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**A STUDY ON CHINA'S URBAN FUTURE AND**  
**HONG KONG'S BUSINESS OPPORTUNITIES**

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# **China's Urban Future and Hong Kong's Business Opportunities**

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## **Executive Summary**

Since the watershed of economic reforms in the late 1970s, China has undergone phenomenal urban development, which has led to the dramatic increase in urban population and the number of cities. With the booming Chinese economy and Beijing's pro-urban policies, it is expected that China's urbanization will continue at a fast rate in the next 20 years. In addition that a huge number of urban dwellers will be added to the Chinese urban system, the tremendous urban growth is being shaped by the recent development of the high-speed rail (HSR) network. Such a new phase of urban transition in China is not only creating a rapidly expanding domestic market, but also significantly increasing the accessibility of the Chinese cities. Located at the tip of southern China, Hong Kong can benefit greatly from the Chinese growing market. However, it is not without challenges. A comprehensive study on Hong Kong's comparative advantages with other Chinese cities and her role in the current tide of China's new urban growth are thus urgently needed.

In response to this, the report (1) analyzes the urbanization trend and business opportunities of Chinese cities, with special emphasis on the spatial development of the urban system and the impacts of the HSR network in China; and (2) identifies the advantages of Hong Kong as compared with other Chinese cities, and the opportunities and challenges for Hong Kong in the new era of Chinese urbanization. It is found out that the rising economic level and profound economic restructuring of

Chinese cities is making China the largest market for services and consumption in the world. Moreover, the HSR project is changing the economic space in China, leading to increasing regional disparity and emergence of new centers for service development. Relying upon its comparative advantages, i.e. spatial proximity to the Mainland, sectoral advantages on producer services, and strong policy support of the central government, Hong Kong will have a good opportunity to capture the rapidly expanding Chinese market. However, the rapid growth of service industries in China's major cities and the development of foreign service-establishments are reducing the importance of Hong Kong as the regional service sector. How to maintain Hong Kong's competitiveness and explore new advantages for the city is crucial for Hong Kong's long-term prosperity and development.

## 研究報告摘要

七十年代末改革開放以來，中國城市進入快速發展階段，城市人口和城市數量迅速增加。隨著中國經濟的持續增長以及中國政府在城市化方面的積極政策，未來二十年中國的城市化將保持高速增長的趨勢。快速城市化無疑將增加大量的城市人口，同時，近年來發展的高速鐵路（簡稱“高鉄”）網絡也將對中國城市發展產生深刻的影響。中國的城市發展正在經歷一個新的階段，不僅將產生一個巨大的內需市場，而且城市之間的可達性也將大大提高。香港毗鄰南中國，中國市場的擴展將為香港帶來巨大的商機。但是，機遇的同時也存在嚴峻的挑戰。因此，我們迫切需要對香港的比較優勢以及香港在新一輪中國城市發展中的作用有一個較全面的認識。

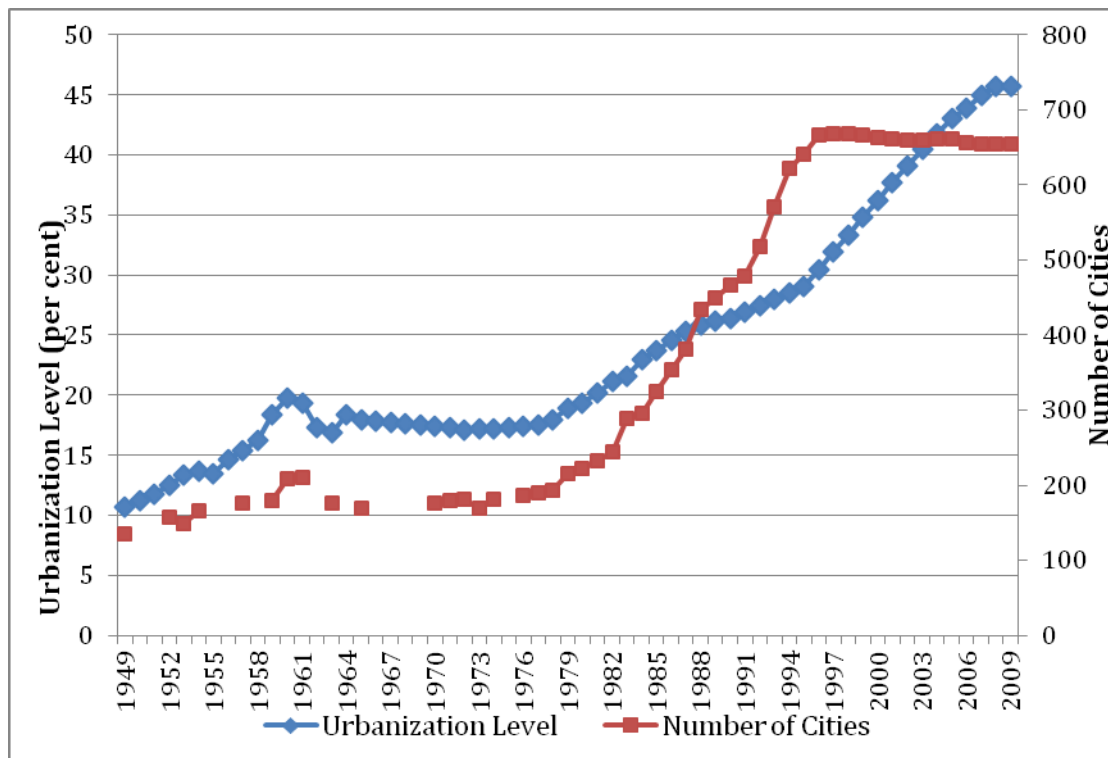
這研究報告分析了（1）中國城市化的趨勢以及由此產生的商機，重點放在城市體系的空間發展以及高鉄發展的影響等方面；（2）香港相對於其他中國城市的比較優勢以及香港在中國城市化新時期所面臨的機遇和挑戰。研究報告指出，隨著中國經濟發展水平的不斷提高以及中國城市的持續經濟轉型，中國將成為全世界最大的服務和消費市場。此外，高鉄的發展正在改變著中國的經濟格局，將導致區域差異的增大以及形成新的服務業中心。香港憑藉自身的比較優勢，即毗鄰大陸的地理位置，生產性服務業的行業優勢，以及中央政府的政策支持等，將在中國新一輪的城市發展中受惠。但是，隨著中國城市服務業的快速增長以及外資服務業在中國的發展，香港作為區域服務業中心的地位也將受到挑戰。因此，如何保持香港的競爭力，發掘城市新的競爭優勢對香港的持續繁榮和長遠發展至為重要。

## **1 Introduction**

Since economic reforms and open policy in the 1978, China's urban development reverses from the stagnant pattern into rapid growth (Figure 1). During the Maoist period, with an anti-urbanism ideology, China's urban development was labeled "under-urbanization" (Chan, 1992). Although a process of rapid industrialization took place, the growth of cities was at a slow rate and urbanization remained at a low level compared with other developing countries. The urbanization level and the number of cities increased slightly by 6.9 per cent and 55 respectively during 1949-1977. The post-reform urbanization, initially occurred in the countryside and then evolved into a "city-centered" one (McGee et al., 2007), has led to the phenomenal development of urban settlements. From 1978 to 2009, China's urbanization level increased dramatically from 17.9 to 45.7 per cent, and the number of cities grew rapidly from 193 to 655 (Figure 1). With an annual growth rate of 4.3 per cent, the population living in the urban areas reached 606.7 million by 2009 (CSSB, 2010). At the same time, the size of cities expanded rapidly as well. The number of cities with more than 1 million urban population rose from 13 to 122, and the urban built-up area of the whole country skyrocketed from 7,438 to 36,295 km<sup>2</sup> (CSSB, 2010).

Figure 1 shows that the introduction of market mechanism and the opening-up to outside world in the late 1970s has significantly changed China into an urbanized country over the past three decades. It is noted that China added more city-dwellers in the 1980s than did all of Europe in the entire nineteenth century. China's urbanization is taking place at a speed unprecedented in human history. Cities are playing a central role in the China's social and economic development. In 2001, cities and towns

accounted for half of the total industrial output, 70 per cent of total GDP, 80 per cent of total tax revenue of the whole country, and 90 per cent of the higher education and scientific research resources (People's Government of PRC, 2001a). With a burgeoning economy and with Beijing's pro-urban policies, the rapid pace of China's urbanization is expected to continue at least in the next two to three decades. As early as in 2001, the Chinese authority affirmed the coming reality of China as an urban nation at the National People's Congress. Later on, urbanization has been officially recognized as an important national strategy in the Tenth-Five Year Plan (People's Government of PRC, 2001b). In the subsequent Eleventh-Five Year Plan, urbanization was re-emphasized as the major component to achieve China's better-off society (People's Government of PRC, 2006), and in the latest Twelfth-Five Year Plan, city region and development corridors across the country were highlighted (People's Government of PRC, 2011). Under such a favorable economic and political circumstance, the Mckinsey Global Institute (2009) predicted that urban population in China would expand to 926 million in 2025 and hit the one billion mark by 2030. The United Nations Population Fund (UNFPA, 2007) came out with a moderate estimation, expecting that population living in urban areas in 2030 will be 910 million, making up of 64per cent of the total population. Chinese experts also predicted that China's urban population will grow to 800-900 million and the urbanization level will be 58-60per cent in 2020.



**Figure 1** China's Urban Development, 1949-2008

Sources: China Statistical Yearbook, 1991, 2010; China Urban Statistical Yearbook, 1979-2010.

