A Tale of Three Cities

The Competitiveness of Hong Kong, Shanghai and Singapore in the Era of Globalization

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[Lord Palmerston] was not impressed by the cession of Hong Kong, a "barren island with hardly a house upon it".

Endacott (1958:18)

[Singapore] is by far the most important station in the East; and as far as naval superiority and commercial interests are concerned, of much higher value than whole continents of territory.

Buckley (1965:6)

Great cities do not arise by accident but they are not destroyed by whim. The geographic facts which have made Shanghai will prosper in the future once peace has been restored to East Asia.

Murphey (1953:205)

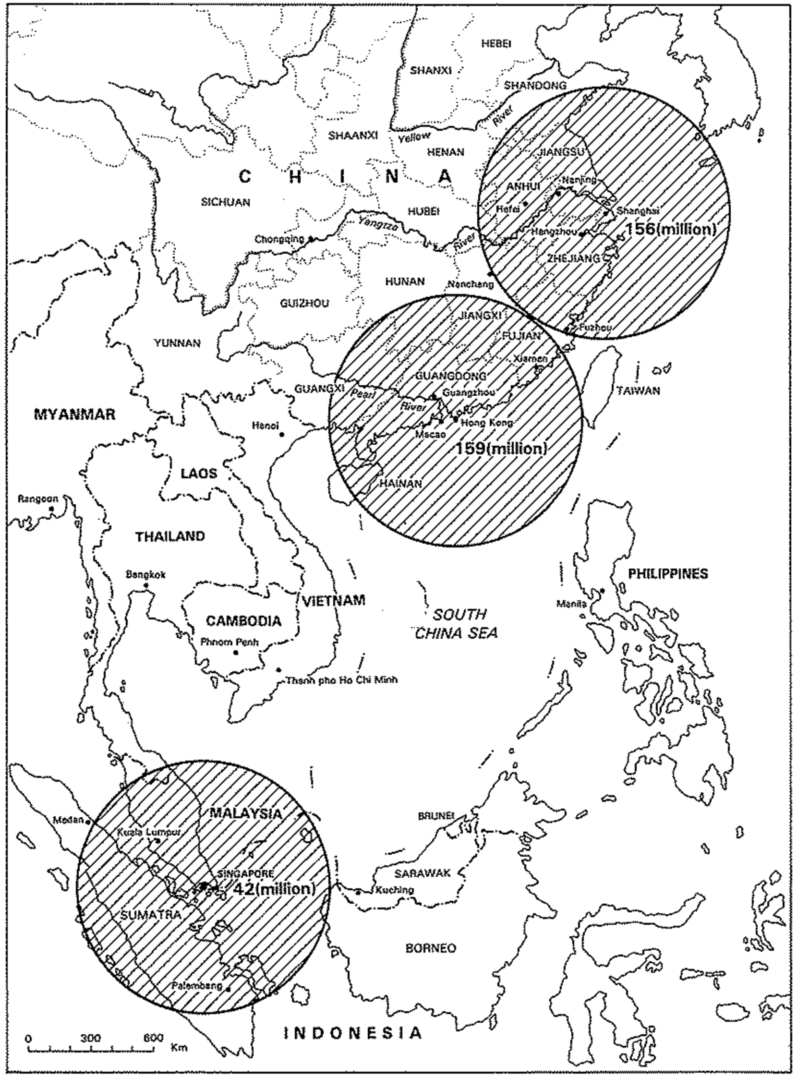
Introduction

Though made in different eras, those three views on Hong Kong, Singapore and Shanghai all bring out the essence of their geographical location. When Hong Kong was ceded by China to Britain in 1842, as part of the Treaty of Nanking that concluded the Opium War, the then British Foreign Secretary Lord Palmerston reacted with diplomatic disdain, demonstrating a short-sightedness and error of judgment over what was later proven to be the most successful British colony. In sharp contrast, Sir Stamford Raffles was right on the mark in his correspondence on the future of Singapore, which he acquired on behalf of Britain in 1819. Writing in the early 1950s, when China was closed to the world, the geographer Rhoads Murphey was optimistic about the resurgence of Shanghai — optimism vindicated by the resurgence that did indeed materialize in the 1990s.

Hong Kong, Shanghai and Singapore — three important and famous cities in Asia — share similar historical and geographical roots. Their modern development began in the early years of the nineteenth century, when British military superiority forced upon them a chapter of social and economic change. The three cities share a vital geographical advantage in their coastal location. This was a critical attribute in a period when maritime travel and transport reigned supreme, certainly within the sprawling British Empire. Hong Kong and Singapore happen to have natural, deep-water harbours, which are their most valuable natural assets. Shanghai, on the other hand, has a riverine port which, as the head of the Yangtze, connects to approximately one-third of the population of China. Strung along the western Pacific Rim, the three cities have their own distinctive and non-overlapping hinterlands, giving them free rein to evolve their own identity and style of development (Figure 1). If one imagines that each city draws on a hinterland comprising a circle of 1,200 km in diameter, the respective populations for Shanghai, Hong Kong and Singapore are 156, 159 and 42 million. On this rationale, the hinterland populations of Shanghai and Hong Kong are extremely similar, and approximately three times that of Singapore.

By the early decades of the twentieth century, Shanghai had already acquired economic, financial and cultural prominence as the most modern and sophisticated metropolis in Asia. Hong Kong and Singapore are equally famous for their rapid economic transformation in the post-World War II period, acquiring the sobriquet "Asian dragons." Owing to their similar colonial heritage, city-state status and development patterns, the experiences of Hong Kong and Singapore have often been compared, specifically in terms of their development (Lee, 1970; Geiger and Geiger, 1973), urban planning (Yeung and Drakakis-

Figure 1 The Geographical Setting and Immediate Hinterland of Shanghai, Hong Kong and Singapore



Smith, 1980; Yeung, 1987), and public housing (Yeung and Drakakis-Smith, 1974, 1982). The rapid growth of Shanghai since 1990 has led to a spate of books and articles about its remarkable transformation (Yeung and Sung, 1996; Ng, 2000; *Yazhou Zhoukan*, 25-31 December 2000). More specifically, a great deal of recent interest has been focused on the question of whether and when Shanghai will overtake Hong Kong (Tsang, 2000; *Apple Daily*, 13 October 2000).

