

# Urban planning in Hong Kong and integration with the Pearl River Delta: A historical account of local development<sup>1</sup>

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**Key words:** Borderless economies, Government policies, Hong Kong, New industrialized economies, transportation policies, urban planning

## Abstract

This paper shows the importance that urban planning plays in the development of Hong Kong. This leads to a reassessment of the role of the government, which is the sole proprietor of the land, in the economy – while it acknowledges the importance of market forces. The first part shows how, since 1945, Hong Kong authorities have been obliged to intervene more in urban planning and local development, despite their liberal ideology. The second part focuses on the interaction between government action and market forces, and their influence in this development. The third part deals with the question of the economic integration between Hong Kong and the Pearl River Delta (PRD) after China started its economic reforms in 1978. The deconcentration of Hong Kong industries to China was mainly due to market forces, but provided a new role for the government. This role is analyzed through its transportation policy – the domain with the most visible governmental intervention before and after 1997. It indicates the preference of the government to develop the territory rather than better integration with the PRD, because of the internal economic problems that may emerge from this integration. Nevertheless, for political and economic reasons, this integration is also seen as necessary. The future of Hong Kong's economy lies in the answers the authorities will give to this dilemma.

## Introduction: The traditional view of the development of Hong Kong and its challenges

Since the end of the Second World War, Hong Kong has developed tremendously to become, together with Singapore, Taiwan, and South Korea, one of the four little dragons of Asia. Sometimes described as a miracle, the development of Hong Kong can be divided into several different phases. Schematically, the first phase runs from 1949 to the 1970s. During this period, two sets of events combined to boost the territory's economic development. The first one was the establishment of the People's Republic of China (PRC), which seriously deprived Hong Kong of its natural zone of expansion in South China. This apparently negative event had nevertheless been offset by the second series of factors – the arrival *en masse* of thousands of migrants, which included not only poor and unskilled peasants, but also powerful Shanghaiese industrialists. Moving their enterprises from Shanghai to Hong Kong and benefiting from a cheap labor force, these industrialists were able to develop a powerful industrial base in the 1960s and 1970s, where textiles had the leading role, followed by plastic and electronics. Deprived of their traditional markets in China, these industrialists were keen to find external markets. The export driven economy was born, and Hong Kong products – toys, watches, etc. – began to flood the rest of

the world. At that time, Hong Kong became the first little dragon – ten years before Taiwan, Korea, and Singapore (Johnson, personal communication).

During the second period, Hong Kong began to face an increasing land prices and wages, and its competitiveness was tested. Nevertheless, the implementation of Chinese economic reforms allowed the relocation of Hong Kong's major industries just across the border to the newly-born Special Economic Zones (SEZs) – first in Shenzhen – and then in the other parts of the Pearl River Delta (PRD). Without major technological improvements, but with small and medium scale enterprises (SMEs) playing the lead role, Hong Kong was able to maintain its economic strength, develop its service industries, and become a major financial center. It metamorphosed into a hub for the entire Asia Pacific Region – a 'new Pearl of the Orient', that was taken over in 1997 by the PRC.

This story is well known and has led to multiple interpretations. For most people, this 'success story' is due to the lack of government intervention – explanation substantiated by the low level of government spending, its low tax rate policy, and its free port status (Friedman, 2002). Currently, Hong Kong is proud to have been named 'the world's freest economy' (Gwatney and Lawson, 2002). Nevertheless, from this bestowment, several questions arise.

(1) Besides this ranking and despite the criteria mentioned previously, is Hong Kong really a completely 'free economy' or does the government have some other methods of intervention? In particular, since its land area is limited (1,092 km<sup>2</sup>), and since the Hong Kong Government is the true owner of all land in the territory, it wields a powerful tool for intervening in the economy. Its failure to use it would have led to a non-rational organization of this limited space and, ultimately, to economic disruption, diseconomies, and externalities. The point is therefore to understand if and eventually how the Hong Kong Government has used this tool to boost economic development.

(2) Moreover, it appears that industrial development had started in the old urban cores of Hong Kong Island and Kowloon, and then progressed to New Kowloon and the New Territories (*cf.* map). The latest expansion of industries in South China only continues this trend. Here too, the role of the Hong Kong Government in urban and transport planning has been critical, as it can be inferred from the debates related to the construction of the new Hong Kong International Airport at Chek Lap Kok. The latest trend of deconcentration in the PRD obviously posed a challenge to the Hong Kong authorities, particularly to the colonial government before 1997, since the expansion is beyond its border. Two different reactions could have been possible. The first one was to consider that the expansion of Hong Kong industries to the Mainland was not only inevitable, but also beneficial to Hong Kong's economy. Cooperation with the Mainland, notably with local authorities in Guangdong, was therefore expected, especially with regards to the transportation network between the two areas. This strategy aimed to boost the integration of Hong Kong with its manufacturing base in Guangdong. A second possibility could have been motivated by political and economic reasons: here, a lack of confidence in Mainland authorities would have been supplemented by the economic challenges presented by the deconcentration of industries in Guangdong and the loss of manufacturing jobs in the Territory. The two would lead to increased dependency on the Mainland.

