census and Statistics Department, Hong Kong.
Statistical Communiqué of Shanghai on the 2008 National Economic and Social Development(2008 年上海市國民經濟和社會發展統計公報).

a. Total exports (including re-exports)

b. Exports via Shanghai customs (including exports of non-Shanghai origin via Shanghai)

c. Domestic exports (exports of Hong Kong goods)

d. Exports by Location of Domestic Producers

e. Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong

f. Trade Alert, September 2008, Hong Kong Trade Development Council.

Table 2 Macro Economic Indicators of Pearl River Delta (PRD) and Yangtze River Delta (YRD), 2007

	PRD	YRD	YRD proper (excluding Shanghai)
Area (km^2)	24,437	99,679	93,338
Population (10 thousand)	4,491	9,749	7,891
GDP (USDmn)	334,239	616,361	456,066
Average growth rate (2000-2007)	15.4%	13.8%	14.5%
Per capita GDP (USD)	7,516	6,296	5,780
Exports (USDmn)	354,085	450,674	306,746
Inward FDI (USDmn)	15,188	37,135	29,215

Source: Guangdong Statistical Yearbook, 2008.
Shanghai Statistical Yearbook, 2008.
Yangtze River Delta & Pearl River Delta and Hong Kong & Macao SAR statistical yearbook, 2008.

Remark: The Pearl River Delta Economic Zone covers the areas of 13 cities and counties (districts), including Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Dongguan, Zhongshan, urban districts of Huizhou, Huidong County, Boluo County, Zhaoqing, Gaoyao County- level City and Sihui County-level City.

The Yangtze River Delta Economic Zone covers the areas of 16 cities, including Shanghai, Suzhou, Wuxi, Changzhou, Zhenjiang, Nanjiang, Yangzhou, Taizhou(泰州), Nantong, Hangzhou, Ningbo, Jiaxing, Huzhou, Zhaoxing, Zhoushan, Taizhou(台州).

Table 3 Air Transport: Hong Kong and Shanghai

	Freight (10,000 ton)		Passengers (10,000)	
	Hong Kong	Shanghai	Hong Kong	Shanghai
1978	23	1	529	21
	(100)	(4.3)	(100)	(4.0)
1991	85	16	1,501	251
	(100)	(18.8)	(100)	(16.7)
1993	114	27	1,883	392
	(100)	(23.7)	(100)	(20.8)
1995	146	37	2,137	567
	(100)	(25.3)	(100)	(26.5)
1997	179	48	2,177	673
	(100)	(26.8)	(100)	(30.9)
1999	197	76	2,132	741
	(100)	(38.6)	(100)	(34.8)
2000	224	88	2,302	892
	(100)	(39.3)	(100)	(38.7)
2001	207	100	2,302	1,042
	(100)	(48.2)	(100)	(45.3)
2002	248	132	2,356	1,236
	(100)	(53.2)	(100)	(52.5)
2003	264	162	1,885	1,241
	(100)	(61.3)	(100)	(65.8)
2004	309	194	2,421	1,806
	(100)	(62.8)	(100)	(74.6)
2005	340	222	2,596	2,080
	(100)	(65.3)	(100)	(80.1)
2006	358	253	2,807	2,309
	(100)	(70.7)	(100)	(82.3)
2007	374	290	3,014	2,609
	(100)	(77.5)	(100)	(86.6)
2008	363	305	3,016	2,565
	(100)	(84.1)	(100)	(85.0)

Source: Hong Kong Annual Digest of Statistics, various issues.
Shanghai Statistical Yearbook, various issues.

Note: Figures in brackets represent percentage of Hong Kong's freight/ passenger traffic.