Urbanization is a transformation process by which the means of production and people's lifestyles evolve from the countryside to the city. Continuous increase of the urbanization rate means the continuous growth of the urban population size and the urban economic scale. From the predictions above, over 350 million population will be added to the Chinese urban system in the coming two decades, which is generating a huge domestic market of important significance not only to the country itself but also the whole world at large. In addition to a fast rate of urbanization, the emerging urban transition is being shaped by the recent development of high-speed rail (HSR). China has introduced high-speed train services in April 2007 and has become world's high-speed rail leader. As a mass and efficient transportation tool, the introduction of HSR is significantly improving the accessibility of Chinese cities. The rapid growth of urban population and the economy together with increasing accessibility of the cities

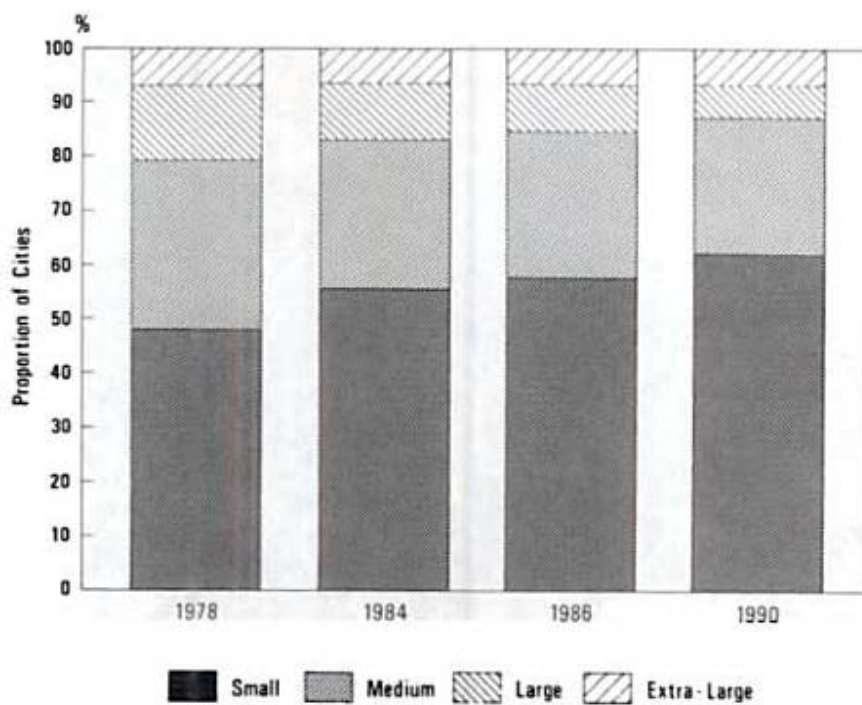
through the HSR have given rise to a dramatically expanding market which is increasingly accessible to Hong Kong businessmen. Hong Kong is in an excellent position to capture the growing urban market than other cities in the world given its geographical, ethnic and political relations with China. However, with the uprising of major Chinese cities, what are the economic opportunities for Hong Kong in the new era of China's rapid urbanization? What are Hong Kong's comparative advantages compared with other Chinese cities and what is its role in the current tide of China's new urban growth? The answers to these questions will help Hong Kong to identify its potential marketplaces and develop its economy further.

## **2 Development of the Chinese Urban System**

### **2.1 Evolution of the urban system**

China is a country with a vast territory. The development of Chinese cities varies with respect to urban population, economic level, and economic structure. To evaluate Hong Kong's business opportunities, the development of the Chinese urban system and the expanding market in China need to be analyzed. Over the past three decades, the process of China's urbanization has been divided into three stages in terms of different development characteristics and driving forces (Yet et al., 2006). They are rural industrialization (or the development of Township and Village Enterprises) in the 1980s (Ma and Lin, 1993; Shen, 1995), land development since the late 1980s and throughout the 1990s (Wu and Yeh, 1997; Lin and Ho, 2003, 2005; Xu et al., 2009), and tertiary sector growth since 2000 (Zhou and Ma, 2000; Zhong and Yan, 2003; Yang, 2004; Yi et al., 2011). Accordingly, the development of Chinese urban system has shown different characteristics in the respective stages.

In the initial stage of economic reforms after 1978, the rapid industrialization and urbanization in the countryside which enabled the peasants to “leave the soil but not the village” (*litu bulixiang*) and “enter the factory but not the city” (*jinchang bujincheng*), and the declared urban development strategy which aimed to “strictly control the size of large cities, rationally development medium-sized cities, and actively development small cities”, have led to the emergence of a large number of small cities. During 1978-1990, the total number of cities rapidly jumped from 194 to 467 and the city population (non-agriculture population in the city proper) soared from 84.1 to 15.4 million (Yeh, 1995). Of the 273 new cities added to the urban system, 162 were small cities. As a result, there is a decline in the proportion of large cities and an increase in the proportion of small cities (Figure 2).



**Figure 2** Changes in City Distribution in the Initial Stage of Economic Reform

Source: Yeh and Xu, 1996, p. 244.

Note: Extra-large cities are those with a non-agricultural population of over 1 million; large cities are those between 0.5-1 million; medium-sized cities are those between 0.2-0.5 million; and small cities are those with less than 0.2 million.

The economic reforms and open door policy in 1978 has also reversed the previously much emphasized city and economic development in the Western and Central regions, resulting in a rapid growth of new cities and population in the Eastern coastal region (Yeh and Xu, 1990). The emphasis of regional development in the Eastern region continued in the following two decades, giving rise to an increasing disparity between the Eastern region and its Central and Western counterparts.

In 1988, one of the most influential policies, the paid transfer of use right for urban land, was introduced. China's urbanization then entered the second stage of development. The paid land use system not only provided large amount of capital for urban regeneration and construction of urban infrastructure, but also significantly increased the efficiency of urban land use which led to major transformation of the urban structure of Chinese cities. In addition to profound spatial restructuring of the urban landscape, Chinese cities experienced rapid expansion of urban built-up area and urban construction area. The fast speed of urban sprawl dramatically increased the size of the city. Large and extra-large cities started to replace small cities as the most dynamic urban settlements. As shown in Table 1, although medium cities retained at a relatively high annual growth rate of 7.4 per cent between 1990 and 1999, the growth of large and extra-large cities was also impressive. With an annual growth rate of 3.6 and 7.2 per cent, these cities almost doubled their numbers. Large and extra-large cities were taking a growing share of the urban system in terms of both the number of cities and urban population (Lin, 2002).

**Table 1** Number of Cities in Different City Size Group

| Urban size  | 1990 | 1999 | 2008 | Annual increase rate (1990-1999) | Annual increase rate (1999-2008) |
|-------------|------|------|------|----------------------------------|----------------------------------|
| Extra-large | 16   | 22   | 42   | 3.6                              | 7.5                              |
| Large       | 77   | 144  | 149  | 7.2                              | 0.4                              |
| Medium      | 144  | 271  | 275  | 7.4                              | 0.2                              |
| Small       | 209  | 226  | 189  | 0.9                              | -2.0                             |
| Total       | 446  | 663  | 655  | 4.5                              | -0.1                             |

Sources: National Sub-County Population Statistics, 1990, 1999 and 2008.

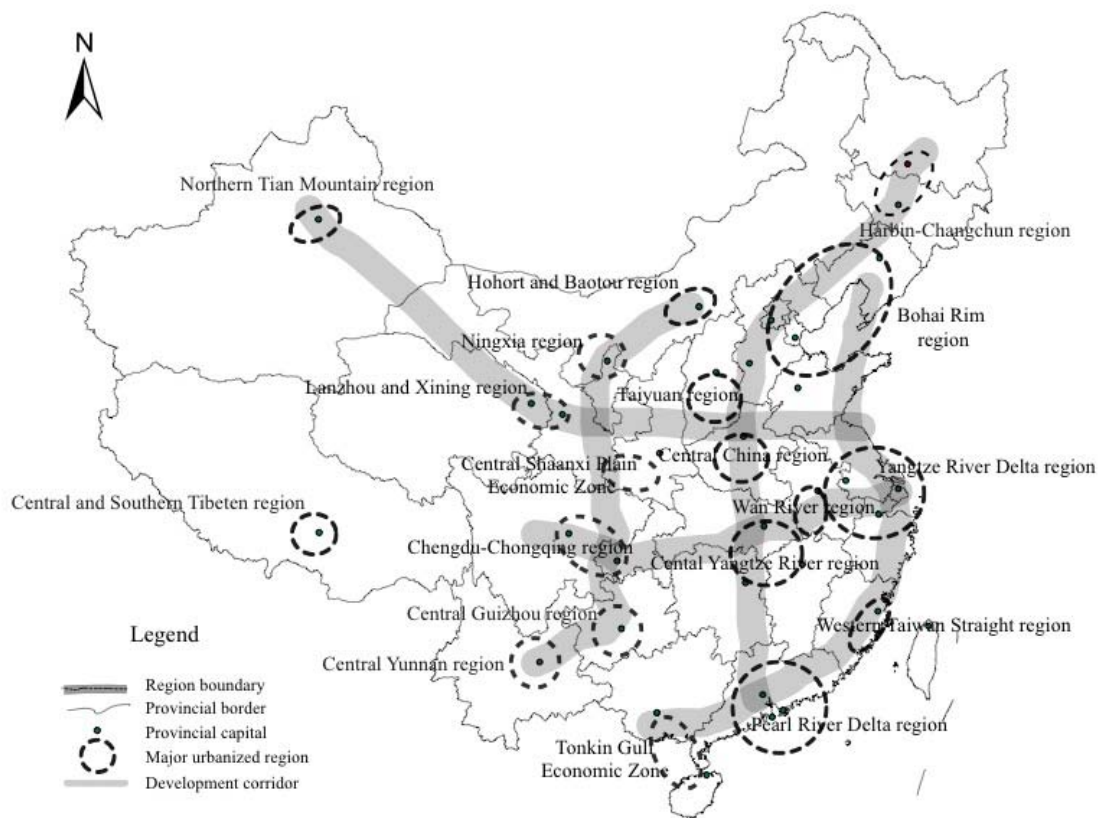
Note: The Chinese authority used a new indicator, i.e. total population in the city proper (the old indicator is non-agricultural population in the city proper), to group Chinese cities. For data consistency and availability, we use the new indicator. Extra-large cities are those with an urban population of over 2 million; large cities are those between 1-2 million; medium-sized cities are those between 0.5-1 million; and small cities are those with less than 0.5 million.