Therefore, these two contradictory possibilities, which have only been partly removed since 1997, could lead to different responses from the Hong Kong Government. While the expansion of Foreign Direct Investment (FDI) – from Hong Kong or from other countries and territories – in South China is largely due to a conjunction of market forces (globalization) and political decisions in the PRC, which are beyond the control of the Hong Kong Government, the development of a 'borderless economy' (Chen and Kwan, 1997) can be enhanced or slowed down by institutional forces. The creation of a borderless economy is not necessarily a linear process, and contradictory forces can be in action during times of change.

Consequently, this paper intends to show the importance that urban planning plays in the development of Hong Kong. This will lead to a reassessment of

the role of the government, as the sole proprietor of the land, in the economy. This reassessment does not mean to minimize market forces: there is a conjunction between government intervention, market forces at the local level, and the strong influence of the international environment. Besides, the role of the government has changed over time, which explains the historical perspective followed in this article which is divided into three parts.

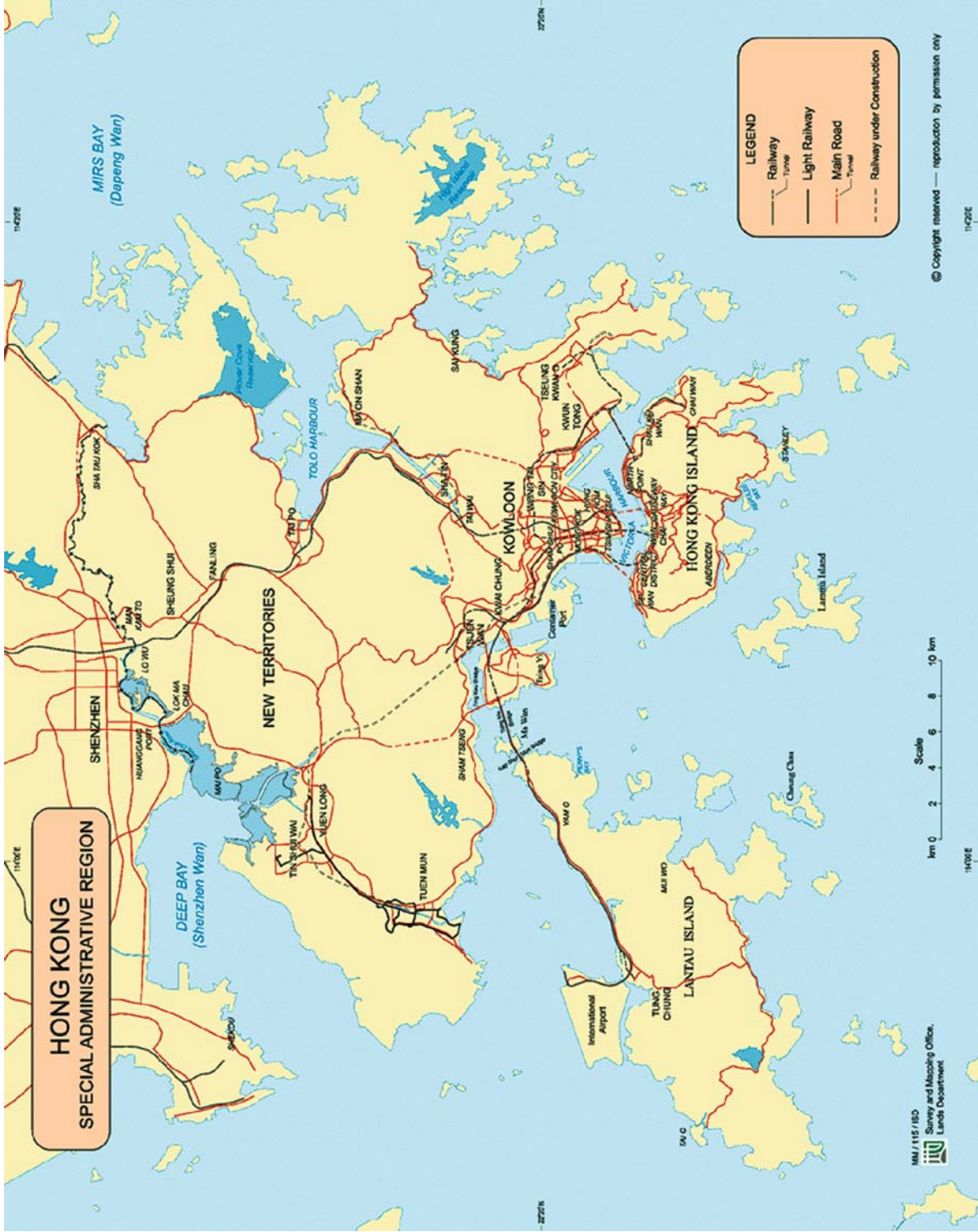
The first one shows how, since 1945, the Hong Kong authorities have been obliged to intervene more in urban planning and local development, despite their liberal ideology. Nevertheless, the reassessment of the role of the government in the economy leaves open the question of the interaction between government action and market forces, and their position in this development. This point is the object of the second part. More specifically, while political intervention and an abundant labor force helped keep wages low during the first period, the pattern changed in the 1970s. Industrial development led to a shortage of workers that pushed wages up, which in turn led to the emergence of a consumer society.