Table 4 Hong Kong's Mainland-related Re-exports and Offshore Trade

	Value of trade (US$mn)			Percentage share of China's total trade		
	Re-exports	Offshore trade	Total	Re-exports	Offshore trade	Total
1979	1,265	-	-	4.4	-	-
1980	2,500	-	-	6.6	-	-
1981	4,000	-	-	8.8	-	-
1982	5,800	-	-	11.0	-	-
1983	7,200	-	-	12.2	-	-
1984	8,800	-	-	13.0	-	-
1985	9,840	-	-	14.1	-	-
1986	14,500	-	-	18.0	-	-
1987	20,000	-	-	22.5	-	-
1988	27,000	-	-	27.0	-	-
1989	34,630	-	-	31.0	-	-
1990	42,000	-	-	34.5	-	-
1991	51,952	12,122	64,074	38.3	8.9	47.2
1992	61,263	-	-	37.0	-	-
1993	80,772	-	-	41.3	-	-
1994	94,819	35,611	130,430	40.1	15.0	55.1
1995	111,636	-	-	39.7	-	-
1996	119,771	-	-	41.3	-	-
1997	126,758	67,006	193,764	39.0	20.6	59.6
1998	118,642	-	-	36.6	-	-
1999	118,567	-	-	32.9	-	-
2000	140,632	111,422	252,054	29.7	23.5	53.2
2001	139,318	128,433	267,751	27.3	25.2	52.5
2002	155,837	145,626	301,463	25.1	23.5	48.6
2003	185,149	152,968	338,117	21.8	18.0	39.7
2004	220,760	190,469	411,229	19.1	16.5	35.6
2005	253,637	212,542	466,179	17.8	14.9	32.8
2006	288,697	238,533	527,230	16.4	13.5	29.9
2007	322,265	282,056	604,321	14.8	13.0	27.8
2008	341,267	-	-	13.3	-	-

Source: Hong Kong External Trade, Census and Statistics Department, Hong Kong, various issues.

Table 5 Shanghai's Trade

	Trade via Shanghai Customs				
				Outside trade via Shanghai	
	Total (1)	Trade originating in Shanghai (2)	Trade handled by Shanghai traders (3)	Total (4)	Intermediated by Shanghai (5)
1985	14,873	-	-	-	-
	(21.4)	-	-	-	-
1990	17,289	-	-	-	-
	(15.0)	-	-	-	-
1992	25,145	15,364	11,691	9,781	-
	(15.2)	(9.3)	(7.1)	(5.9)	-
1994	36,242	20,154	18,062	16,088	-
	(15.3)	(8.5)	(7.6)	(6.8)	-
1996	52,870	27,892	27,137	24,978	-
	(18.2)	(9.6)	(9.4)	(8.6)	-
1998	63,638	31,172	31,344	32,466	172
	(19.6)	(9.6)	(9.7)	(10.0)	(0.1)
1999	76,151	38,053	38,618	38,098	565
	(21.1)	(10.6)	(10.7)	(10.6)	(0.2)
2000	109,311	54,706	54,711	54,605	5
	(23.0)	(11.5)	(11.5)	(11.5)	(0.0)
2001	120,488	60,707	60,893	59,781	186
	(23.6)	(11.9)	(11.9)	(11.7)	(0.0)
2002	142,501	72,276	72,276	70,225	0
	(23.0)	(11.6)	(11.6)	(11.3)	(0.0)
2003	201,201	110,530	112,355	90,671	1,825
	(23.6)	(13.0)	(13.2)	(10.7)	(0.2)
2004	282,575	156,803	160,019	125,772	3,216
	(24.5)	(13.6)	(13.9)	(10.9)	(0.3)
2005	350,678	181,509	186,344	169,169	4,835
	(24.7)	(12.8)	(13.1)	(11.9)	(0.3)
2006	428,754	221,239	227,825	207,515	6,586
	(24.4)	(12.6)	(12.9)	(11.8)	(0.4)
2007	520,909	273,988	282,913	246,921	8,925
	(24.0)	(12.6)	(13.0)	(11.4)	(0.4)
2008	606,557	313,926	322,103	292,631	8,177
	(23.7)	(12.3)	(12.6)	(11.4)	(0.3)

Source: China's Customs Statistics, various issues.