Each of the three cities under review accomplished its fame and success during the twentieth century. On the threshold of a new century and a new era characterized by globalization and knowledge-based economies, the role cities can play in global development has been notably enhanced. Competition among cities is becoming increasingly common in this new global economy. This paper thus focuses mainly on three key questions. First, how do cities compete in the age of globalization? Second, how do these three cities fare in terms of competitiveness, as measured by results of surveys and institutional studies? Third, what measures and strategies have the three cities adopted in preparing themselves for more acute competition in the future?

Competitiveness in a Globalized Environment

Nations and the individual firms within them have been the traditional units of analysis for measuring competitiveness, and they have had considerable bearing on policy-makers in choosing their development strategies (Porter, 1998). However, recent processes of globalization and transnational economic activity have sharply heightened the role of cities as theatres of wealth generation and accumulation, with their attendant changes in urban and regional structures (Yeung, 2000a). Some scholars have even ventured to suggest that, with the advent of the global economy, nation building is becoming synonymous with city building (Knight, 1989:326). The growing importance of cities as crucibles of socio-economic and cultural-political transformation has stemmed from the rapid spread and application of information technology (IT), trade liberalization,

and the easy flow of capital, goods, people and information across boundaries. In this emerging global environment, certain functionally important cities — "global" or "world" cities — have come to the fore, including those along the western Pacific Rim (Taylor, 2000; Yeung 2000b).

The need to focus on competitiveness at the urban level is highlighted by the fact that within the United States, for example — judged by the World Economic Forum (WEF) to be one of the most competitive economies over the past two decades — the economic fortunes of internal regions, such as the "rust belt" or the "sun belt," wax and wane with little or no correlation to the national economy. Increasing attention has therefore been focused on the competitiveness of the urban economy. Indeed, on the basis of certain selected variables, urban competitiveness can be compared both over time and across geographical regions. Kresl and Singh (1999:1022) have concluded that:

> *Urban* economies that get their decision-making right are likely to have futures characterised by more attractive employment opportunities, rising incomes, growing tax revenues to fund the array of demands for social, educational and infrastructure projects with which they are being confronted, and social stability; those that do not act firmly and with wisdom are likely to suffer from marginalisation, declining economic conditions and social tensions.

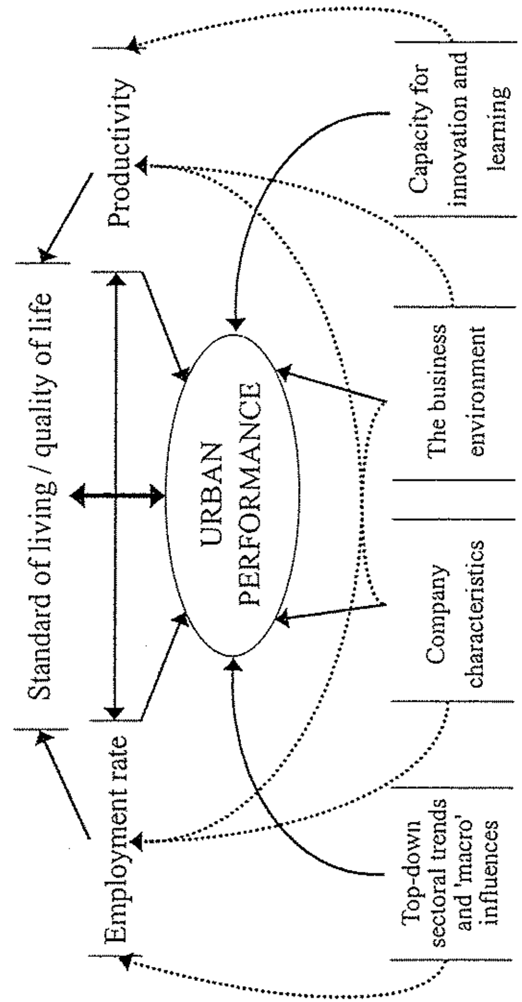
Other scholars have noted that in the growing perception of links between internationalization and urban competition, "the critical competitive factors no longer involved resource availability, labour cost or the macroeconomic context, but rather qualitative aspects of the environment, intensified through clustering" (Gordon, 1999:1001). Equally, a place's success depends on the productivity, innovativeness and market-orientation of all sectors of the local economy, and not simply on those that are most extensively traded.

In the long run, urban competitiveness depends on the ability of a city to sustain change in the areas that give rise to productivity growth, such as technology and human resources, as well as on the structure of the economy and how policy seeks to shape it. Furthermore, the capacity of a city to compete is shaped by an interplay between the attributes of cities as locations and the strengths and weaknesses of the firms and other economic agents in them (Begg, 1999:798). In the same study, urban performance is identified as the core of urban competitiveness (Figure 2). In like vein, Kresl (1995) has argued that in urban competitiveness, "economic" determinants — factors of production, infrastructure and such like — can be contrasted with "strategic" determinants, including policy factors and institutional design. In more concrete and global terms, some scholars have viewed competition as "internalising on a worldwide scale key assets such as knowledge, finance, production experience and market access, that can lead to the development and to the effective commercialisation of a wide variety of products and services" (Toh and Tan, 1998:xiv). Whereas the former group is quantitative, the latter is qualitative. Other observers have noted that in recent years an increasingly competitive ethos has begun to affect cities, forcing them to be more active in marketing themselves and in trying to identify and reinforce their assets (Gordon and Cheshire, 1998).

