

## **Border? What border?**

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“(W)hile better coordination should be pursued to ensure mutually beneficial developments and to avoid duplication in efforts and undesirable convergence in industrial structures, the future trajectories of the two economies will not and cannot be identical. Hong Kong and Guangdong are different in size and endowments, and face dissimilar political and economic frameworks. Independent policies and measures to nurture specific advantages and to solve internal problems have to be made. Indeed, a certain distancing in economic relations between the two economies will be healthy.”

That was said in a joint paper by me and my colleague Cheng Yuk-shing. Where and when? At a conference in Australia in 1996.<sup>1</sup>

Such a view may sound old-fashioned and outdated to many, now that the “integration” between Hong Kong and the Mainland has become an “irresistible historical trend” and talks about a 1-hour or 3-hour “daily life circle” in the Pearl River Delta and electronic entry cards to Hong Kong for Shenzhen residents command so much enthusiasm.

But I stick to my stance, albeit with more sophisticated arguments. See for example the piece I posted in October last year.<sup>2</sup>

Mind you, I do not object to integration, nor am I a “Hong Kong separatist” in disguise. My position is quite different from that of Anson Chan, the former Chief Secretary, who has been criticised, I think quite rightly, as an obstacle to closer economic relations across the border. We are a world apart as she did little to help prop up Hong Kong’s own competitiveness. As an aside, I was a Hong Kong Affairs

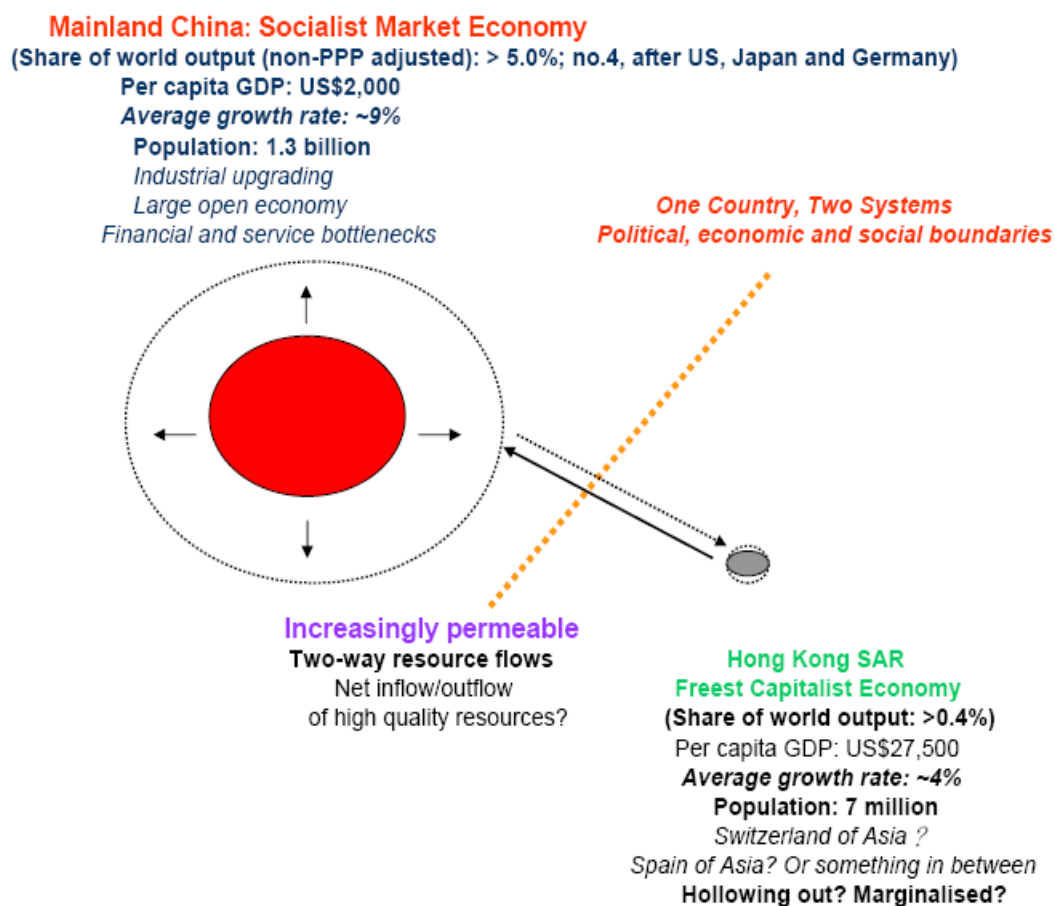
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<sup>1</sup> Tsang Shu-ki and Cheng Yuk-shing, “The Economic Link-up of Hong Kong and Guangdong: Structural and Developmental Problems”, paper presented at the *Conference on China and the Asian Pacific Economy* held at the University of Queensland on 14-16 July 1996. ([www.hkbu.edu.hk/~sktsang/Tsang-9607.pdf](http://www.hkbu.edu.hk/~sktsang/Tsang-9607.pdf)).

<sup>2</sup> “The Hong Kong economy: Structural transformation or dissolution?” ([www.hkbu.edu.hk/~sktsang/Structural\\_transformation\\_or\\_dissolution.pdf](http://www.hkbu.edu.hk/~sktsang/Structural_transformation_or_dissolution.pdf)). Or read the revised Chinese version “回歸十年的香港經濟：結構轉型還是結構解體？” ([www.hkbu.edu.hk/~sktsang/1997-2007.pdf](http://www.hkbu.edu.hk/~sktsang/1997-2007.pdf)).