Table 6 Hong Kong and Shanghai: Stock Exchange Turnover (US$bn)

	Hong Kong	Shanghai
1993	157	41
1994	146	67
1995	106	37
1996	181	110
1997	486	166
1998	218	150
1999	246[1]	205
2000	402	379
2001	255	274
2002	211	205
2003	331	252
2004	510	320
2005	580	235
2006	1,074	725
2007	2,778	4,017
2008	2,263	2,596

Source: HKEx Fact Book, various issues.
Shanghai Statistical Yearbook 2008.

1. Including value for GEM since year 1999.

Table 7 Hong Kong and Shanghai Banking: Deposits and Loans (US$bn)

	Hong Kong		Shanghai	
	Deposits	Loans	Deposits	Loans
1990	158	230	13	18
1991	177	289	14	30
1992	194	319	19	22
1993	223	369	26	28
1994	251	422	26	23
1995	286	483	37	29
1996	315	506	47	34
1997	350	532	67	45
1998	387	427	68	51
1999	419	363	76	59
2000	453	316	113	88
2001	437	280	136	103
2002	425	266	170	127
2003	458	261	209	159
2004	496	277	242	181
2005	523	297	285	205
2006	612	318	332	233
2007	752	380	399	286
2008	778	422	512	348

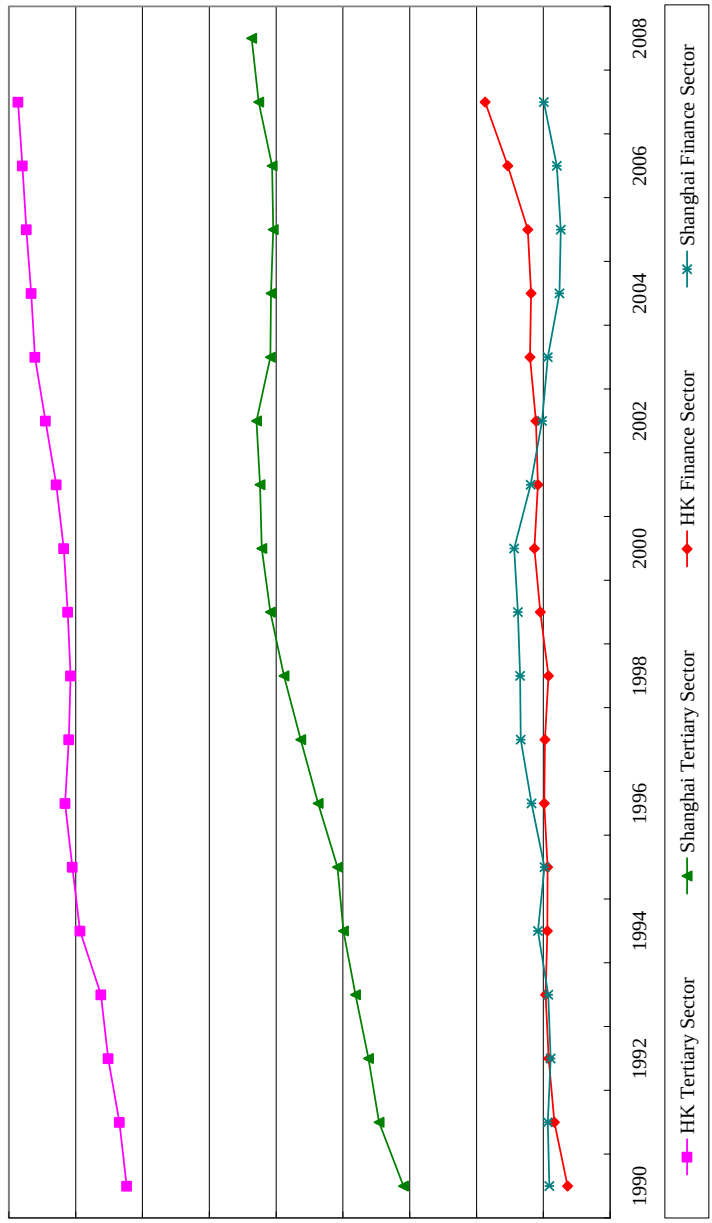
Source: Hong Kong Monetary Authority Annual Report, various issues
Shanghai Statistical Yearbook various issues.