This increase in Hong Kong's production costs could have implied a change in the production system and/or a deconcentration of production in South China (which was possible after the Chinese economic reforms of 1978) and, therefore, led to the development of a borderless economy. But in this last event, in which market forces led to a better integration of the production functions of the territory and the PRD, the Hong Kong Government had a new role to play in promoting this integration, or trying to limit it. This is the focus of the last part of this paper, which is mainly devoted to transportation policy – the domain with the most visible governmental intervention before and after 1997. In short, this part shows why, due to the economic organization inherited in 1945, the government may wish to preserve some of Hong Kong's isolation from the PRD, while continuing to respond to market forces.

### **Government intervention and economic success**

While schematically valid, the presentation of the development of Hong Kong given in the introduction can be challenged, with the major reason being its resort to market force explanations. In fact, as it can be seen below, without strong and powerful governmental intervention, this development could not have occurred.

Since its beginning (1841), Hong Kong has been declared a free port. This political decision clearly fitted the laissez-faire ideology of that time, and even more so for advocates of a 'free economy'. At the time, the British Government decided that, apart from the military expenses, British taxpayers should not subsidize the running of the colony (Endacott, 1964). Therefore, deprived of taxes on products (because of its free port



Map of the transportation system of Hong Kong.  
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status) and of resources from London, the government relied on the leasehold system. The control of land provided a powerful means of intervention for the colonial authorities. After World War II, Hong Kong's economic development and the influx of immigrants from China began to create serious disruptions.

The Hong Kong Government understood very quickly that some actions were needed, and a famous urban planner, Sir Abercrombie, was dispatched from England to Hong Kong in 1947. Nevertheless, due to the libertarian tone of the time, not much was done during this period. But a tragic event on 25th December 1953 forced the government to actively intervene in urban planning. On that day, a gigantic fire broke out and completely destroyed a slum area in Shek Kip Mei in New Kowloon, leaving more than 50,000 people homeless. This event signaled the start of one of the most ambitious public housing programs on Earth. From 1954 to 1969, more than 286,000 public flats had been constructed, mainly for squatters, but it also included 70,000 flats for low income households built by the Housing Society, the Hong Kong Housing Authority (HKHA), and the Low Cost Housing Scheme (Dwyer, 1969, p. 133, *et seq.*). At the same time, in order to try to reduce the inevitable disturbance/nuisances caused by industries to the residential areas, a relocation program for SMEs was implemented, and industrial zones were promoted. The final form of these actions occurred with the creation of new towns, such as Tsuen Wan, Shatin, Tuen Mun, or, more recently, Tin Shui Wai and Tung Chung.

Two consequences can be seen from these actions. First, from a policy of non-intervention, the Hong Kong government, despite its ideological stance, was forced to intervene in economic affairs. As will be shown below, the consequences of these actions cannot be underestimated, and had serious implications for the development of Hong Kong. Second, with the creation of public housing estates and, later, new towns, the authorities had also been forced to include a transportation program in a global planning system lest it see the effectiveness of its public housing program seriously curtailed.<sup>2</sup> As a matter of fact, land planning became a very important means of action for the Hong Kong Government in the 1980s and the 1990s, with schemes such as the PADS (Port and Airport Development Strategy, launched in 1989) and Metroplan (launched in 1991) for the urban areas.<sup>3</sup> These actions not only had an immediate impact on the development of the territory, but the future of Hong Kong was also largely conditioned by the implementations of such projects (especially PADS). A closer analysis on the consequences of the Hong Kong Government's influence on the economy is therefore needed.

In the 1950s, the local authorities presented their program as a part of their mission to help the poor. Certainly government intervention in the housing market did benefit the local economy. The system was very simple and did not involve much transfer of public

funds, and thus, it explains why this means of intervention, despite its considerable impact, was not regarded as contravening the mechanism of a 'free economy' by the main supporters of this ideology, such as Milton Friedman (Augustin-Jean, 2004). In principle, the government gives the land free of charge to the HKHA or a similar organization, provided that this organization builds public housing on it. In addition to the advantage of the free land, the HKHA, which has to provide basic services to the local community, can also benefit financially from renting out commercial space (at market prices) to retailers.<sup>4</sup> As a result of these two advantages, the rents of such flats are substantially lower than those in the private sector. For example, in 1975, households living in private housing spent on average 21.5% of their income on housing. For people living in public housing, the percentage was only 5.8%.<sup>5</sup> Therefore, this policy was basically a subsidized one, which helped, for a period of time, to keep wages relatively low: in 1961, 12% of the households benefited from such housing; the percentage was 44% in 1971 and 54.7% in 1988 (this last figure also includes the Home Ownership Scheme [HOS], implemented from 1978 onwards). Nowadays, about half of Hong Kong population still benefits from public housing in one form or another.