Since the early 2000s, the service sector, which used to be considered “unproductive” during the Maoist period, has undergone dramatic expansion and become a new and powerful force driving the development of the Chinese urban system. As an important urban economic sector, service industries, particularly producer services, tend to concentrate in large metropolitan areas. The study conducted by Gong (2002) found out that the growth of the service sector was the main job provider in Chinese large cities. Lin (2004) also revealed that service growth enabled the metropolis to upgrade its position in the regional economy. In response to the development of a service economy over the past decade, the number of extra-large cities increased rapidly from 22 in 1999 to 42 in 2008, whereas the growth of medium and small cities was stagnant (Table 1).

Based on the major cities of Beijing, Shanghai, and Guangzhou – which are also the central metropolises for service development – the Bohai Rim region, the Yangtze River Delta region, and the Pearl River Delta region have developed as the most important urbanized economic regions in China. These three regions, with less than three per cent of the nation’s territory, accounted for 14 per cent of the country’s total population, generated 42 per cent of the country’s total GDP and attracted 79 per cent of the country’s total foreign direct investment in 2007 (MOHURD<sup>1</sup>, 2008). The development of city regions has further enhanced the competitiveness of these regions and intensified the interactions among cities. In the recently issued Twelfth-Five Year Plan, the spatial pattern of urbanization strategy was briefly expressed as “two east-west and three north-south corridors”. As displayed in Figure 3, the two east-west corridors, i.e. Europe-Asia transportation corridor in the north and Yangtze River corridor in the south, are expected to transfer the economic growth and market space from the eastern region to the central and western regions. The three north-south corridors, two in the Eastern region and one in the Central region, are expected to channel the development from the south to the north. Such a development strategy aims to achieve a balanced development across the country, and corresponding transport infrastructure is already under construction (e.g. the high-speed rail). However, whether the balanced development objective can be achieved is not yet clear. This issue will be further discussed later in this study to help to identify the potential marketplaces of Hong Kong.

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<sup>1</sup> MOHURD is the abbreviation of Ministry of Housing and Urban-rural Development of the People’s Republic of China.



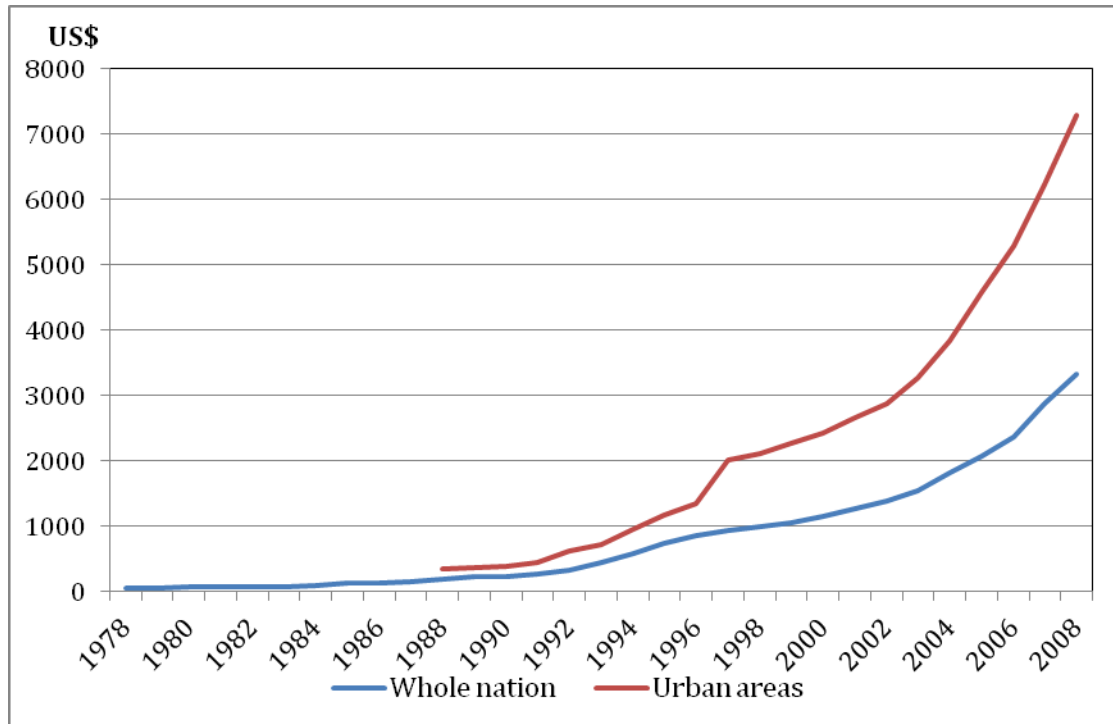
**Figure 3** Urban Development Corridors Highlighted in the 12<sup>th</sup> FYP

Source: People's Government of PRC, 2011.

## 2.2 Economic level and economic transformation of Chinese cities

To understand the economic opportunities of Hong Kong in China, an analysis of the economic level and economic transformation of Chinese cities is needed. Over the past three decades, the Chinese economy has been growing at a phenomenal rate. Per capita GDP of the whole country increased phenomenally from US\$56 in 1978 to US\$3,338 in 2008 (Figure 4). Playing an important role in the country's economy, urban areas enjoy a much higher economic level than the whole nation. Their per capita GDP reached US\$7,282 in 2008, increasing rapidly from US\$346 in 1988 (Figure 4). The dramatic increase of per capita GDP in China indicates the growing

purchasing power of Chinese people, particularly the urban residents. Together with the country's huge population which is over 4 times the population of the US, China is developing into the largest market in the world.



**Figure 4** Per Capita GDP of China, 1978-2008

Sources: China Statistical Yearbook, 2009; China Urban Statistical Yearbooks, 1989-2009.

Notes: a. For the reason of data availability, urban areas before 1997 covers all cities, but includes only cities at and above the prefecture level since 1997; b. 1 US\$ = 6.8 RMB.

**Table 2** GDP Generated by Chinese Cities

|                  | GDP (billion US\$) |        | Structure (per cent) |       | Per capita GDP (US\$) |        |
|------------------|--------------------|--------|----------------------|-------|-----------------------|--------|
|                  | 1990               | 2007   | 1990                 | 2007  | 1990                  | 2007   |
| <b>City Size</b> |                    |        |                      |       |                       |        |
| Extra-large      | 50.6               | 1560.4 | 48.5                 | 50.4  | 647.6                 | 8412.6 |
| Large            | 16.7               | 436.8  | 16.0                 | 14.1  | 577.3                 | 4954.6 |
| Medium           | 27.7               | 594.6  | 26.5                 | 19.2  | 430.0                 | 3467.6 |
| Small            | 9.5                | 505.9  | 9.1                  | 16.3  | 304.8                 | 2981.0 |
| <b>Region</b>    |                    |        |                      |       |                       |        |
| Eastern          | 65.1               | 2131.2 | 62.3                 | 68.8  | 615.1                 | 6689.3 |
| Central          | 26.6               | 661.3  | 25.4                 | 21.3  | 422.8                 | 3403.1 |
| Western          | 12.8               | 305.3  | 12.3                 | 9.9   | 377.4                 | 2995.4 |
| <b>Total</b>     | 104.5              | 3097.7 | 100.0                | 100.0 | 515.6                 | 5038.4 |

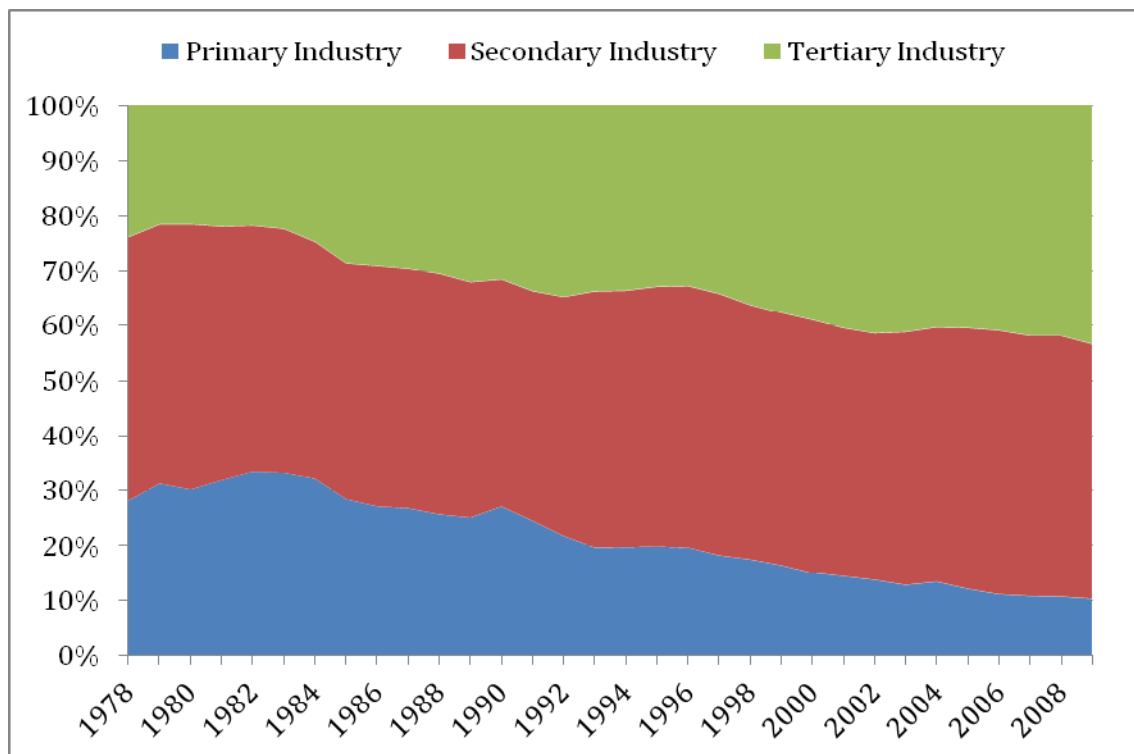
Sources: China Urban Statistical Yearbooks, 1991, 2008.