Table 8 Global Financial Centres Index (GFCI)

	GFCI5		GFCI 4		GFCI 3		GFCI 2		GFCI 1	
Financial Centre	Rank	Rating	Rank	Rating	Rank	Rating	Rank	Rating	Rank	Rating
London	1	781	1	791	1	795	1	806	1	765
New York	2	768	2	774	2	786	2	787	2	760
Singapore	3	687	3	701	4	675	4	673	4	660
Hong Kong	4	684	4	700	3	695	3	697	3	684
Zurich	5	659	5	676	5	665	5	666	5	656
Tokyo	15	611	7	642	9	628	10	625	9	632
Shanghai	35	538	34	568	31	554	30	527	24	576
Beijing	51	478	47	509	46	493	39	482	36	513

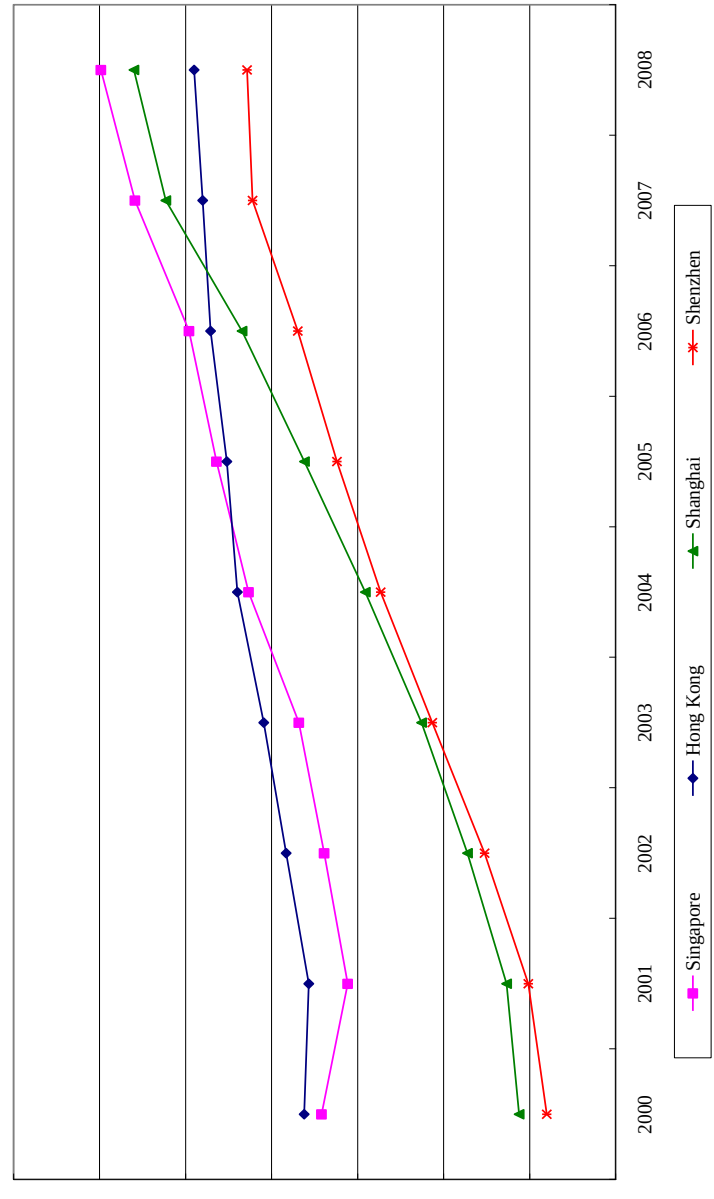
Source: The Global Financial Centres Index, various issues.