In addition, as the ultimate landlord, the government can also regulate the property market via the amount of land it supplies (mainly by means of auctions). This is of considerable importance, and shows that the authorities are the key players in the property market. This policy of subsidized housing was actively promoted by the government, and complemented by a supply of subsidized staples (through negotiations for lower food prices with the PRC, which provides most of the staple foods consumed in the Territory) and, indirectly, subsidized transportation like the Mass Transit Railway (MTR). This is due to the fact that the latter, which was fully owned by the government until recent years, made commercial use of the land occupied by its stations (this point will be developed further in the third part of this paper). It is clear that this policy was far from a *laissez-faire* approach. Since 80% of low to medium income household expenditures is done on housing, transportation, and food, it is clear that in this first stage of Hong Kong's development, local industrialists were able to keep wages low, and therefore gained a comparative advantage in the international markets.

Since Hong Kong's economy is an open one, which relies heavily on exports, these advantages provided by the colonial government and the PRC from the 1950s cannot be underestimated. The policy also aimed at the development of the New Territories. Gradually, enterprises moved from the old urban cores of Hong Kong Island and Kowloon to the New Territories. The idea of the government was to try to curtail the daily commutes of workers between the old urban cores and the New Territories, and to provide jobs near the new towns. This policy was only partly successful, but the price of land

and higher externalities on Hong Kong Island and Kowloon allowed for a coordinated use of the New Territories. Nevertheless, from the beginning of the 1980s, higher wages (due to the shortage of the labor force and the need for more qualified people) and property values warranted the gradual relocation of Hong Kong industries to Guangdong as a result of the reform program implemented by the PRC at the end of 1978, which encouraged Hong Kong industrialists to move their factories over the border during the 1980s and 1990s.

Therefore, since 1978, the function of *entrepôt* of Hong Kong has changed: the building of an industrial base in Guangdong and the established links with overseas markets during the last 30 years transformed the territory into a much more active player. Consequently, Hong Kong developed progressively into a service center, with its economy revolving around the shipping, trading, and financial sectors. Consumption also became increasingly important for the local economy. Nevertheless, the establishment of the service industry and a consumer society would not have been possible without an increase in wages, coupled with low rents. This demonstrated the merit of subsidized housing.

Therefore, the government of Hong Kong, far from being non-interventionist, has actively promoted local development by means of a huge public housing program linked to transportation planning (this last point will be developed in the third part of this paper). These actions, in relation with the strategies used by private players, not only explain the economic success of the territory, but also the shape taken by the local economy. First of all, it explains the spatial development of Hong Kong and the location of its population. More importantly, it gives one key to the understanding of Hong Kong's role as a middleman for the Asia-Pacific region and/or the channeling of FDI into China and Asia in the late 1990s: the establishment of an export economy since the 1950s created the necessary links for Hong Kong and allowed it to become the center of a vast hub of networks later on.

Today, major companies, such as the Hong Kong and Shanghai Banking Corporation (HSBC) or shipping companies such as Li Ka-shing's Hutchison-Whampoa, are major actors not only in Hong Kong, but also in China and in the rest of the world. This has had two major implications. First, what is the rationale behind the establishment of Hong Kong as the center of an international network, especially in terms of its relationship with China? The point here is the creation of the 'informational city' described by Castells (1996) and further elaborated by Sum (2002a) with a special consideration to Hong Kong. Second, while the Hong Kong Government has helped serve as a middleman for China and the Asia-Pacific Region, these new international functions could eventually and paradoxically provoke a loss of power to private actors. This debate is not only confined to Hong Kong, and it has been said that central governments around the world are experiencing a loss of their traditional roles to supranational organizations,

local governments, and private players (multinational corporations for example). Under the context of reunification, this debate takes on an even more important place in Hong Kong. Nevertheless, the 'informational city' is not only made up of immaterial networks, but also of movements of goods and people. In this respect, the examination of the transportation policy adopted by the colonial government prior to 1997 would help us understand what kind of city it wished for and promoted, with regards to these factors.