Providing another perspective on the relationship between globalization and competitiveness, a recent study has emphasized the existence of "global flows." If one can abandon the idea of cities as fixed places with watertight boundaries and redefine them as spaces of flow, the notion of city competition changes radically. On this model, the urban economy is no longer about its locally embedded resources but about the flows it manipulates and attends to — flows of money, ideas, knowledge and people. Under this politics of flow rather than politics of place, city governors begin to see other cities as potential collaborators rather than competitors, allowing the possibility of a more radical form of urban politics (Hubbard, 2001).

The above review of some recent studies on urban competitiveness against a background of accelerating globalization highlights the different approaches to the subject and how

Figure 2 The Urban Competitiveness Maze



Source: Begg (1999:802)

important a topic it is for policy-makers, investors and scholars. The following will focus more specifically on the three cities as instructive examples of this brief conceptual review.

Competitiveness Compared

Many organizations have tracked the relative competitiveness of nations as a guide for investment and other purposes. No comparable data at city level are normally collected, rendering direct comparisons of cities difficult. Hong Kong and Singapore are two city-states on which data have been available, which helps the present analysis, but in most cases Shanghai data can only be approximated from the country data on China.

In measuring national competitiveness, two bodies have gained a worldwide reputation because of their systematic and objective rankings on an annual basis. These are the *Global Competitiveness Report* by the WEF of Geneva and the *World Competitiveness Yearbook* by the International Institute for Management Development (IMD) of Lausanne, both in Switzerland. The WEF measures international competitiveness in terms of a country's ability to achieve high rates of growth in Gross Domestic Product (GDP) per capita based on suitable policies, institutions and other economic factors. This is comparable to the Growth Competitive Index introduced in the 2000 Report, aimed at measuring the factors that contribute to the future growth of an economy. Table 1 shows the comparative rankings of the three study cities, although Shanghai's position is not directly revealed.

The IMD measures the ability of a nation to provide an environment that sustains the competitiveness of enterprises, covering 47 economies and using 290 criteria. Its competitive rankings are based on hard statistical data as well as executive opinion survey results of local and foreign enterprises. The comparative rankings of the three cities are shown in Table 1. While Singapore has maintained its consistently high rankings, Hong Kong's precipitous falls during the past two years are

Table 1 Comparison of WEF and IMD Rankings

	WEF				IMD			
	1997	1998	1999	2000	1997	1998	1999	2000
Hong Kong	2	2	3	8	3	3	7	14
Singapore	1	1	1	2	2	2	2	2
China	29	28	32	41	27	24	29	31

Sources: WEF (1997, 1998, 1999, 2000);
IMD (2000).

disquieting. The competitive score is based on eight factors which, traced over the past six years, do not show Hong Kong falling in the rankings other than in its domestic economy. Curiously, Hong Kong's other rankings in the pertinent factors have held steady or even improved (Table 2).

Table 3 shows the comparative rankings of the three cities in other respects, as revealed by other surveys. These are global rankings, unless otherwise stated, and they range from comparisons of economic freedom through salary levels to pupils' performance in mathematics tests. It is clear that Hong Kong and Singapore are highly similar in their ranking scores, reflecting comparable levels of economic development and social achievement. Hong Kong has the dubious distinction of paying the highest executive salary in Asia (*Apple Daily*, 18 October 2000). Shanghai and China generally are catching up fast. What is most striking is Hong Kong's unusually low level of investment in research and development (R&D), an abnormality that is being rectified by the Special Administrative Region (SAR) government. Equally striking is China's low score on economic freedom, which is likely to improve with its entry to the World Trade Organization (WTO). One indication of China's emerging economic status is the fact that in the *Asiaweek* 1000, Singapore had 34 companies, China 25 and Hong Kong only 18 (*Asiaweek*, 10 November 2000).

Table 2 Relative Competitiveness Rankings of Hong Kong, Singapore and China

		1994	1995	1996	1997	1998	1999
Domestic economy	Hong Kong	5	5	8	9	17	36
	Singapore	6	3	3	3	2	18
	China	3	2	2	14	5	6
Internationalization	Hong Kong	2	3	4	3	3	5
	Singapore	1	1	1	2	2	2
	China	41	34	23	29	20	18
Government	Hong Kong	2	2	2	2	2	2
	Singapore	1	1	1	1	1	1
	China	14	12	9	6	5	16
Finance	Hong Kong	7	6	7	12	9	7
	Singapore	4	4	3	6	10	9
	China	39	38	37	40	42	36
Infrastructure	Hong Kong	9	13	9	19	19	19
	Singapore	4	4	3	6	10	9
	China	39	38	37	40	42	36
Management	Hong Kong	6	15	14	2	4	5
	Singapore	5	4	4	1	2	4
	China	45	41	30	34	30	36
Science and technology	Hong Kong	19	19	20	18	25	22
	Singapore	12	7	12	8	9	12
	China	23	27	28	20	13	25
People	Hong Kong	21	22	22	13	13	14
	Singapore	4	5	8	5	1	4
	China	38	37	35	31	24	27

Source: IMD (1996, 1999).

Table 3 Other Competitiveness Rankings, circa 2000

	Hong Kong	Singapore	China
Economic freedom	1	2	114
Inflow of foreign direct investment (FDI) in Asia (1999)	2	4	1
Most favourable to FDI in Asia	1	2	9
Executive yearly salary	8	9	26*
Manufacturing worker yearly salary	17	16	26*
Asia's best cities	6	3	15*
Best commercial city in Asia (*Fortune*)	1	3	—
Number of companies in *Asiaweek* 1000 (ranking)	7	5	6
Expenditure on R&D relative to GDP (1998)	40 (0.25%)	14 (1.80%)	30 (0.69%)
Global score card on mathematics by pupils	4	1	—
Computer connections (1998)	12	19	46

Note: * Shanghai.

