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The Show that demystifies Economics

Global Cities – part 4

Hong Kong ©

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Hong Kong is in a very unique situation. Officially, it is one of the two Special Administrative Regions of the People's Republic of China. So, it's part city, part territory, encompassing its own region...not a big difference from other cities, such as Greater London or the entirety of Berlin. But Hong Kong also resembles an independent state in some ways, as, for example, it has its own "national" team to compete in the Olympics, its own currency, and it enjoys many more freedoms than in mainland China. To understand why Hong Kong has such a unique status, we must, of course, look at the past, and in particular at the British Empire. The British ruled Hong Kong for 156 years starting in 1842 after winning the first Opium War, and they handed it back to China in 1997, officially ending the British Empire. The only condition for this handover was that Hong Kong must retain its special status, even as part of China, as the people of Hong Kong, including a huge expat community, had many more social, political and economic freedoms that they feared would vanish under Chinese rule. As a result, China and the United Kingdom agreed to retain the capitalist system and way of life for at least 50 years following the handover. This same convention was followed by Macau, the nearby former Portuguese colony, when it was handed back to China in 1999.

So, this is why Hong Kong exists under such peculiar circumstances; it is Chinese but has a strong British legacy, and accordingly, a powerful financial sector. The city itself, like Singapore, is relatively small and does not have many natural resources in its territorial area, so its economy tended towards the service sectors. Its economy is characterized by very low taxation, it is close to being a free-trade zone, has a well-established and globally significant financial market, and its currency, the Hong Kong Dollar, is pegged to the US dollar.

According to the latest index of economic freedom, Hong Kong was the most liberal economy in the world, just ahead of Singapore. Hong Kong's position allows it to take advantage of China's huge growth, as well as benefit from its connections with Western countries. Its financial power is only humbled by London and New York, as Hong Kong often ties with Tokyo for third place depending on the rankings used. Its stock exchange is the second most important in Asia, just behind Tokyo, and it is the first in China, even though Shanghai's market is starting to catch up. The Hong Kong stock exchange also hosts the second highest value of Initial Public Offerings in the world, behind London.

The city's growth was 2.9% in 2013, slightly less than its principal rival: Singapore. The total GDP of this city-state is \$383 billion; more than Israel or Ireland. At the end of the twentieth century, Hong Kong had one of the busiest ports on the planet, but has now been overtaken by many other Chinese ports such as Tianjin, Qingdao and Dalian.

Hong Kong is also the centre of one of the three big megalopolises of China, and its urban sprawl has reached the neighboring cities of Shenzhen, Canton, and Dongguan, creating an immense urban area, much like that surrounding Shanghai, and also a bit like the Northeast American megalopolis, which we will talk about tomorrow, and of which New York is the central point.