### **A borderless economy and informational city**

Over the years, where there has been a conjunction between market forces and institutional arrangements, Hong Kong has been able to build a powerful machine to boost development. As will be shown below, the system mixes together a territorial base – which takes on the form of an 'innovative industrial district' – that encompasses not only Hong Kong, but also a major part of the PRD and, to a lesser extent, Fujian and Taiwan – and an informational city that links Hong Kong to the rest of the world through financial flows and FDI. For this reason, the territory can be called an 'open innovative zone' that is centered on the economic functions of Hong Kong. But before elaborating on this point, we should be reminded of the main components of the borderless economy, as they have been first described by Chen and Kwan (1997) and, more recently, by Sum (2002a). These points will be reinterpreted with special reference to spatial development.

It has been said that the success of Hong Kong in the 1970s was due to its ability to mass produce consumer goods at a lower cost than its main competitors. Examples such as electronic toys/devices are often given to prove this point (Tony Yu, 1997). Since these goods were produced by small and medium enterprises (SMEs), this led to the economic paradox of mass production carried out in SMEs: in the course of its development, Hong Kong should have been able to move along the technology ladder to experience economies of scale and, consequently, to rely less on SMEs. This has not been the case, and therefore, Hong Kong has never been a pure example of the Fordist paradigm of the 1960s and 1970s. The reason why has been (unintentionally) given by Yu: the success of Hong Kong is also due to the ability of its entrepreneurs to produce differentiated products in small quantities and in a short period of time with simple technologies. Hong Kong entrepreneurs were thus able to modify their products several times a year and satisfy the most demanding overseas buyers. When orders were too large for a given company, it just subcontracted parts of the production to its competitor-cum-partners.<sup>6</sup>

This helps us to better understand the economic organization of Hong Kong: these factors are the main components of flexible production, which was first theorized to describe the industrial districts of the 'Third

Italy' or France (Benko, 1990; Pecqueur, 1996; Beccatini, 2003) at the end of the 1970s: territorial development, internal linkages and information circulation, elements of collaboration and competition, opening to the outside, innovation, etc. In a way, it was as if Hong Kong entrepreneurs had 'reinvented' flexible production 10 years before its description by scholars, and mixed it with the seemingly contradictory concept of Fordist production: the products of Hong Kong were mainly adopted from mass consumption goods, and produced with simple technologies and with limited – but not negligible – innovations (*cf.* below) in order to satisfy overseas customers. In a word, Hong Kong entrepreneurs were adaptable.<sup>7</sup> Nevertheless, even back then, Hong Kong could never be described as an industrial district in the model of those of the 'Third Italy'. By the strength of its external relations, the importance of its port, its free port status, its existence as a specific economic entity, and the positive actions taken by the government, Hong Kong was able to make use of flexible production in a quite different way from most of the innovative and industrial districts reinvented by Beccatini and others; it became one of the focal points for all of Asia.

Another specificity is that the innovation was never sudden, and Hong Kong companies did not make any technological breakthroughs, due to their small size, the absence of research and development departments and, until recently, a lack of support from the Hong Kong Government.<sup>8</sup> More importantly, Yu's research showed that Hong Kong companies often did not wish to make technological innovations. This explains why products were generally simple, and not much different from those that were mass produced. The model here is very far from that of Silicon Valley. However, that does not mean that there was no innovation at all, but that the innovations were either incremental or aimed to upgrade existing products. For example, Yu mentions how a Hong Kong company succeeded in combining two electronic educational toys into one, and was able to sell it at a cheaper price than each of the original models.<sup>9</sup>

Hong Kong companies were also able to conquer new markets. At the end of the 1970s and the beginning of the 1980s, with costs in Hong Kong rising due to the shortage of labor (and, therefore, the increase of wages) and the rise in land prices, local entrepreneurs began to have difficulties competing in international markets. Nevertheless, there was no need to change the system at a time when Europe and the United States began to discover the merits of flexible production (Piore and Sabel, 1984): the reforms in China provided a key-in-hand solution to Hong Kong entrepreneurs. The opening of the SEZs in Guangdong and Fujian (particularly Shenzhen) aimed to attract FDI. They were used as a backyard by Hong Kong industrialists: while administrative operations remained in Hong Kong, the production lines were gradually moved to Guangdong and decentralized.

Such complementarity of the factors of production, together with their imperfect mobility, explains the success story: China can provide cheap land and labor; Hong Kong has the capital surplus and know-how. The importance of its port and its expertise in trading also facilitated exports. Furthermore, with the development of its service industry, Hong Kong became a first-class financial center and the obliged middleman for the PRC. Therefore, it has played a key role in channeling some of the FDI in the PRC for other countries, such as Japan or the United States. It is worth noting that if Hong Kong was the main provider of FDI on the Mainland, its real share would be substantially lower if it was possible to deduct the investments of other countries and the ones performed by Chinese companies through Hong Kong (including reinvestments by PRC firms).