Sources: *Asiaweek*, 12 May 2000, 10 November 2000, 15 December 2000;
Apple Daily, 16 October 2000;
Ming Pao Daily News, 5 November 2000, 16 November 2000, 21 December 2000;
South China Morning Post, 6 December 2000;
UNCTAD (2000);
Heritage Foundation (2001).

After the handover and the Asian financial crisis, Hong Kong appeared to have lost some of its confidence in economic competition, as revealed in recent surveys. In a survey of almost 1,000 senior secondary students, 38 per cent believed that Singapore would outclass Hong Kong in the near future. A further 35.8 per cent believed the SAR would soon lag behind

Shanghai (*South China Morning Post*, 27 October 2000). Similarly, in a survey of 3,000 members of the General Chamber of Commerce, 58 per cent of those surveyed lacked confidence in future competitiveness, while 40 per cent maintained competitiveness had worsened in 2000. What is more, members had no confidence that Hong Kong's competitiveness would improve in the next five years. Nearly 60 per cent of the members planned to change their corporate strategy by moving some of their operations to mainland China (*South China Morning Post*, 24 October 2000). In another survey of 2,004 randomly selected adults in Hong Kong carried out in October 2000, 34.7 per cent of the respondents named China as the most competitive nation in the Asia-Pacific region, with Singapore in second place and Hong Kong in fifth. A total of 40.1 per cent of the respondents regarded Singapore as Hong Kong's leading competitor, and China was viewed by 66.4 per cent of those surveyed as being most helpful to Hong Kong (Yeung and Wong, 2001).

However, outsiders and foreign investors seem to be more positive about the strengths of Hong Kong and have shown their confidence by choosing Hong Kong to locate their regional headquarters and regional offices in the SAR. A government-conducted survey revealed that by year-end in 2000, there were 3,001 such headquarters and offices in Hong Kong, exceeding the previous year by 20 per cent. Some 96 per cent of these offices indicated their intention to remain in Hong Kong. From mid-2000, one regional office had been opened in the SAR every week (*Hong Kong Globe*, 19 December 2000). Another survey of 1,100 regional headquarters of multinational corporations from North America, Europe and Japan conducted by the Economic Intelligence Unit of *The Economist* revealed that 35 per cent had chosen Hong Kong, as against 30 per cent for Singapore. The report concluded that Hong Kong was the real centre of the Asia-Pacific region, underlining its geographic position, with other cities, including Singapore, serving largely local or subregional interests (*Ming Pao Daily News*, 7 February 2001). As of 1998, Hong Kong had almost 1,000 regional headquarters, whereas Singapore had only 120 (Meyer, 2000:233).

Whatever the perceptions of Hong Kong residents or outsiders of the relative strengths of the SAR, there appears little doubt that it has the upper hand as a financial centre in Asia. Within Asia, Tokyo and Singapore are the only established international financial centres (IFCs) that can be regarded as Hong Kong's rivals. The trend of on-line stock exchange suggests that national financial centres are likely to be eclipsed by a handful of IFCs, one each in North America, Europe and Asia. While New York and London are the undisputed leaders in the first two continents, Hong Kong is a potential contender for the Asian honour, with Tokyo, Singapore and, recently, Shanghai probably also vying for the position. Nevertheless, for the moment, London, New York and Hong Kong look peerless. London and Hong Kong have luxuriated in a massive increase in international capital flows and the globalization of certain financial businesses, such as investment banking and fund management (Edwards, 1998).

Hong Kong's strength as an IFC is underpinned by many factors, including its free and open economy, the world's most receptive government to investment, low tax rates and a simple tax system, and a clean and efficient administration rooted in the rule of law. However, its linked exchange rate and the high costs of living and doing business have adversely affected its competitiveness. Not surprisingly, therefore, Hong Kong consistently ranks top or thereabouts on a large number of financial indicators in Asia, but only moderately high in the world (Table 4).

Singapore and Shanghai are often compared with Hong Kong as competitors in being financial centres. In fact, as the introductory part of this paper has made plain, the hinterlands with which the three cities interact are quite geographically distinct. Although history shows that the fortunes of financial centres do fluctuate, the present assessment tends towards Hong Kong, with Singapore and Shanghai both scoring lower than Hong Kong in key financial indicators. To be precise, Hong Kong leads on sixteen counts and Singapore on ten, with four variables regarded as neutral. Hong Kong can still be viewed as

Table 4 Ranking of Hong Kong as an IFC, 1995

Categories	Asia-Pacific ranking	World ranking
Banking		
Number of foreign banks	1	2
Banks' foreign assets	2	4
Banks' foreign liabilities	2	5
Cross-border interbank claims	2	6
Cross-border interbank liabilities	2	4
Cross-border credit to non-banks	1	2
Syndicated loans and note-issuing facilities (NIFs) (1994)	1	4
Forex market		
Net daily turnover	3	5
Derivatives market		
Net daily forex contract turnover	3	5
Net interest rate contract turnover	4	8
Overall	3	7
Stock market		
Market capitalization	2	9
Value traded	4	11
Number of listed domestic companies	7	16
Gold market	1	4
Insurance		
Number of authorized insurance companies	1	n.a.
Premium income	5	27
Qualified actuaries	1	n.a.
Fund management	2	n.a.

Source: Jao (1997:54, Table 4.24).

being a larger and more important IFC than Singapore (Table 5). However, "the edge is so small that Singapore can easily overtake Hong Kong, especially if the 1997 transition is not managed well" (Jao, 1997:108). By contrast, Shanghai is still way behind on every count by a very large margin, meaning that it will have a long wait to catch up to Hong Kong's status (Table 6). Rather than dreading the resurgence of Shanghai, it has been suggested that it should be seen in a positive light, because the priority China has accorded Shanghai suggests a repetition of the policy errors on Hong Kong is unlikely, as it happened to Shanghai fifty years ago (Jao, 1997:140). On Hong Kong as a financial centre, Jao (1997:115) concluded on a guardedly optimistic note: "...without risking complacency, Hong Kong need not be unduly alarmed by the progress of other financial centres. What remains crucially important is that Hong Kong should always strive to maintain and enhance its competitiveness."