Note: 1 US\$ = 6.8 RMB.

The contribution of cities towards the booming market, as shown in Table 2, is especially noticeable for large and extra-large cities and cities of the eastern region. Of the total amount of GDP generated by Chinese cities, over 62 per cent was contributed by large and extra-large cities. A comparison of per capita GDP also underscores the importance of city size. Cities of larger size were well above smaller cities. Geographically, cities of the eastern coastal region held an overwhelming majority of the total GDP generated by the Chinese urban system (68.8 per cent), more than the combination of those in the central and western regions. As for per capita GDP, cities in the eastern region tend to enjoy a higher level than their counterparts in other regions. Moreover, the share of GDP held by the cities in the eastern coastal region has increased and the gap between cities in the eastern coast

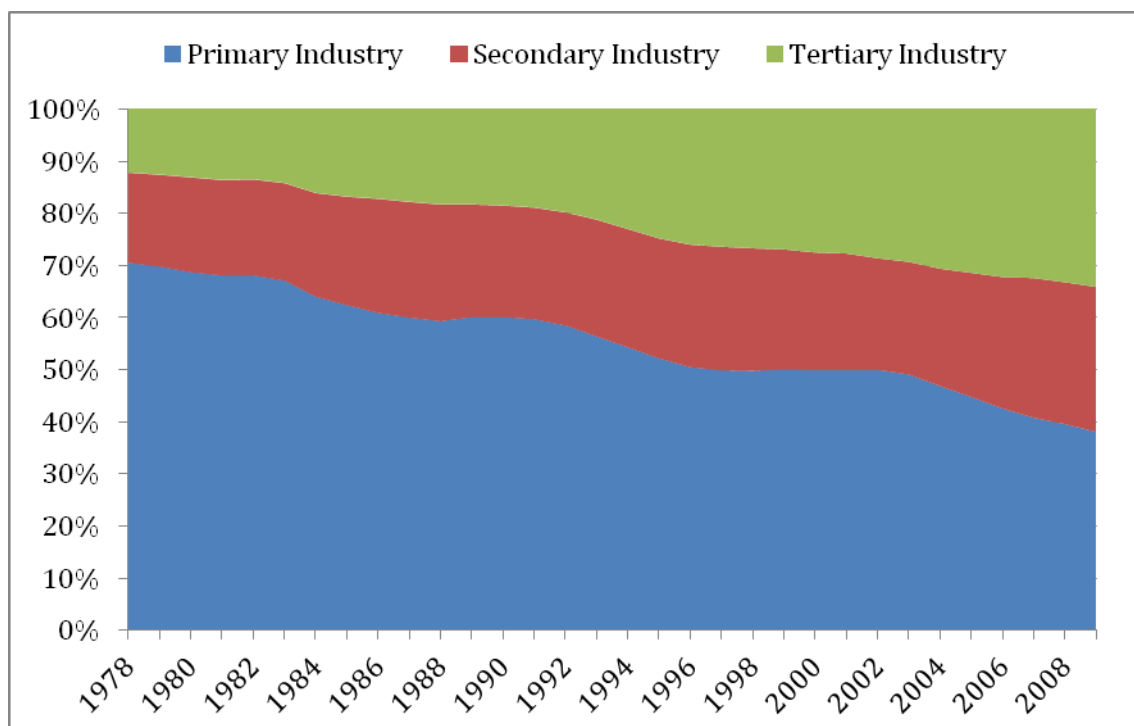
and those in the interior in terms of per capita GDP has been widened since 1990. The eastern region as the most developed region and large and extra-large cities as the most dynamic cities over the past decade not only have higher capability in attracting population, but also enjoy higher economic level. They are the most important components of the expanding Chinese market.

As per capita income increases, the demand for service products will grow much faster than the demand for agricultural and manufacturing products. Consequently, economic development is typified by a gradual shift of employment from the primary sector through the secondary and then to the tertiary sector (Fisher, 1935, 1939; Clark, 1940). Figures 5 and 6 demonstrate the economic transformation of the Chinese economy after the economic reforms in 1978. In 1978, the secondary and the tertiary sector in China accounted for 71.8 per cent of GDP and only 29.5 per cent of total employment. In 2009, their shares were 89.7 per cent and 61.9 per cent, respectively. Compared with the manufacturing sector, the tertiary sector has been growing at a faster speed. In 1978-2009, the share of the manufacturing sector in the national economy changed slightly from 47.9 per cent to 46.3 per cent in GDP, and increased rapidly from 17.3 per cent to 27.8 per cent in employment. In comparison, the proportion of the tertiary sector increased dramatically in both GDP and employment, from 23.9 per cent to 43.4 per cent and from 12.2 per cent to 34.1 per cent. As a result, the tertiary sector's share of total employment has outperformed that of the secondary sector since 1994 (Figure 6).



**Figure 5** GDP Structure of China

Sources: Fifty Years of New China, 1999; China Statistical Yearbook, 2010.



**Figure 6** Employment Structure of China

Sources: Fifty Years of New China, 1999; China Statistical Yearbook, 2010.

The change in economic structure has been more dramatic in the urban areas. As revealed by Table 3, about 97 per cent of the total employment was engaged in non-agricultural activities, 46 per cent in the secondary sector and 51 per cent in the tertiary sector, much higher than the corresponding percentages of the whole country. Although manufacturing remained an important sector for the urban economy, it grew much slower than service industries which gained more than 14 per cent within the ten years from 1998 to 2007. Within the service sector, producer services were the most dynamic service categories, their proportional importance in the economy of the urban system increasing rapidly from 8.24 per cent to 16.42 per cent. It is well-documented in Western literature that emphasis of the economy shifted not only from agricultural to manufacturing and service sector, but from low-order to high-order services as well (Bell, 1973; Davies and Donoghue, 1993). In a short period of 30 years, the economic structure of the Chinese urban system has also progressed from manufacturing to service industry and now to producer service industry.

**Table 3** Employment Structure of the Chinese Urban System, 1998-2007

| Per centage                          | 1998   | 2002   | 2003   | 2007   | Change, 1998-2007 |
|--------------------------------------|--------|--------|--------|--------|-------------------|
| Agriculture                          | 23.82  | 4.18   | 5.08   | 2.97   | -20.85            |
| Manufacturing                        | 26.84  | 28.64  | 27.95  | 30.08  | 3.25              |
| Minerals, construction and utilities | 12.37  | 15.01  | 14.67  | 15.83  | 3.47              |
| Producer services                    | 8.24   | 11.79  | 15.79  | 16.42  | 8.18              |
| Other services                       | 28.74  | 40.39  | 36.52  | 34.70  | 5.96              |
| Total                                | 100.00 | 100.00 | 100.00 | 100.00 |                   |

Sources: China Urban Statistical Yearbooks, 1999, 2002, 2003, 2008.

Note: Because of data availability, the cities constitute the Chinese urban system include only those at and above the prefecture level.

The distribution of service industries in the urban system, as analyzed in Table 4, favored also large-sized cities and cities of the Eastern region. The share of producer services located in extra-large cities rapidly increased from 48.9 per cent in 2003 to 51.9 per cent in 2009. Other services, in contrast, show a relatively more equal pattern of development. The location of other services, which cater for the final consumption of households or individuals, tends to be shaped by the distribution of population and economic level (Illers, 1996). Producer services, which primarily cater for enterprises and public institutions (intermediate demand) to enhance their efficiency of production, are more likely to concentrate in extra-large cities to enjoy the advantages of agglomeration economies (Bryson et al., 2004). Recognizing the central role played by service industries in overall economic growth, the development of producer service industries is placed in the prime agenda in the most developed regions. The latest endorsed development strategies for the Pearl River Delta had the advanced producer service industry, advanced manufacturing and high-tech industry on the top lists (NDRC, 2008). Key industries within the producer service sector were identified with specific goals and objectives (Table 5). The region aims to restructure its economic structure with the producer service sector accounting for more than 60 per cent of the service output in 2020. In the Yangtze River Delta region, the promotion of producer services is essential to achieve the region's resolution to be the "gateway in the Asian Pacific Region, the modern service and advanced manufacturing center of global importance and the whole region enjoy relatively high competitiveness" (NDRC, 2010). Both Pearl River Delta region and Yangtze River Delta region are the leading regions in China's economic map and are expected to undertake the role of promoting new industry, facilitating economic restructuring, guiding other lagging behind

regions and realizing the overall industrial upgrade of the country's economy. China is developing its economy towards a service one, which has brought opportunities as well as challenges to Hong Kong.