The role of Hong Kong's financial sector is not confined to the territory or even to China. Hong Kong is an international center that provides services to all of Asia, and is a regional/international loan hub (Sum, 2002a). Jao (1997) showed that Hong Kong's financial sector was used to perform reinvestments from Singapore's own financial sector, and that a complementarity between the two financial centers exists. With the relaxation of the tensions between Taiwan and the Mainland and despite some setbacks, Hong Kong has also been, for about a decade, a place for the investment of the large trade surplus of Taiwan, where business opportunities and the labor force have become scarce, and where the price of land has increased substantially. Therefore, a triangle between South China, Hong Kong, and Taiwan was gradually put in place during the last 20 years.

A few points need to be raised here. First, unlike the 'growth triangle' formed between Johore, Singapore, and Riau (JSR), the 'borderless economy' in South China was developed with no political intervention and no discussion between the three members (Hong Kong, the PRC, and Taiwan).<sup>10</sup> This does not mean that the institutional arrangements and political decisions were not important; as shown previously, without the reforms in China, Hong Kong and Taiwan would have been unable to take advantage of the cheap land and labor on the Mainland – and conversely, the Mainland would have been unable to become the most important FDI recipient in the world.

Nevertheless, there were no discussions at the political level aiming to creating a growth triangle in the mode of JSR. Moreover, Hong Kong never made any special move to push local industrialists – on their way to becoming traders – to decentralize their production in Guangdong. After all, this move resulted in the disappearance of thousands of industrial jobs in the territory. Nevertheless, in a context when a change of economic organization was needed (due to an increase in the costs of production), deconcentration was preferred to technological breakthrough. As mentioned previously, R&D

was not favored by entrepreneurs who were neither supported nor supplemented by the Hong Kong Government to invest in innovation. Similarly, the Taiwanese government had to follow the movement of market forces rather than initiating them.

Second, the three sides of the triangle are not equal, since Hong Kong occupies its 'center', due to the importance of its financial sector and the quality of its port. Third, the 'open innovative zone' is different from a traditional innovative district. Besides the ones mentioned previously, the existence of a border has some important implications. In particular, the 'open innovative zone' does not have the full mobility of factors of production: while capital is relatively free to move, the border is quite tight, with a fixed quota of people allowed to come and live in Hong Kong. Its opening would seriously undermine the structure of the borderless economy, with the increase of wages and land prices in China, and the arrival of thousands of people in Hong Kong.

Therefore, the territorial base of the 'open innovative zone' has many specific characteristics which had been developed since 1949, and explain its emergence, at the end of the 20th Century, as an informational city. The networks created around Hong Kong's entrepreneurs link local authorities in the Mainland – who are in control of rare resources such as (qualified) personnel, information, and land (Oi, 1995; Augustin-Jean, 2002) with external markets (mainly in the USA and Europe). But this is only possible with the use of intensive information networks. With its reliance on international markets, Hong Kong had to quickly develop a powerful communications network. In accordance with Castells' theory, if the new technology allows people to work anywhere they want, in practice, it reinforces the role of the city as the hub of a network. The position of Hong Kong, already at the center of a dense network before the information revolution, has been strengthened by recent innovations in information technology (in other words, the existence of networks provides Hong Kong with a comparative advantage to attract other networks because the path dependency is at work here)<sup>11</sup>.

Therefore, the territorial function of the 'open innovative zone' is reinforced by the financial center. Unlike other financial centers throughout the world, Hong Kong is not at this moment separated from its production function, which has been redeployed to the PRD. It is not only far from being an industrial or innovative district, but also far from being the financial Marshallian district described by Amin and Thrift (1992). With the increasing importance of information technology, some local businessmen, such as Richard Li (the son of Li Ka-shing), began to think about the creation of an 'information park' – the Cyberport – and called for government assistance.

Therefore, the path of the Hong Kong economy from the 1950s to the beginning of the 21st century is clear: from a developmental stage with the manufacture

of cheap textile products in the 1950s and 1960s, to the creation of a plastics and electronic industry in the 1960s and 1970s, to a deconcentration process in the 1980s and the 1990s, and now to the establishment of an informational city. The role of the Hong Kong Government in this process has been vital in helping industrialists secure a cheap labor force, to be able to compete in international markets, and to benefit from a sound infrastructure. Moreover, the government did not favor one industry over another. At this point, its involvement in the informational city project will depend on how it sees and/or forecasts the future role of Hong Kong in the Asian/global economy. Two comments need to be raised at this point.

First, the birth of an informational city is only beneficial, in the case of Hong Kong, if the territory is able to export its goods produced in the PRD. Even though the PRD has been able to build up its infrastructure in recent years (container ports, for example), it still relies heavily on Hong Kong for its exports (Gipouloux, 2002; Sung, 2002). Furthermore, most of the infrastructure was built with Hong Kong supervision and capital (for example, Li Ka-shing's Hutchison-Whampoa). In other words, the informational city cannot exist without a strong transportation network, which cannot be left entirely in the hands of the private sector. This requires a specific transportation policy for Hong Kong, as well as a form of coordination between the territory and the Mainland.