A similar exercise has been conducted by David Meyer (2000) analysing the merits of Hong Kong relative to Tokyo, Singapore and Shanghai as the financial centre of Asia. He concluded that Tokyo was outside the Chinese social networks of capital in Asia, whereas Hong Kong was the pivot of those networks. Singapore firms focus primarily on Malaysia, Indonesia and Thailand, whereas Hong Kong firms look to mainland China. Moreover, Hong Kong is a much greater centre of financial intermediation. With much improved transportation between central China and Hong Kong, the full return of Shanghai to its former stature is restrained. Nevertheless, Shanghai's bargaining power with multinationals seeking to invest in that city has notably increased (Yeung and Li, 1999). In sum, Meyer (2000:235) has maintained:

> Hong Kong's regional economy, therefore, surpasses most nations.... Hong Kong intermediaries represent the highest-capitalized, most-specialized bridges between the global economy outside Asia and the economies of the Nanyang, China, and North Asia.

Table 5 Comparison of Hong Kong and Singapore as IFCs

Variable measures	Hong Kong	Singapore
GDP (1995)	US$143.7 bn	US$76.6 bn
Per capita GDP (1995)	US$23.210	US$25,530
Per capita forex reserve	US$8.787	US$32,222
Annual real GDP growth (1990-95)	5.2%	8.3%
Annual CPI inflation (1990-95)	9.4%	2.7%
Economic freedom	Better	
Economic hinterland	China	Malaysia and Indonesia
Location	Nearer to China, Taiwan, Japan, and Korea	Nearer to Southeast Asia
Government support of financial centre	From laissez-faire to active support	Always strong support as national policy
Costs of doing business	Rents and housing prices are higher in Hong Kong, but other costs are approximately the same	
Use and standard of English		Somewhat ahead
"National Treatment" record	Better	
Sovereign credit rating (1995)	67 (world ranking 26)	84 (world ranking 10)
Regulatory regime	Both are now transparent and conform to international standards	
Tax regime	Standard rate 15%, corporation rate 16.5%, no tax on overseas income	Corporation rate 26%, offshore income 10%
No. of financial institutions (1995)	1,763	1,032
No. of foreign banks (1995)	357	185
Deposit banks' foreign assets (1995)	US$705 bn	US$406 bn

Table 5 Comparison of Hong Kong and Singapore as IFCs (Continued)

Variable measures	Hong Kong	Singapore
Deposit banks' foreign liabilities (1995)	US$614 bn	US$436 bn
Cross-border inter-bank claims (1995)	US$381 bn	US$281 bn
Cross-border inter-bank liabilities (1995)	US$614 bn	US$365 bn
Cross-border credit to non-banks (1995)	US$324 bn	US$170 bn
Syndicated loans and NIFs (1995)	US$12 bn	US$2.3 bn
Net daily turnover of forex market (1995)	US$90 bn	US$105 bn
Net daily turnover of derivatives (1995)		
Forex	US$56 bn	US$63 bn
Interest rate	US$18 bn	US$40 bn
Equity market (1995)		
Market capitalization	US$305 bn	US$207 bn
Value traded	US$107 bn	US$65 bn
Listed companies	542	297
Gold market (1995)	Larger	
Bond market (1994)	US$12 bn	US$45 bn
Insurance (1993)		
No. of companies	229	140
Total premium	US$4.2 bn	US$2.3 bn
Fund management (1994)		
No. of mutual funds and unit trusts	1,007	113
Funds managed	US$56.6 bn	US$65.4 bn

Sources: Jao (1997:105, Table 8.2).
Underlying data from Hong Kong Monetary Authority *Monthly Statistical Bulletin*; Monetary Authority of Singapore *Monthly Statistical Bulletin*; *Hong Kong Annual Digest of Statistics*; *Singapore Yearbook of Statistics*; and IMF *International Financial Statistics*.

Table 6 Shanghai vs Hong Kong as Financial Centres

Selected measures	Shanghai	Hong Kong
Bank deposits (1994)	US$26.9 bn	US$248.9 bn
Bank loans (1994)	US$23.6 bn	US$418.5 bn
No. of financial institutions (1994)	162	1,669
Foreign banks and other financial institutions (1994)	118	1,292
Equity market (1994)		
No. of listed companies	171	502
Market capitalization	US$5 bn	US$267.3 bn
Daily turnover	US$0.22 bn	US$0.59 bn
Bond market (1994)		
Daily turnover	US$0.76 bn	US$2.9 bn
Forex market (1995)		
Daily turnover	US$0.206 bn	US$90 bn
Inter-bank market (1995)		
Daily turnover	US$0.076 bn	US$15.2 bn
Futures market (1994)		
Daily turnover of commodities futures	US$0.6 bn	—
Daily turnover of financial futures	—	US$0.85 bn

Sources: Jao (1997:111, Table 8.4);
Shanghai Economy Yearbook 1995;
Hong Kong Annual Digest of Statistics.

Preparing for Future Competition

As emphasized earlier, in the age of globalization, competition between cities becomes ever more acute, and city governments and their leaders are duty-bound to adopt policies and strategies that will enable them to compete on at least an equal footing with their rivals. In Hong Kong, Singapore and Shanghai, considerable efforts have been devoted to sharpening their

competitive edge, fully mindful of what other cities in the region have done to prepare themselves for a more competitive future.

Hong Kong

Since the handover in 1997, Hong Kong has staggered from one crisis to another. Bumpy internal political and economic adjustments to the "one country, two systems" mode of governance, together with the sudden onset of the Asian financial crisis, caught Hong Kong administrators and the people unprepared. The year 1998 was the most tumultuous and economically disastrous in the postwar period, with GDP growth in that year plunging to -5.1 per cent, setting the worst record. However, the SAR government never wavered from its mission and goals, with sights firmly set on preparing itself to compete in an increasingly globalized environment. By the end of 2000, economic recovery was progressing well, with GDP growth in that year recording 10.5 per cent.