**Table 4** Employment of Producer Services and Other Services by City Group

(per cent)

|                |              | 2003              |                | 2007              |                |
|----------------|--------------|-------------------|----------------|-------------------|----------------|
|                |              | Producer Services | Other Services | Producer Services | Other Services |
| <b>Eastern</b> | Extra-large  | 32.55             | 23.74          | 35.56             | 24.96          |
|                | Large        | 9.24              | 9.30           | 8.93              | 9.43           |
|                | Medium       | 9.29              | 11.54          | 9.30              | 11.68          |
|                | Small        | 4.83              | 6.49           | 4.73              | 6.27           |
|                | <b>Total</b> | <b>55.91</b>      | <b>51.07</b>   | <b>58.52</b>      | <b>52.34</b>   |
| <b>Central</b> | Extra-large  | 9.22              | 7.79           | 9.06              | 7.63           |
|                | Large        | 6.51              | 7.09           | 5.67              | 6.76           |
|                | Medium       | 10.60             | 13.87          | 9.57              | 13.14          |
|                | Small        | 3.50              | 4.97           | 3.28              | 4.78           |
|                | <b>Total</b> | <b>29.82</b>      | <b>33.72</b>   | <b>27.58</b>      | <b>32.32</b>   |
| <b>Western</b> | Extra-large  | 7.12              | 5.63           | 7.32              | 6.09           |
|                | Large        | 0.78              | 0.72           | 0.79              | 0.74           |
|                | Medium       | 3.65              | 4.73           | 3.39              | 4.60           |
|                | Small        | 2.72              | 4.14           | 2.40              | 3.91           |
|                | <b>Total</b> | <b>14.27</b>      | <b>15.21</b>   | <b>13.90</b>      | <b>15.34</b>   |
| <b>Total</b>   | Extra-large  | 48.89             | 37.16          | 51.94             | 38.68          |
|                | Large        | 16.52             | 17.11          | 15.39             | 16.93          |
|                | Medium       | 23.54             | 30.13          | 22.26             | 29.43          |
|                | Small        | 11.04             | 15.60          | 10.41             | 14.97          |
|                | <b>Total</b> | <b>100.00</b>     | <b>100.00</b>  | <b>100.00</b>     | <b>100.00</b>  |

Sources: China Urban Statistical Yearbooks, 2004, 2008.

**Table 5** Premier Industries in the Outline of the Reform and Development of PRD

|                           | Key industries                | Practice and Objectives   |
|---------------------------|-------------------------------|---|
| Producer Service Industry | Finance Commercial Service    | Guangzhou and Shenzhen as the regional financial center; cultivate the headquarter economy;   |
|                           | Exhibition                    | China Import and Export Fair (Canton Fair); China High-tech Fair (Shenzhen); China International Aviation & Aerospace Exhibition China (Shenzhen) International Culture Industry Fair |
|                           | Creative industry             | Incubate the creative industry cluster, construct the software, comic and animation base;   |
|                           | Logistic and Port             | Baiyun Airport and Bao'an Airport, Guangzhou Port, Shenzhen Port; World class logistic center; logistic parks;  |
|                           | Information and Communication | Southern China information & communication center; international e-commerce center  |
|                           | Outsourcing                   | Cultivate 2-3 national outsourcing bases; form international integrated outsourcing chain;  |
|                           | Traveling                     | Demonstration region for comprehensive touring industry reform  |
|                           | Human resource                | Human resource exchange center  |
|                           | Other third party service     | Research design, marketing, consulting, agent, etc.   |

Source: abstract from the Outline of the Reform and Development of PRD (NDRC, 2008)

As early as in the 1980s, Hong Kong has established a win-win collaborative relationship, labeled the “front shops, back factories” (FSBF) model (Sit and Yang, 1997), with the adjacent Guangdong province (especially the Pearl River Delta). The regional division of labor between Hong Kong and Guangdong has given rise to the joint economic prosperity and development of the two places. With the outward movement of manufacturing industries, Hong Kong underwent rapid expansion in office sectors and supporting corporate services, and emerged as a corporate management center for manufacturing and a regional center for producer services. On the other side of the boundary, Guangdong, with the investment from Hong Kong, developed into the most important industrial base in China. The process of rapid industrialization has been considered the most important dynamics behind China’s urbanization and urban development (Liu, 1992; Ma and Fan, 1994; Eng, 1997; Zhu, 2000). However, Yeh’s (2005) recent study observed that the use of Hong Kong’s

producer services by manufacturing firms in the PRD in recent years is not as high as what the FSBF model would have suggested. One of the reasons is a rapid growth of producer services in the PRD and other parts of China over the past decade. With the recent economic transformation in urban China, Hong Kong service providers are no doubt facing increasing competitions. However, the rising economic level and the development of a “consumption society” in China have also created new economic opportunities for Hong Kong. For example, the service sector provides a new outlet to accommodate Hong Kong investment. How to make use of Hong Kong’s competitive advantage to capture the growing Chinese market is of significant importance for Hong Kong’s further development.

### **2.3 Impacts of high-speed rail services**

As mentioned earlier, China is building high-speed rail (HSR) networks to facilitate the balanced development proposed in the Twelfth-Five Year Plan. As stated by the Chinese government in 2009, China would pour some US\$300 billion into its railways, expanding its network by 20,000 km by the end of 2015, including 12,000km of track designed for high-speed trains capable of traveling up to 350km/h<sup>2</sup>. Since its introduction on 18 April 2007, the high-speed trains have transported 600 million passengers, with average daily ridership of 237 thousands in 2007, 349 thousands in 2008, 492 thousands in 2009, and 796 thousands in 2010<sup>3</sup>.

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<sup>2</sup> “The Shrinking of China”, <http://www.newsweek.com/2009/10/23/the-shrinking-of-china.html>, last accessed 15 March 2011.

<sup>3</sup> “High-Speed Rail in China”, [http://en.wikipedia.org/wiki/High-speed\\_rail\\_in\\_China#Upgraded\\_railways](http://en.wikipedia.org/wiki/High-speed_rail_in_China#Upgraded_railways), last accessed 7 March 2011.

Following the definition of International Union of Railways (UIC), high-speed rail in China refers to any commercial train services with an average speed of 200 km/h or higher. China's high speed rail lines consist of upgraded conventional rail lines, newly-built high-speed passenger designated lines (PDL), and the world's first high-speed commercial magnetic levitation (maglev) line. The first planning on HSR network, the "Mid-to-Long Term Railway Network Plan", was approved by the State Council in January 2004. It was later revised and issued in 2008 to accelerate the pace of HSR expansion to stimulate economic growth in response to the global economic recession. According to the Plan, the newly-constructed PDL, which will be 12,000km in length by 2015 and overlaid on the existing rail system, constitute the backbone of the future Chinese HSR network. The PDL will include a grid composed of 8 HSR corridors – 4 running north-south and 4 traversing east-west – and 3 intercity passenger transport systems located in the metropolitan areas of Bohai Bay, Yangtze River Delta and Pearl River Delta<sup>4</sup>. Table 6 lists routes, length, and year of open of the 8 HSR corridors.

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<sup>4</sup> "Introduction to Mid-Long Term Railway Network Planning of China", [http://www.ita-aites.org/fileadmin/filemounts/general/pdf/HomePage/China\\_20-21\\_nov\\_2006\\_report.pdf](http://www.ita-aites.org/fileadmin/filemounts/general/pdf/HomePage/China_20-21_nov_2006_report.pdf), last accessed 15 March 2011.

**Table 6 HSR Corridors in China**

| PDL Direction | PDL Name   | Length (km) | Year of Open |
|---------------|--|-------------|--------------|
| North-South   | Beijing-Harbin Line (via Tianjin, Qinghuangdao, Shenyang)                                  | 1,700       | 2014         |
|               | Beijing-Shanghai Line (via Tianjin, Jinan, Xuzhou, Bengbu, Nanjing)                        | 1,302       | 2011         |
|               | Beijing-Hong Kong Line (via Shijiazhuang, Zhengzhou, Wuhan, Changsha, Guangzhou, Shenzhen) | 2,229       | 2012         |
|               | Shanghai-Shenzhen Line (via Hangzhou, Ningbo, Wenzhou, Fuzhou, Xiamen)                     | 1,450       | 2011         |
| East-West     | Qingdao-Taiyuan Line (via Jinan, Shijiazhuang, Taiyuan)                                    | 873         | 2012         |
|               | Xuzhou-Lanzhou Line (via Zhengzhou, Xi'an, Baoji)  | 1,363       | 2012         |
|               | Shanghai-Chengdu Line (via Nanjing, Hefei, Wuhan, Chongqing)                               | 2,078       | 2012         |
|               | Hangzhou-Kunming Line (via Nanchang, Changsha, Guiyang)                                    | 2,066       | 2014         |

Sources: Chen and Zhang, 2010, p.11, Table 2; “China’s High-Speed Railway Destined to be the Largest in the World”, <http://www.wantchinatimes.com/news-subclass-cnt.aspx?cid=1502&MainCatID=&id=20101214000011>, last accessed 16 March, 2011.

The HSR network in China will be the “largest, fastest and most technologically advanced HSR railway system in the world”. After such a large scale HSR project is completed, the connection and mobility of the country will be significantly improved. As a result of shorter travel time offered by HSR services, the country is “shrinking”. Already, the trip from Beijing to Tianjin is cut from an hour to just 27 minutes; the trip from Beijing to Shanghai, halfway across the country, from 10 to 4 hours; and the journey from Beijing to Guangzhou, more or less the entire length of the nation, from 20 to just 8 hours.

The original purpose of HSR construction aimed to overcome the limited capacity and increase the speed of the existing rail network, stimulate the economy via transport investment, and improve the accessibility of more remote regions. The policy makers in China contended that the operation of HSR would open a new “gate” for less developed region to attract people and investment, boosting the development of these regions which are previously hampered by their isolated location. It was believed that HSR development would reduce the disparity between the core and peripheral regions and lead to greater regional integration. However, the experiences of HSR development in Japan, French and other European countries indicate that the contribution of accessibility improvement to regional polarization or decentralization is not clear. Taniguchi et al.’s (1995, p. 196) study on the effects of Shinkansen on the urban hierarchy concluded that Shinkansen services have changed metropolitan commuting patterns, altering “the idea of conventional commuting and eroding the common concept of metropolitan areas”. However, the benefits were mainly concentrated in Tokyo, the central node of the HSR network. In contrast, Thompson (1994) found that the TGV provided greater opportunities and economic competitiveness for peripheral areas previously disadvantaged by distance from the core areas. Like a double-edged sword, connecting to the HSR network engenders positive potential effects to attract economic activities, but it also helps to remove the barrier for existing activities to be drained away. Thus, the construction of HSR in peripheral regions may create new location advantages for cities in these regions, but it may also reinforce the existing advantages of the central regions.