Second, the integration between Hong Kong and the PRD involves many political and economical aspects, which were only partially resolved by the handover. For all its perceived benefits, problems have arisen from the integration of Hong Kong and the PRD, due to the divergent interests of the major stakeholders: the local governments in the PRD, the Hong Kong authorities, and various business communities in Hong Kong – for instance, the retail and manufacturing sectors in the territory have different views on this issue (*cf.* below). Moreover, the integration of Hong Kong with the PRD could lead to economic disturbances for the territory, if serious political problems occur in the future on the Mainland or if all of Hong Kong's industrial labor force is relocated to the PRC. If these factors were taken into account by the Hong Kong community and if it was completely up to the Hong Kong Government to decide, its response could be to develop policies to keep its industries within its border, or to create an informational city that can work independently of the industrial situation in Hong Kong and the Mainland.

So, while the involvement of the Hong Kong Government is needed in the transportation evolution of the territory as much as it was needed in the development of housing, the way local authorities viewed (during the colonial period) or are currently viewing the future role of this little dragon is important. The impacts of the PADS and Metroplan, implemented before 1997, will be seen for many years to come. This is the object of the last part of this paper.

### Transportation policy and development in Hong Kong: Before and beyond 1997

As demonstrated over the years, Hong Kong has been able to develop into an informational city, thanks to the reinforcement of its spatial dimension and its existence as an 'open innovative zone'. The reintegration of the concrete space into the informational dimension creates a bridge between the globalization forces and local development. The two dimensions, which are often presented as contradictory, here find a common ground, which allows simultaneous local development to occur and the informational city to expand. The tension between the two has not disappeared entirely, however, but is somewhat eased, at least in the economic field, while it has been shown elsewhere that the tensions are more obvious in cultural life (Augustin-Jean, forthcoming). These two dimensions are like a divergent couple, in which each member complements and encourages the development of the other. Nonetheless, the reintegration of the concrete space means one has to take into account the concrete flow of goods and people, and thus, the transportation system.

The study of the transportation system and its evolution highlights another aspect of the spatial dimension of the 'open innovative zone': the development is as much competitive as collaborative. It has been shown elsewhere (Sanjuan, 1997, among others) how different districts in the PRD are fighting to attract rare resources, and among them, FDI. This leads to counter-productive investments, such as the proliferation of airports – most of them wishing to become international airports. With this point well known, there is no need to develop further.<sup>12</sup> In China, the general policy since 1978, despite some occasional divergences between its central and local governments on this issue during periods of an overheating economy, has been to attract FDI, especially from Hong Kong firms. The result was a huge increase in the movement of goods and people across the border, which made the checkpoints completely congested at times, despite the implementation of simplified crossing procedures for Hong Kong residents of Chinese origin.

Nevertheless, local governments in China have some disagreements with the Hong Kong authorities on the nature of the integration between the territory and the PRD. From the previous analysis, a comprehensive region with Hong Kong as one of its cores would seem a natural objective for every decision maker. Its financial, trading, intermediary, and other functions would help create a sort of 'Greater Hong Kong', while the PRD would keep most of the production facilities. As a matter of fact, the policy of the PRC aims to move progressively from a labor-intensive production base to a more technologically advanced one, using the networks developed by Hong Kong over the years with other regions of the world. This can lead to a win-win situation, and Hong Kong, while having a diminished role within China, would not only keep its position as an

international financial center, but would also become a major center for an advanced economic region.

The problem here is that, despite the comparative advantage that Hong Kong has built over the years, all the secondary economic centers of the PRD aim to develop into a joint network, communications base, and high-tech hub. In this respect, for some officials in the PRD at least, the role of Hong Kong is to only transfer its expertise and knowledge to these secondary centers. Therefore, while everybody agrees to increase cooperation between the territory and the PRD, the nature of this cooperation is viewed in a radically different way. This has an important impact in the decision making process of the Hong Kong Government (even after 1997) concerning the integration of Hong Kong with the PRD, especially with regards to the development of a comprehensive transportation network (Cheung, 2002).

On the Hong Kong side, the problem for the team of Tung Chee-hwa, the Chief Executive of the Hong Kong Special Administrative Region, is further complicated by the fact that there are conflicting objectives between the local business community and the general population. Broadly speaking, while the manufacturing sector would benefit from more efficient procedures for crossing the border (due to lower wages and land prices), the retail and entertainment industries probably do not favor such moves. After all, these industries already have difficulties competing on price with Shenzhen and Guangdong, while they continue to recover from the Asian Financial Crisis that began in 1997. Thus, a better transportation network between Hong Kong and the Mainland would only increase their difficulties.<sup>13</sup>

In the face of such conflicting interests from various members of the Hong Kong community, the government's hesitation is understandable. On the one hand, it is clear that Hong Kong/PRD integration would be beneficial to the territory, especially to its intermediary function. On the other hand, not only has the deconcentration of Hong Kong's manufacturing sector led to a loss of jobs in the territory, but the government has been compelled to protect the retail and entertainment industries, which employ a significant portion of the population. The fact that in this context, the future role of Hong Kong appears unclear only adds to the difficulty. It is therefore necessary to analyze the role of the Hong Kong Government in the development of Hong Kong's transportation system with an historical perspective.