In effecting this recovery, Hong Kong has, first of all, done much to strengthen internal factors. To bolster its status as an IFC, Hong Kong has attempted to enhance its competitiveness by reducing the stamp duty on stock transactions from 0.25 per cent to 0.225 per cent. Efforts are also being made to develop its rather weak bond and debt markets. The implementation of the Mandatory Provident Fund Schemes in December 2000 will boost the investment demand for Hong Kong's long-term debt services. Hong Kong banks are judged to be ten times more profitable than the global average, based on a survey in 1997 of the world's 69 largest commercial banks (Hong Kong Trade Development Council, 1998). Hong Kong policy-makers have also taken steps to recruit talent from the mainland, with a scheme launched in December 1999. By September 2000, it had not been as successful as anticipated, with only 347 applicants and 74 approved (*Yazhou Zhoukan*, 9 October 2000, p. 34). An indication of Hong Kong's provision for foreign and returned professionals is that there are over 40 international schools in the SAR. The government has not stinted on its investment in local human resources, meeting primary and secondary schools' needs in terms of computerization and IT. Within ten years, the government aims to have 60 per cent of senior secondary school leavers receiving tertiary education. The Secretary for Education and Manpower even pronounced that Hong Kong would be dead if this target could not be reached within that time (*Ming Pao Daily News*, 27 October 2000). Hong Kong's need to improve its technological infrastructure is underlined in the recommendations, released in July 1999, of the Commission on Innovation and Technology, which was formed in March 1998. Hong Kong is building a cyber port and a science park, and increasing its spending on R&D. It is also establishing itself as a telecommunications hub of Asia, actively promoting e-commerce, and computerizing government information services. The traditional modes of transport have been continuously improved, with a state-of-the-art replacement airport at Chek Lap Kok (赤鱲角) opened in 1998, the container port streamlined in the name of greater efficiency, and cross-border land and sea links to the Pearl River Delta expanded. Additionally, much attention has been given to improving the environment, following the Chief Executive Policy Address in 1999. Finally, tourism is also being fortified as a growth sector, with Hong Kong Disneyland being prepared for opening in 2005. The World Tourism Organization has estimated that, by 2020, 100 million Chinese will travel overseas, with 70 per cent expected to stop in Hong Kong. The implications for services and infrastructure needs are horrendous.

In looking ahead, one of the crucial factors affecting Hong Kong's development is its evolving relationship with mainland China. In this respect, two developments are vitally important. One is China's impending accession to the WTO; the other is the central government's policy decision in 1999 to accelerate development in the western region. Both offer new opportunities for Hong Kong and both policy directions may be seen as evidence of the further opening up and reform of China after two decades of spectacular growth and success, in which Hong Kong has played a catalytic role, at least in the initial stages. Hong Kong is

facing a resurgent Shanghai which, together with Shenzhen (深圳), is already the third largest stock market in Asia in terms of capitalization. It is also expanding rapidly in container cargo handling capacity and has opened a mammoth new airport in Pudong (浦東). Container traffic in Hong Kong is also facing competition from the rapid development in Yantian (鹽田), Shekou (蛇口) and Chiwan (赤灣) in Shenzhen. Singapore has recently challenged Hong Kong as the leading media centre by successfully attracting a number of media companies to relocate their broadcasting bases there. It has offered attractive investment incentives and actively promoted itself in the IT sector. With further liberalization in telecommunications in the region, Hong Kong will face more competition but will also have more opportunities to invest. Similarly, liberalization of the financial sector in other countries in the region is likely to be a positive factor for Hong Kong.

Singapore

Singapore is one of the most competitive economies in the world, having, on many indicators, been rated consistently highly by international agencies and surveys. Yet Singapore is keenly aware of increasingly stiff competition from other cities and has left no stone unturned to constantly improve its competitive edge.

The key step so far has been the establishment, in 1997, of the Committee on Singapore's Competitiveness (CSC), with four sub-committees on manufacturing, hub services, domestic business, and manpower. Its primary targets are to keep Singapore globally competitive, to build a knowledge-based economy, and to develop manufacturing and services as the twin engines of growth. Singapore has taken many measures to sharpen its competitiveness.

On the domestic front, Singapore has spared no effort in seeking to attract foreign talent. Numbers of professional and skilled foreigners have grown from 60,000 in 1996 to 80,000 in 2000. Some 40 per cent of the research scientist workforce of over 4,000 are foreigners. By 2010, three in four skilled foreigners will be Net-savvy and 10 per cent of the workforce will be infocomm workers (*Straits Times*, 4 November 2000). The Ministry of Trade and Industry has set up the Inter-ministerial Singapore Talent Recruitment Committee to attract global talent, which, in a bid to enrich the quality of life, will also be employed in non-economic domains, such as sports and the arts. Twenty-three international schools have been built to cater to expatriate children. Ever conscious of the value of education to a society with almost no natural assets, Singapore has striven to build a reputation for world-class education and cutting-edge research by bringing in ten of the world's top universities, including the Chicago Graduate School of Business, Wharton Business School and the Massachusetts Institute of Technology. Scholarships are offered to Singaporean and overseas students in order to foster creativity and entrepreneurial spirit (SEDB, 1999e). Singapore's prioritizing of education and research is reflected in its considerable investment in R&D in recent years. In 1999, the gross expenditure on R&D grew by 6.6 per cent to reach S$2.66 billion, or 1.84 per cent of the GDP (National Science and Technology Board, 2000).