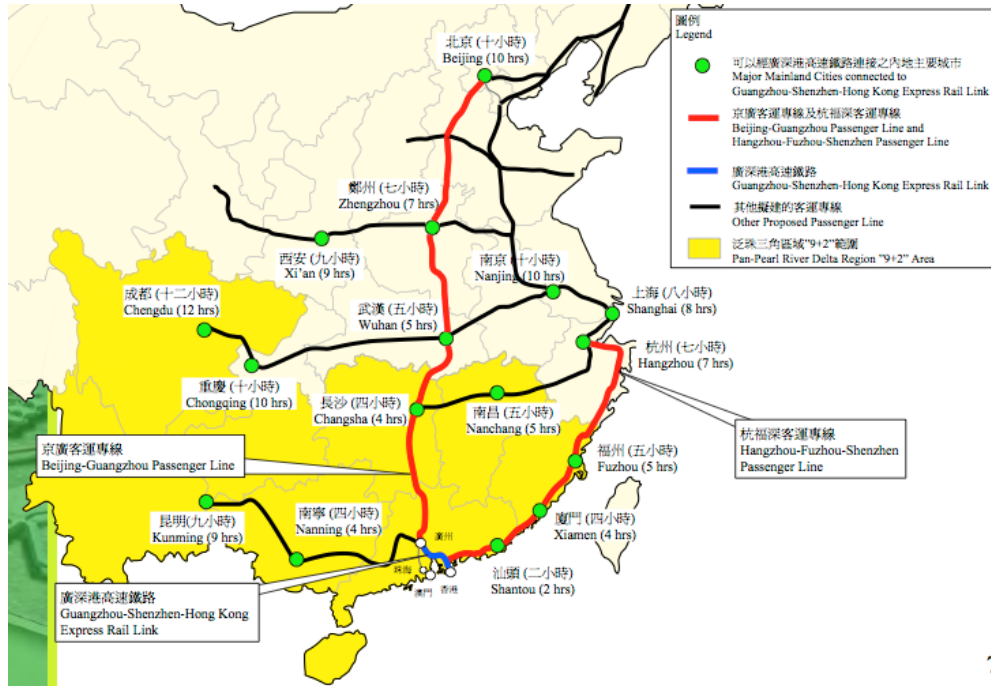
As such, how do we evaluate the impacts of HSR development in the development of the Chinese urban system? We have conducted a study recently on the “Impacts of High Speed Rail on China’s Urban System” to assess how HSR

development may affect changes in spatial structure of the Chinese urban system from the service perspective, with a special emphasis on the newly-built high speed PDL and the cities with access to these lines. Our very preliminary findings suggest that: first, HSR services inaugurated over the past three years are leading to a new wave of economic and urban development in China. As the economy develops and the income of people increases, the demand for mobility grows dramatically. For a country with a vast territory, a booming economy, and a large population like China, the increase in regional accessibility is vital to facilitate its further development. One of the most salient benefits from frequent intercity travel will be the rapid growth of the service sector, which will expedite the pace of urbanization and economic restructuring of Chinese cities. Second, the improvement of accessibility tends to increase, rather than decrease, the difference among the eastern, central, and western regions. In the next ten years, the operation of HSR in China may be enhancing the centrality of the cities in the core region, increasing the disparity between these cities and their hinterland in the peripheral regions. Third, HSR is giving rise to the uprising of new centers, leading to a new economic structure of the urban system. As the layout of the HSR network in China is a grid one, it engenders significant locational advantages for cities which are designated as HSR hubs. In addition to the traditional core regions, i.e. the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Pearl River Delta in the eastern region, Wuhan-Xianning-Yichang region and Chongqing in the western region are becoming the new centers for services and consumption. Finally, HSR is changing the city size of the urban system. With the operation of HSR, large and extra-large cities are taking a more rapidly growing share of the urban system in terms of both urban population and the number of cities. The development of HSR in China is delivering significant socio-economic benefits and changing the Chinese urban system, leading to a new phase of urban transition. In this new era of Chinese

urbanization, what are the economic opportunities for Hong Kong that can help Hong Kong to develop its economy further?

### **3 Hong Kong's Economic Opportunities in the New Era**

With the commencement construction of the express highway link (XRL) in 2010, Hong Kong is getting prepared for the latest urban development in China. The XRL, expected to complete in 2015, will connect Hong Kong to the country's HSR network. The greatest benefit of the proposed XRL is that it greatly reduces the traveling time from Hong Kong to mainland cities. By taking the XRL, traveling to Beijing and Shanghai will be reduced to 10 hours and 8 hours from 23.5 hours and 18.5 hours respectively. Connection to the western region in China is also improved greatly. It takes 10 and 12 hours to Chongqing and Chengdu which are the hubs of the western region (Figure 7). It is estimated that the XRL will save the public 40 million hours per year (Hong Kong Legislative Council Brief, 2010). With the closer link to the inner mainland, Hong Kong's role as the southern gateway of the Mainland will be strengthened.



**Figure 7** XRL and its Connections with Major Mainland Cities

Source: MTR, 2010.

As the world’s most populated country, rapid urbanization in China is expanding the world’s largest market for services and consumption dramatically. Based on Hong Kong’s comparative advantages and its efficient access to such a big cake, Hong Kong is expected to benefit from rapid Chinese urbanization in the following aspects.

First, Hong Kong is expected to attract increasing number of visitors from Mainland cities. As the most dynamic Asian city, Hong Kong is attracting visitors from all over the world, which enables the tourism industry to be one of the four key pillar industries in Hong Kong. However, more than half of the visitors come from Mainland China (Table 7). More importantly, with an annual growth rate of 9.4 per cent, Chinese people contributed a lion share of the growth of visitors to Hong Kong since 2005. Relying upon its brand advantage and geographical propinquity, the “shopping paradise” will continue to be attractive to Chinese people, especially that

the increasing GDP in China is generating a rising demand for consumption. The HSR development in China and Hong Kong is a catalyst in luring visitor from the Mainland to Hong Kong. It is estimated that there will be an additional 0.9 to 1.2 million Mainland visitors due to the speedier services.

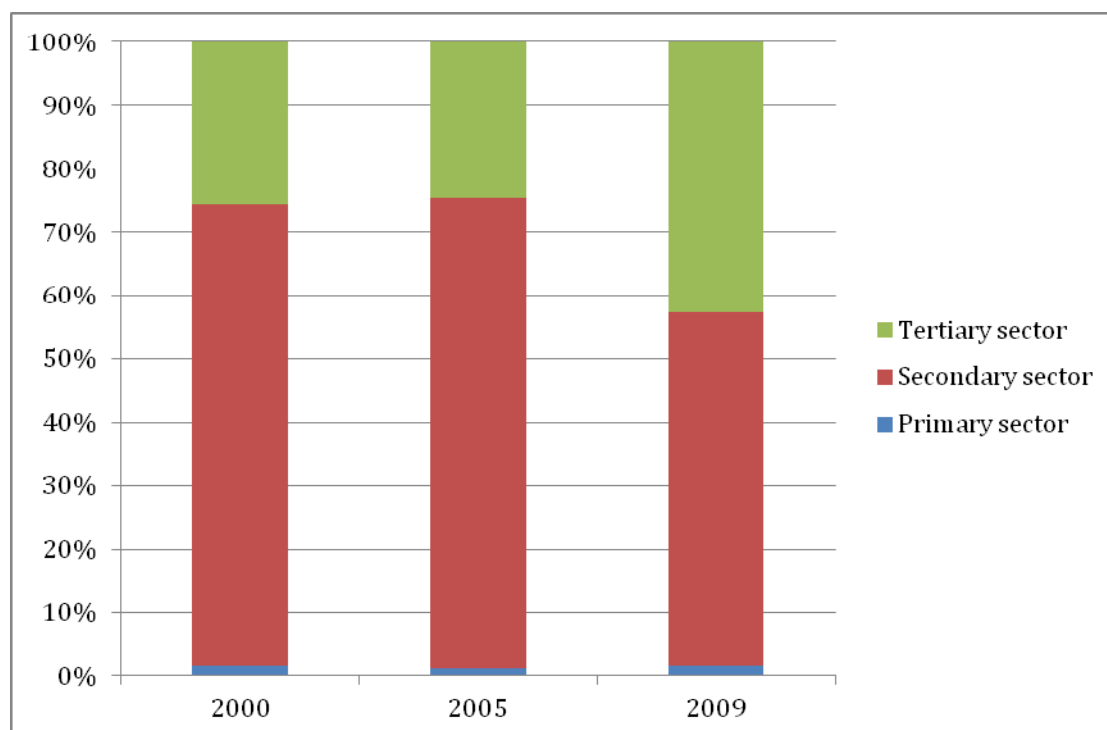
**Table 7** Visitor Arrivals by Country/Territory of Residence (10,000 person-times)

| Country/Territory of residence           | 2005   | 2006   | 2007   | 2008   | 2009   | Annual growth rate per cent |
|--|--------|--------|--------|--------|--------|-----------------------------|
| The Mainland of China                    | 1254.1 | 1359.1 | 1548.6 | 1686.2 | 1795.7 | 9.4                         |
| South and Southeast Asia                 | 241.3  | 266.0  | 288.8  | 293.6  | 288.5  | 4.6                         |
| Taiwan, China                            | 213.1  | 217.7  | 223.9  | 224.0  | 201.0  | -1.5                        |
| North Asia                               | 185.3  | 203.0  | 220.1  | 222.9  | 182.3  | -0.4                        |
| Europe, Africa and the Middle East       | 172.6  | 191.7  | 218.9  | 209.4  | 196.9  | 3.3                         |
| The Americas                             | 156.5  | 163.1  | 178.4  | 168.5  | 156.8  | 0.0                         |
| Australia, New Zealand and South Pacific | 62.0   | 66.8   | 75.7   | 76.3   | 70.8   | 3.4                         |
| Macao, China                             | 51.0   | 57.8   | 62.6   | 69.7   | 67.1   | 7.1                         |
| Total                                    | 2335.9 | 2525.1 | 2816.9 | 2950.7 | 2959.1 | 7.1                         |