Advisor to the Chinese Government before the return of the territory to the Motherland. I suppose that gives me a sort of political clearance. My first piece in open support of the resumption of sovereignty was incidentally written in 1982.<sup>3</sup>

The problem is not integration *per se*, but **asymmetric integration**. Being both “a blessing and a curse”, the economic interaction between the Mainland and the HKSAR is by nature unbalanced: the former large, diversified, and galloping, and the latter small, struggling and “hollowing out”. Re-defining Hong Kong’s role in such a dynamic but lopsided context turns out to be a huge challenge. Under asymmetric integration, the “junior” partner usually bears the greater risk. Graphically, the key problems are captured in the following illustration that I have used in my lectures and talks.



Unfortunately, the “integrationists” holding the “resource flow view” (資源流動論) and waving the banner of “big market, small government” have not seriously considered the danger of **structural dissolution (de-clustering)** in the opening up of

<sup>3</sup> “民族主義、回歸與改革” ([www.hkbu.edu.hk/~sktsang/Nationalism.html](http://www.hkbu.edu.hk/~sktsang/Nationalism.html)).

the economic border when Hong Kong itself is not paying sufficient attention to promoting its own “local advantage” (本地優勢). Top SAR officials have found it easier (since the launching of CEPA etc.) to facilitate resource flows and business opportunities through policy negotiation with the Mainland, compared with nurturing and upgrading “local advantage” in frontier sectors within Hong Kong. Very few people are motivated enough to take up “unnecessary” tasks themselves.

Opposing integration is naïve. Hastening integration without working hard to enhance domestic competitiveness is short-sighted and irresponsible.

I have emphasised the importance of the spatial perspective in economics.<sup>4</sup> A book that I like to quote is Krugman’s *Geography and Trade*. In it he refers to the analysis of Canada’s economic relations with the USA in the second half of the 19<sup>th</sup> Century by a colleague of his.<sup>5</sup> Canada was trapped in backward agriculture and many citizens were keen to move to the USA. As a response, Ottawa under John A. Macdonald’s Conservative Party implemented the “National Policy” in 1878-79, raising tariffs to

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<sup>4</sup> “A note on spatial perspectives: Tacit knowledge, embeddedness and clusters” ([www.hkbu.edu.hk/~sktsang/SpatialClusters.pdf](http://www.hkbu.edu.hk/~sktsang/SpatialClusters.pdf)),

<sup>5</sup> Paul Krugman, *Geography and Trade*, Leuven University Press and MIT Press, 1991. I summarised the issues in another piece of mine in Chinese (“一國兩制、困籠與突破(一)” [www.hkbu.edu.hk/~sktsang/Tsang250202.PDF](http://www.hkbu.edu.hk/~sktsang/Tsang250202.PDF)) :

“克魯明對加拿大於十九世紀後期通過經濟民族主義(economic nationalism)來建立一個有別於美國的經濟體系的闡明，亦頗有趣，雖然他只是引用他的同事畢保格(E. Buckberg)的研究。當時加拿大正陷於落後農業經濟的困境裏，人民紛紛遷移到美國，因為兩國間幾乎完全沒有要素流動的限制。終於，加拿大政府要在一八七八年實施“民族政策”(National Policy)，一方面提高關稅，迫使國民倚靠本地農業而非美國的農產品供應者；另一方面則建設了國內的鐵路網絡，津貼東西(而非南北)交通。到後來，加拿大內部經濟達到一定規模，不再懼怕被美國邊緣化(peripheralized)，就反過接受自由貿易了！

克魯明的文筆流暢辛辣在經濟界是有名的(所以他現時在紐約時報寫專欄)，下面一段可見一斑：

“想像現時是一八六零年，而你正確地預計到鐵路交通的發明將會令你身處的大陸劃分為兩部份：一個具備核心的工業國家，和另一個沒有核心的農業國家。那麼，很可能你會倡議施行一種暫時的關稅，確保你能建立核心。當你取得製造業的決定性領導地位後，你就可以解除關稅——並向另一個國家就自由貿易的種種美德，高調地說教，因為它實際上已變成你的經濟殖民地了。”(《地理與貿易》，頁90)”

defend local suppliers, encouraging immigration as well as embarking on ambitious programmes of building internal railways in the east-west direction. Eventually after the Canadian economy had reached a coherent and sustainable mode with a strong manufacturing base, the country then agreed to have free trade with the USA.<sup>6</sup>

Canada was, and is, big. But even it had to resort to proactive policies at some historical junctures. The fate for a small open economy is likely to be less predictable, and more risky,<sup>7</sup> particularly if the authorities choose to let events be determined by the currents of the “big market” under asymmetric integration.

I repeat my warnings here.

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<sup>6</sup> For another general reference on this episode, see “National Policy”, *Wikipedia*, [http://en.wikipedia.org/wiki/National\\_Policy](http://en.wikipedia.org/wiki/National_Policy).

<sup>7</sup> An example of apparent success (so far) is Ireland. See Brian Beary, “Why Ireland’s Economic Boom Is No Miracle”, *The Globalist*, May 30, 2007 ([www.theglobalist.com/DBWeb/StoryId.aspx?StoryId=6172](http://www.theglobalist.com/DBWeb/StoryId.aspx?StoryId=6172)); and the Irish Government’s *National Development Plan 2007-2013* ([www.ndp.ie/documents/ndp2007-2013/NDP-2007-2013-English.pdf](http://www.ndp.ie/documents/ndp2007-2013/NDP-2007-2013-English.pdf)).