In building up its infrastructure, Singapore has paid equal attention to the traditional and modern sectors. Changi Airport has begun its expansion by building Terminal 3, scheduled to open in 2004; port expansion is the responsibility of PSA Corporation Ltd. formed in 1997 from the former Port of Singapore Authority; and the Mass Rapid Transit (MRT) network has been expanded to link outlying industrial areas (SEDB, 1999d). Singapore has also been investing steadily since the 1980s to build up its information infrastructure with the establishment of many new institutions. The National Computer Board (NCB) was set up to promote computerization and IT industry development, and has embarked on the Civil Service Computerization Program (CSCP). The IT2000 Vision Plan was launched in 1992 and led by the NCB. The telecommunications sector was privatized and liberalized. With the multimedia industry leading the way as the key industry in the twenty-first century, Singapore One (One Network For Everyone), a nation-

wide broadband intelligent network, has been launched to transform Singapore into an intelligent island (Wong, 1996; SEDB, 1999b). One policy measure designed to boost Singapore's competitiveness was a S$10 billion package reduction of business costs per year (about 7 per cent of GDP) recommended by the CSC. On 24 November 1998, the Singapore government accepted the CSC report and announced a S$10.5 billion cost-cutting package (SEDB, 1999d).

On the international front, Singapore has been promoting and marketing its total capabilities through its Trade Development Board (TDB) by targeting overseas markets, expanding incentive packages worldwide and enhancing links with foreign hi-tech and technopreneurial communities. Recently, TDB has attempted to position Singapore as a centre for transacting business electronically. It is working on implementing TradeNet Plus — to be completed by 2001 — in order to apply its IT infrastructure to trade (SEDB, 1999c). In 1993, the Singapore government announced its "regionalization" programme, encouraging Singapore-based firms to expand to other countries in Asia, especially China, India and other ASEAN countries. China-Singapore Suzhou Industrial Park, Bintan Industrial Park and Vietnam-Singapore Industrial Park are the results of some of these efforts (Osman-Gani and Toh, 1999; SEDB, 1999a).

Much of the competition that Singapore has been preparing itself for is technology-driven. In addition, the grand design of gearing up Singapore for keener competition has stemmed largely from the government — that is, through intervention. In this case, "the emphasis of intervention was in actively creating national competitive advantages through physical infrastructural investments, national information infrastructure, R&D subsidy, and manpower development to strengthen long-term productive capability" (Toh and Tan, 1998:35). In fact,

> ... the story of Singapore also demonstrated the necessity and capacity of a country with no natural resources to create national competitive advantages through selective industrial promotion and infrastructural development and continu-

> ously renew it in a relentless process of upgrading of industrial structure and living standard (Toh and Tan, 1998:29).

Senior Minister Lee Kuan Yew echoes the same sentiment when he writes: "Singapore needs a world where there is a balance of power that makes it possible for small nations to survive" (Lee, 2000:690).

Shanghai

Shanghai has achieved such a rapid socio-economic transformation over the past decade that anybody who has had opportunity to visit the city during this period and witness the changes can only marvel at their speed and scale. It is no longer idle speculation to ask when Shanghai will recapture some of its former glories and out-compete its rivals in the region. Mayor Xu Kuangdi recently produced an ambitious blueprint for turning Shanghai into a global metropolis over the next fifteen years (Muzi.com News, 9 September 2000). In fact, three major documents — the Tenth Five-Year Plan (2001-05) (*Wenhui Daily*, 21 October 2000), Agenda 21 (Shanghai Office for Implementing "China's Agenda 21", 1999) and an economic development report (Yin, 2000) — have provided plenty of detail on how Shanghai envisages its future. Several themes can be identified in examining the city's plans.

Among the city's goals is to increase economic activity more than fivefold, with GDP targeted to reach 2,000 billion yuan by 2015, from 444 billion yuan in 2000. By 2005, the contribution of new and hi-tech goods to the city's total output would increase to 35 per cent, from 25 per cent in 2000. In the next five years, one-third of the total industrial investment will be devoted to expanding its hi-tech sector. The theme is clear, with hi-tech seen as the leading component in developing a knowledge-based economy in Shanghai. Indeed, creativity and hi-tech are viewed as the bases for enhancing Shanghai's competitiveness. By 2005, hi-tech industry will constitute 30-35 per cent of total industrial output, and R&D will use up to 2.5 per cent of the GDP. Three major hi-tech sectors — namely information, modern biomedicine and new materials — will receive increased input and higher priority. Shanghai aspires to becoming a world leader in biomedical research, particularly in gene diagnosis and treatment, and treatment of hereditary diseases and malignant tumours. Four new industries — biopharmacy, new materials, environmental protection and modern logistics — will receive special assistance in their development. A far-reaching medical security system will be created by 2005. A teleport will be developed, alongside major investment in traditional transport infrastructure facilities, which will see a new Yangshan (洋山) international container deep-water harbour constructed, capable of handling up to 6.8 million containers by 2005, and a composite airport system, with the new and huge airport in Pudong and the accessory airport at Hongqiao (虹橋).

Second, Shanghai's plans for rapid economic development are accompanied by a heightened sense of environmental protection and the importance of sustainable development. The concept of a cycle economy will be promoted, calling for the whole process of production, consumption and waste disposal to be organized in accordance with ecological laws. Environmentally sound technologies will receive more support in R&D. Eco-agriculture will be introduced and promoted. By 2005, 50 green agricultural bases that integrate production, sightseeing and recreational facilities will be completed. Forest cover in the city will reach 15 per cent. Some 4 million *mu* of farmland have been listed as fundamental and earmarked for protection. Urban agriculture will be encouraged — nothing unusual to Shanghai. To improve the environment, the government plans to phase out oil-fired mopeds and develop green transport vehicles, such as LPG-driven cars. Environmental improvement projects on Huangpu River (黃浦江) and Suzhou Creek (蘇州河) will continue. There are also plans for establishing integrated control of pollution in Suzhou Creek and a sewage collection system.