Source: China Statistical Yearbook, 2010

Second, resulting from the rapid growth of the service sector, economic transformation of Chinese cities is providing new investment opportunities for Hong Kong businessmen. As shown in Figure 8, more and more foreign capital in China is invested in the tertiary sector. The proportion of the tertiary sector in total FDI increased from 25.8 per cent in 2000 to 42.8 per cent in 2009, whereas that of the secondary sector dropped from 72.6 to 55.6 per cent during the same period. It was also observed that cross-boundary relocation of service industries from Hong Kong to the Mainland, especially in Guangdong, has increased in recent years (Yang, 2006). In the next 20 years, over 350 million population will be added to the Chinese urban system. The large amount of population will augment substantial new service demand.

The high quality of services provided by Hong Kong establishments will enable them to be competitive in the growing market.



**Figure 8** Foreign Direct Investment of China by Economic Sector

Sources: China Statistical Yearbook, 2001, 2006, and 2010.

Third, industrial upgrading in China and reduction of traveling time is enhancing Hong Kong as the regional producer service center in the short term. The Chinese cities are experiencing not only the transformation from manufacturing to service sector, but also the industrial upgrading within these sectors. Economic transformation and industrial upgrading is providing a rich source of demand for producer services. Over the past three decades, Hong Kong has developed four key pillar industries, i.e. financial services, trading and logistics, tourism, and producer and professional services. Except for tourism, the rest three key pillar industries are all producer services. The sectoral advantages of Hong Kong are obvious. As shown in

Table 8, Hong Kong has a much larger number of producer service employment compared with other PRD cities. Producer service employment in Hong Kong accounted for more than half of that of the total PRD cities. The status of Hong Kong as the regional producer service center will be reinforced by its comparative advantages and the efficient connections with PRD cities. Moreover, the global perspective of Hong Kong's producer services, which is an important aspect of the sector's competitiveness, will continue to play a crucial role in attracting businesses from the Mainland where the economy is still not well integrated with the global market.

**Table 8** Producer Service Employment of Hong Kong and PRD Cities, 2006

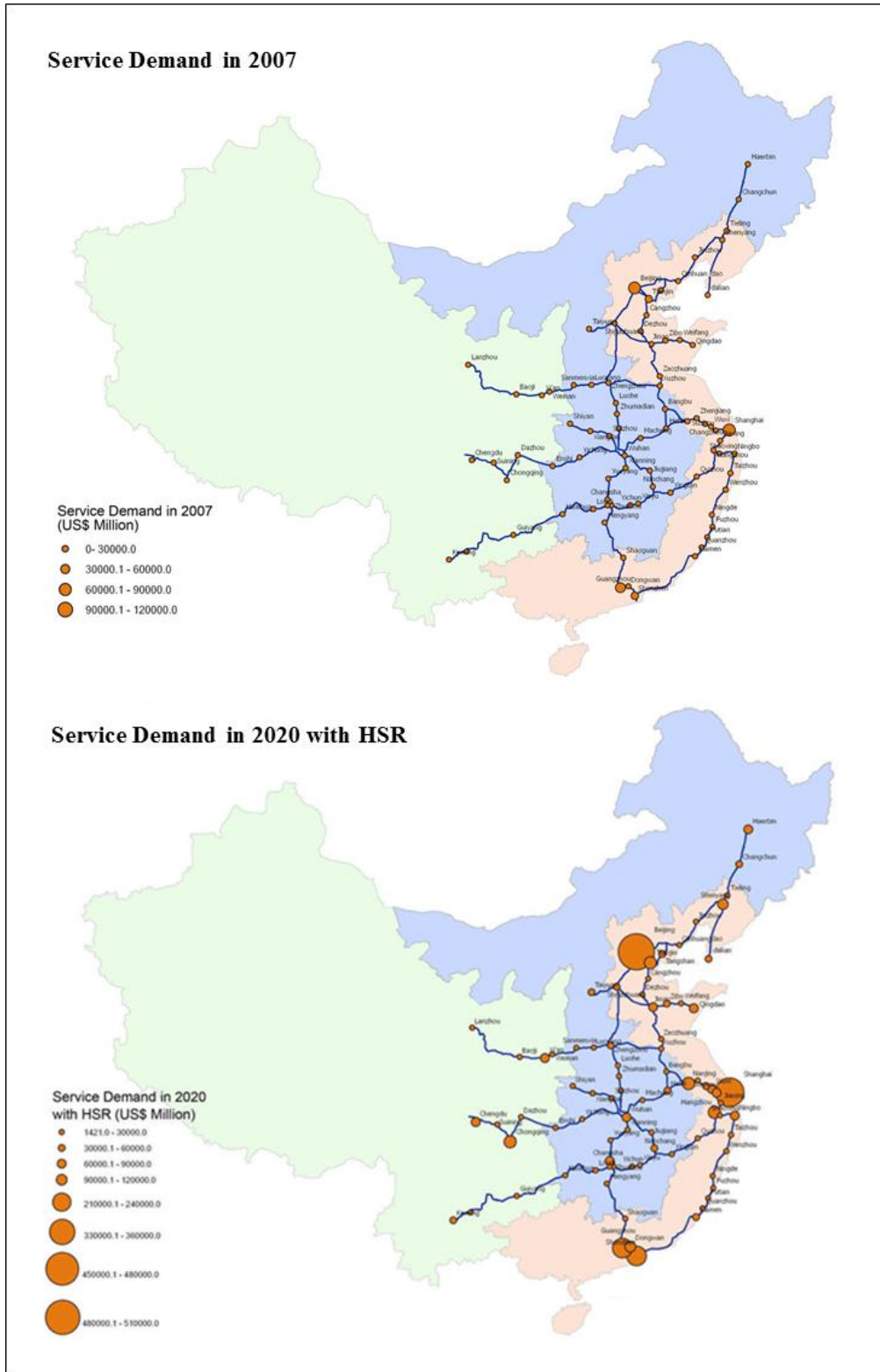
| City                   | Producer Services<br>(thousand persons) | Service Sector<br>(thousand persons) | Producer Services as per<br>cent of the Service<br>Sector |
|------------------------|---|--------------------------------------|---|
| Guangzhou              | 842.6                                   | 2,873.4                              | 29.3  |
| Shenzhen               | 834.8                                   | 2,739.3                              | 30.5  |
| Zhuhai                 | 105.5                                   | 466.4                                | 22.6  |
| Huizhou                | 91.6                                    | 567.4                                | 16.1  |
| Dongguan               | 112.3                                   | 938.6                                | 12.0  |
| Zhongshan <sup>1</sup> | 78.4                                    | 428.4                                | 18.3  |
| Jiangmen <sup>2</sup>  | 81.2                                    | 662.4                                | 12.3  |
| Foshan                 | 206.2                                   | 1,246.3                              | 16.5  |
| Zhaoqing               | 84.5                                    | 715.8                                | 11.8  |
| PRD Cities as a Whole  | 2437.1                                  | 10,637.9                             | 22.9  |
| Guangdong Province     | 3,357.8                                 | 16,182.8                             | 20.7  |
| <b>Hong Kong</b>       | <b>1,414.1</b>                          | <b>2,891.8</b>                       | <b>48.9</b>   |
| PRD/Guangdong          | 0.73                                    | 0.66                                 |   |
| Hong Kong/PRD          | 0.58                                    | 0.27                                 |   |
| Hong Kong/Guangdong    | 0.42                                    | 0.18                                 |   |

Sources: Statistical Yearbooks of individual PRD cities; Hong Kong Annual Digest of Statistics, 2007.

Note: Data of Zhongshan is in 2005, and data of Jiangmen is in 2003.

Fourth, the changing Chinese urban system, being shaped by fast speed of urbanization and HSR development, is forming new markets and hinterlands for Hong

Kong. Our recent study suggested that the development of HSR will significantly benefit the connected cities by generating more frequent travel and larger flow of people, and the HSR hubs will be the biggest winners. After the 8 HSR corridors are opened, the core cities along the eastern coast will maintain their advantages, but new centers for service development are emerging, such as Wuhan-Xianning-Yichang region in the central region and Chongqing in the western region, resulting from their dramatic increase in accessibility (Figure 9). Tables 9 and 10 list the top 20 cities in the absolute and relative change of service demand before and after HSR development. HSR cities in the eastern region have the highest absolute increase, whereas those in the central region will enjoy the highest growth rate in service development. Another type of cities that will take great advantage of the HSR development will be those surrounding the core cities. With the reduction of travel time to one hour, they are more likely to attract people and economic activities from the core cities, leading to a rapid growth of the service sector. A new economic structure of the Chinese urban system and improved connectivity will provide new market for Hong Kong businessmen.



**Figure 9** Service Demand of Chinese Cities in 2020 with HSR Development

Source: Yeh et al., 2011, Figure 4.