Figure 1 Hong Kong and Shanghai: Share of Tertiary Sector and Finance Sector in GDP (%)



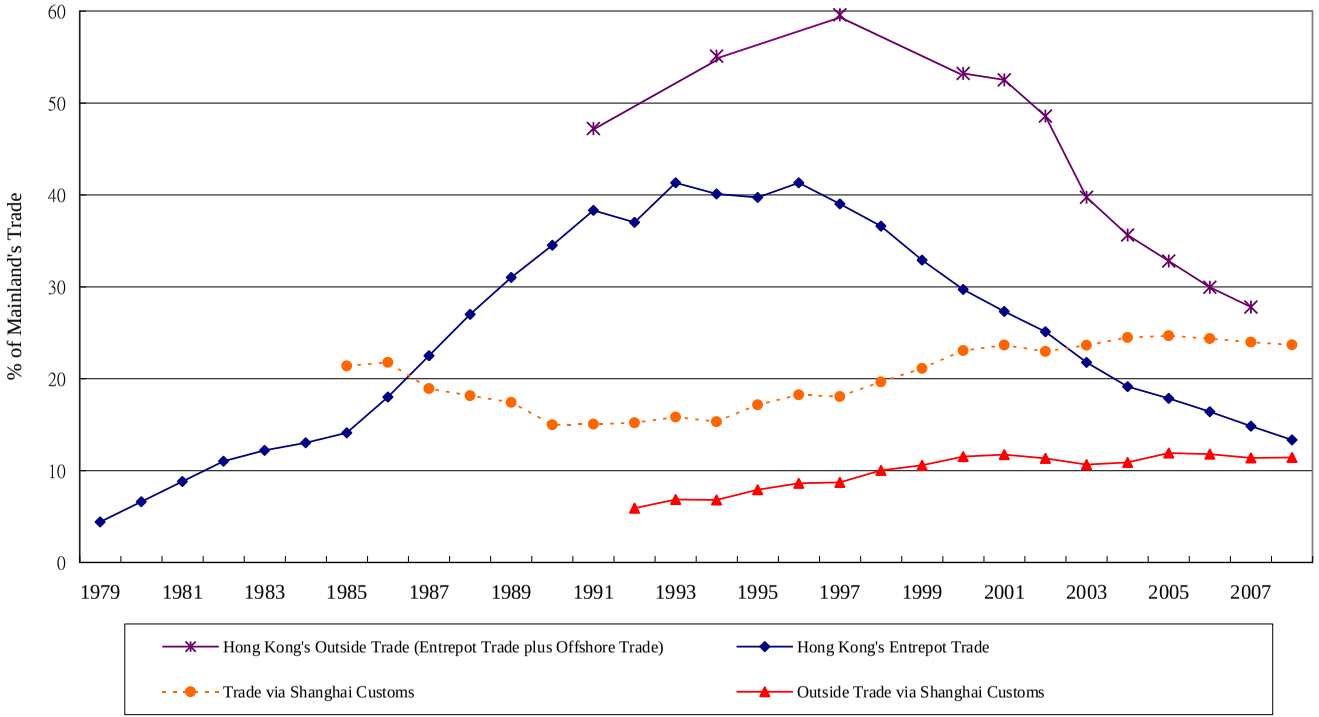
Source: GDP by expenditure component 2008, Census and Statistics Department, Hong Kong.
Shanghai Statistical Yearbook various issues.

Figure 2 Comparison of Container Throughput for Four Cities ('000 TEUs)



Source: Hong Kong Shipping Statistics, Census and Statistics Department, Hong Kong, various issues.

Figure 3 Hong Kong and Shanghai as Trading Hubs



Source: Hong Kong External Trade, Census and Statistics Department, Hong Kong.
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