The third theme is managed growth for Shanghai in the years ahead. At the Fortune Global Forum held in Shanghai in 1999, Mayor Xu pledged to improve the modern enterprise system in a bid to increase the competitiveness of local state-owned enterprises (SOEs) and establish a diversified investment system. SOEs are to be transformed through collaboration, a share-option system and transfer of ownership. The number of SOE workers to be laid off each year should be limited to 250,000, or about 5 per cent of the total state workforce of 5 million (*China Economic Review*, 23 May 1999). While Shanghai had, by 2000, already became a multi-nucleated and multi-axes urban agglomeration, efforts will be made to control population growth. By 2005, the total registered population will be controlled at 13.5 million and total long-term residents at 15.5 million. By 2010, the migrant population will be controlled at between 3.5 and 4 million. Given the high vacancy rate of new buildings resulting from construction ahead of demand in the 1990s, especially in Pudong, the government has intervened forcefully to dispose of empty apartments. Measures taken include reduction of taxes and fees, the offer of much-valued Shanghai residency to non-Shanghainese mainland buyers, exemption from income tax, and the offer of mortgages. Active steps have also been taken to recruit out-province and foreign talents, and local skilled labour, so that there are human resources of sufficient competency and skills to drive the next stage of development.

Conclusion

During the twentieth century, Hong Kong, Shanghai and Singapore all made their mark on development in Asia. They rose to prominence at different times and acquired world fame for what they did best and for the influence they brought to bear on their respective regions and sub-regions. As the century closed, they were entering a new phase of development and were making preparations for keener competition both between themselves and with other cities in the Asia-Pacific region, as the new age of digitization, globalization and interdependency arrived.

At the dawn of a new century and millennium, the task of examining the competitiveness of the three cities is especially timely for their own individual reasons. Since its return to China in 1997, Hong Kong has had a rather rough passage to the "one country, two systems" regime, because the fading of the handover euphoria and economic restructuring happened to collide explosively with the sudden onset of the Asian financial crisis. The result was a visible downturn in the economy and a temporary loss of confidence in itself, posing new challenges for the new administration, namely to reinvent Hong Kong's advantages in order to face the brave new world. The challenge is made all the more real by China's economic reform and open policy, which have already, after two decades of successful implementation, spawned a constellation of coastal cities that have transformed themselves into modern and strong functional entities capable of performing efficient economic and cultural roles. Shanghai is China's largest city and has, during the past decade, so dramatically improved its physical structures and economic performance that observers in China and elsewhere have raised the legitimate question of a possible return to its former pre-eminence in Asia — and even of when this might happen. A related question, often posed, is whether and when it will replace Hong Kong as China's or even Asia's IFC. Similarly, Hong Kong faces increasing competition from Singapore, as Hong Kong's continued high costs of living and doing business have reportedly caused some regional firms to seek relocation to Singapore and elsewhere. However, Singapore faces its own challenges. It has to come to terms with a rapidly evolving Southeast Asia still reeling from the aftershocks of the financial crisis. The political and economic situation in Indonesia is a particular source of concern, with the post-Suharto governments fumbling from one crisis to another and economic prospects notably dimmed compared with the bright future it seemed to promise during the past two decades.

This paper has attempted to show that the politicians and planners in the three cities are fully aware of the need for investment and careful preparation for a more competitive environment under accelerated globalization, with knowledge and technology at a premium. Consequently, the plans the cities have drawn up for their futures have emphasized hi-tech development, with the accent on IT, and acquisition and application of knowledge. The investment in developing human resources through greater investment in education is a central component of the blueprint for all three cities. In fact, across Asia, there is evidence that the wired classroom can produce youngsters who are smart, balanced and ready for the workplace of the future. In this respect, Hong Kong and Singapore fare notably well. In terms of computers per 1,000 people, Singapore, Hong Kong and China scored 11th, 14th and 40th places in the world in 1998. Similarly, in internet connections per 1,000 people, Hong Kong, Singapore and China were listed 12th, 19th and 46th in the same year (Cordingley, 2000). Another common element in the three cities' plans is that they have all devised different programmes to attract talents to drive their economies. In fact, the hunt for skills is global, as other countries worldwide are also making themselves attractive to knowledge workers looking to migrate to new markets. Whoever succeeds in the contest for IT skills, it has been argued, will be the winners of the new century (Chanda, 2000).

The contest for IT skills is comparable to the race to become the information hub of Asia, in which arena, Hong Kong, Shanghai and Singapore all harbour ambitions. As Compaq Vice-President Mike Winkler observed, there will probably never be a single IT hub in Asia. There are a number of places that are competitive, with a winner-take-all scenario unlikely to materialize. The software giant Microsoft's approach reflects the present situation and most probably sets the pattern for the future. It has its regional marketing and management services in Hong Kong, produces software in Singapore, manufactures computer accessories in Taiwan, and has built a research laboratory in Beijing. It has sales staff in all locations (Nairne, 2000).

The motto of the Microsoft strategy is that, in an ever more globalized and interdependent world, Hong Kong, Shanghai

and Singapore will each have an important role to play. No city in this triad will ever replace or completely eclipse another but, given their envisioned position and continued prudent investment in the future, the tale of three cities will continue to fascinate and intrigue. And with Asia-Pacific generally regarded as one of the fastest growth regions in the world, all three are destined by their history and geography to be key players in the regional and global economies of the new century.

A footnote to the above conclusion is perhaps in order, given the terrorist attacks in New York and Washington, D. C. on 11 September. The basic configuration of relationships among the three cities under study remains unchanged. However, the adverse impact of the horrific events has deepened the economic downturn of Hong Kong and Singapore, which even before the crisis already began to suffer from the sharp slowdown of the United States economy from the beginning of 2001. Shanghai, on the other hand, has been relatively shock-averse because China has continued its robust economic growth, keeping successfully to date negative external influences in abeyance. In the short and medium term, the lucky star is likely to shine brightly over Shanghai. Hong Kong and Singapore, fully aware of the challenges ahead, have been redoubling efforts to rediscover their old magic to be regionally and globally competitive.

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