**Table 9** Top 20 HSR Cities in the Absolute Change of Service Demand with HSR Development, 2007-2020 (in US\$ Million)

| City         | Region  | HSR Hub | Service Demand Change, 2007-2020 |
|--------------|---------|---------|----------------------------------|
| Shanghai     | Eastern | No      | 303,695                          |
| Beijing      | Eastern | Yes     | 422,841                          |
| Guangzhou    | Eastern | No      | 195,086                          |
| Chongqing    | Western | No      | 111,511                          |
| Tianjin      | Eastern | Yes     | 107,840                          |
| Nanjing      | Eastern | Yes     | 104,011                          |
| Hangzhou     | Eastern | Yes     | 96,115                           |
| Shenyang     | Eastern | Yes     | 75,290                           |
| Suzhou       | Eastern | No      | 61,534                           |
| Wuhan        | Central | Yes     | 59,698                           |
| Xi'an        | Central | No      | 53,266                           |
| Ningbo       | Eastern | No      | 52,181                           |
| Wuxi         | Eastern | No      | 52,092                           |
| Haerbin      | Central | No      | 49,721                           |
| Jinan        | Central | Yes     | 47,051                           |
| Tangshan     | Eastern | No      | 44,854                           |
| Kuming       | Western | No      | 42,510                           |
| Changzhou    | Eastern | No      | 38,465                           |
| Shijiazhuang | Eastern | Yes     | 24,446                           |
| Changchun    | Eastern | No      | 21,533                           |

Source: Yeh et al.,2011, Table 4.

**Table 10** Top 20 HSR Cities in the Relative Change of Service Demand with HSR Development, 2007-2020 (percent)

| City         | Region  | HSR Hub | % Change, 2007-2020 |
|--------------|---------|---------|---------------------|
| Yichun       | Central | No      | 1,133.1             |
| Luohe        | Central | No      | 899.9               |
| Suizhou      | Central | No      | 796.4               |
| Weinan       | Western | No      | 766.5               |
| Quzhou       | Eastern | No      | 732.7               |
| Zaozhuang    | Eastern | No      | 728.1               |
| Xinyang      | Central | No      | 626.5               |
| Xianning     | Central | No      | 614.9               |
| Shaoguan     | Eastern | No      | 597.4               |
| Tangshan     | Eastern | No      | 584.5               |
| Xinyu        | Central | No      | 552.4               |
| Zhumadian    | Central | No      | 529.9               |
| Bangbu       | Central | Yes     | 505.3               |
| Loudi        | Central | No      | 469.6               |
| Zhenjiang    | Central | No      | 382.9               |
| Hengyang     | Central | No      | 338.4               |
| Xiangtan     | Central | Yes     | 303.7               |
| Yueyang      | Central | No      | 259.8               |
| Shijiazhuang | Eastern | Yes     | 244.4               |
| Changchun    | Central | No      | 219.0               |

Source: Yeh et al., 2011, Table 5.

Finally, in addition to geographical advantages, the support from the central government will also enable Hong Kong to be in a better position in capturing the expanding Chinese urban market as compared with other cities in the world. As a Special Administrative Region, the development of Hong Kong's economy has always been highlighted in the national development agenda. After its hand over to the Mainland, a range of policies have been issued to promote the economic growth of Hong Kong, for example, "Individual Visit Scheme", and "Closer Economic Partnership Agreement (CEPA)". These policies have gradually removed the institutional constraints from the Mainland to promote service development in Hong

Kong. In the latest issued Twelfth-Five Year Plan, the central government further expressed its determination to maintain Hong Kong's long-term prosperity and stability: (1) support the development of financial, shipping, logistic, tourism, professional services, information and other high value add sectors in Hong Kong; and develop an offshore *renmibi* (RMB) business center, an international asset management center and the center for high-value goods inventory management and regional distribution; (2) support the development of the six advantages industries in Hong Kong by extending the fields and scopes of cooperation with the Mainland; (3) further cooperation between Mainland and Hong Kong under the CEPA framework, especially the cooperation of Hong Kong and Guangdong is confirmed. The development of Hong Kong and PRD cities in to a world-class city-region was proposed. With the financial system in Hong Kong as the dragonhead, and the supporting financial resources and services in PRD Region, the financial cooperation region will be established and the region will be built into an advanced manufacturing and modern services base. In particular, the transport linkages among PRD cities, Hong Kong and Macao are emphasized together with communication and cooperation in cultural and educational aspects. Megaprojects among Guangdong, Hong Kong and Macau are the highlights of the cooperation (People's Government of PRC, 2011). The strong support from the central government has paved the way for Hong Kong to enter the Chinese market one step ahead of other cities in the world.

**Table 11** The 12<sup>th</sup> FYP Guideline and Policy Responses in Hong Kong

| The FYP guideline   | Policy responses in Hong Kong  |
|---|--|
| Offshore RMB business   | <ul style="list-style-type: none"> <li>• Conduct overseas roadshows to promote Hong Kong’s offshore RMB market;</li> <li>• Encourage overseas and mainland enterprises to issue RMB bonds in Hong Kong;</li> <li>• Establish channels for enterprises to invest in the Mainland with the RMB funds raised in Hong Kong</li> <li>• Promote the diversification of RMB financial products and services</li> </ul>                        |
| Asset management business   | <ul style="list-style-type: none"> <li>• Seek to enter into more agreements for the avoidance of double taxation;</li> <li>• Continue to develop an Islamic financial platform, provide fiscal incentives and stepping up overseas promotion;</li> <li>• Improve the regulatory regime, enhance market quality and facilitate market development</li> </ul>  |
| Six advantage industries  | <ul style="list-style-type: none"> <li>• Explore and serve the domestic market in mainland marking use of CEPA and the existing regional cooperation platforms.</li> </ul>   |
| High-value goods inventory management and regional distribution center. | <ul style="list-style-type: none"> <li>• Make Kwai Tsing to attract third-party logistics services providers to operate in Hong Kong;</li> <li>• Promote e-logistics services and offer professional logistics services to Mainland and overseas markets;</li> <li>• Increase the handling capacity of the airport with the midfield expansion project and the construction of a new air cargo terminal.</li> </ul>                    |
| Regional cooperation  | <ul style="list-style-type: none"> <li>• Focus on forging ahead with advanced manufacturing industry and modern services industries, <i>Qianhai</i> development, the opening up of Guangdong market under the ‘early and pilot’ measure to Hong Kong service industries, cross-boundary infrastructure development, the building of Guangdong-Hong Kong-Macao Quality Loving Area and a modern economic circulation sphere.</li> </ul> |

Source: Summarized from Hong Kong Government Press Release (Hong Kong Government, 2011).

Although the development of the Chinese urban system, the construction of HSR network, and the institutional support from the central government are creating great economic opportunities to Hong Kong, it should be noted that Hong Kong is also facing serious challenges as a result of the rapid urbanization of China. The dramatic expansion of the service sector in China and the influx of other overseas capital are undermining the sectoral advantages of producer services, i.e. the pillar industries, in Hong Kong. Compared with the indigenous service providers in China, producer service establishments of Hong Kong have better global connections and provide

higher quality of services. Compared with other overseas firms, Hong Kong providers are much more familiar with the market environment in China and enjoy the policy support from the central government. These sectoral advantages may retain in the next ten to twenty years. However, with the increasing integration of China into the global market and further marketization of the Chinese economy, will Hong Kong service providers continue to succeed in fierce market competitions? It is often complained that the development of Hong Kong's producer services is hampered by Mainland's protection on the domestic market and different institutional contexts between the two sides of the border. If all these barriers are removed in the future, will the development of Hong Kong's producer services be ensured? Based on Hong Kong's comparative advantages and disadvantages, how to capture the adjacent growing market requires more careful and comprehensive studies.

#### **4 Conclusion**

China is now undergoing a new phase of urban transition, characterized by a very fast urbanization speed, dramatic economic transformation, and the development of the HSR network. The fast pace of urbanization is expected to added a large amount of population, over 350 million, into the urban system in the next 20 years. The flourishing economy and the rapid expansion of the service sector is dramatically restructuring the urban economy and leading to the rapid growth of large cities. The ambitious HSR project, which is shrinking the country significantly, is changing the economic structure of the urban system, leading to increasing regional disparity and emergence of new centers for service development.

The rapid Chinese urbanization is making China, the world's most populated

country, the largest market for services and consumption. In the next two decades, China's urbanization is expected to boost the domestic demand by US\$4.5 trillion. Benefiting from its geographical location, current comparative advantages, and strong support from the central government, Hong Kong will have a good opportunity to capture this rapidly expanding market. Firstly, the rising economic level and the efficient connections of Hong Kong with major cities and regions in the Mainland due to HSR development will attract increasing visitors from the Mainland to Hong Kong for tourism or other business purposes. Secondly, the substantial demand for the service sector in Mainland cities, including consumer services as well as producer services, will bring about considerable opportunities for Hong Kong which is the leader in service development and has rich experience in providing high quality services. Thirdly, by reducing the traveling time to the emerging new service centers, Hong Kong will expand its service radius and hinterlands to achieve more investment opportunities and development.

Hong Kong's opportunities in the new era of China's urbanization seem to indicate a promising future. The development of Hong Kong's services and producer services industries is taking the lead as compared with other Chinese cities. In latest edition of China's City Competitiveness Report compiled by Ni (2010), Hong Kong's comprehensive competitiveness ranks first among 294 prefectural level or above cities in China. Hong Kong takes the lead in the areas of economic scale, efficiency, development cost, income level and industrial structure. However, it is noticed that the leading edge of Hong Kong is reducing. With the rapid growth of service industries in China's major cities which offer services at a lower price and the development of foreign service-establishments which are able to provide higher quality of services, will the Hong Kong brand continue to win 20 years later? How to

retain current advantages and further explore new advantages for Hong Kong is crucial for the city's long-term prosperity and development. Furthermore, business opportunities for the services and producer services in Hong Kong in different cities in the urban system of China linked by the HSR needs further detailed study.

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