It had been shown earlier how, despite their *laissez-faire* stance, the colonial authorities had become increasingly involved in public housing. The creation of public housing estates and new towns largely solved the lodging problem for a large part of the population and gave a comparative advantage to local entrepreneurs (*cf. supra*). However, with the population dispersing all over the territory, there was an urgent need to put in place an efficient transportation network for people who commuted daily between their working and living



places. The policy of developing industrial zones near the New Towns was only partly successful, and the volume of commuting has increased over the years (for people living in the old urban core and working in the New Territories, and *vice versa*). From that time on, urban planning became an important task of an ideologically non-interventionist government.

Vigorous debates have taken place in the business sector, as well as within the government, to find out what means of transportation was the most efficient for serving a growing population. In the 1960s, it was obvious that supply from private operators could not match the demand.<sup>14</sup> Earlier, in 1947, Sir Abercrombie first proposed to build a tunnel between Hong Kong Island and Kowloon – one of the only proposals he made that was eventually implemented. In the 1960s, the Hong Kong authorities were finally convinced of the necessity of having an efficient subway system (which later became the Mass Transit Railway). The first studies began in 1964, and construction commenced in 1975. The first line, built under difficult conditions, finally opened in 1979 (Leeds, 1998).

At the same time, the government entered into negotiations with private bus operators in order to upgrade its network and that of other public transport services. A major improvement occurred with the gradual electrification and double tracking of the old Kowloon Canton Railway (KCR), which serves the new towns of Shatin, Tai Po, Fanling, and Sheung Shui in the New Territories, and finally terminates at Lo Wu along the Chinese border.<sup>15</sup> It is worth noting that the two railway companies were, until recently, the only companies held by the Hong Kong Government (some shares of the MTR was sold to the public a few years ago). Even though there was no direct subvention, the MTR and the KCR were both indirectly subsidized with the same land policy as public housing.<sup>16</sup>

Finally, starting with a policy of urban planning and decongesting old urban cores, the authorities had to interfere much more in the economic field. With the burgeoning of Hong Kong, the government had to consider port expansion (necessary due to the growth of the export economy) and the future of the old Kai Tak airport, due to increasing air traffic and the risk of congestion. The two aspects needed to be linked in an integrated project at a time when China began to open up its economy. In other words, planning had to take this new factor into account, as soon as it became obvious that the two economies were going to become tightly connected.

The commitment of the Hong Kong Government to these key objectives has been very strong, but it was also late and politically oriented. In the 1980s, the government began to formulate its Territorial and Development Strategy (the TDS). However, it was 'basically a Hong Kong-centered plan and has failed to give due to the evolving regional context, especially the growing economic interactions between Hong Kong and southern China' (Ng, 1992. p. 102). Changes occurred after

1984, but, despite some major improvements, it is safe to say that integration between Hong Kong and the PRD was not sufficiently considered during the colonial era. This is especially true for the choice of location for the new international airport. In 1989, the TDS was followed by the PADS (Port and Airport Development Strategy), which included the relocation of the airport to the small island of Chek Lap Kok (*cf.* map). Shortly after, there was the Metroplan, which dealt only with the urban part of the territory and was necessary in the context of the changes brought about by PADS.

It is remarkable that all this happened at a time when the ideology of the 'free economy' was put forward by most analysts and by the Hong Kong Government itself, even though it has never been so involved in the economic matters than during this period. PADS was designed to provide the territory with first class infrastructure for the 21st Century. As Rimmer pointed out (1992), the Hong Kong Government thought it could go it alone with this project without external assistance, despite its very ambitious designs. But in practice, the project soon caused some serious objections from Mainland authorities. Since some financial commitments had to be assumed for the period after 1997, the central government in Beijing thought it merited a say in the implementation of the project. From an economic stance, PADS became a major political issue during the years preceding 1997. It is not the objective of this paper to recall the painful negotiations surrounding PADS at that time, but only to show the strong commitment of the Hong Kong Government (including financial) and its history of strong economic intervention in order to build a 'new' Hong Kong at a time of liberalization and 'free economy' discourse.

Having said that, what was inside PADS? As its name indicates, PADS was a strategy to develop the much needed new port facilities and a new international airport at Chek Lap Kok (finally opened by Jiang Zemin and Bill Clinton in 1998). In this paper, the focus is mainly on the relocation of the airport and the choice of Chek Lap Kok. In fact, as early as 1992, both Ng and Rimmer already noticed that the rationale behind the relocation of the airport to Chek Lap Kok was far from obvious. In fact, discussions concerning the relocation of the airport began much earlier – the first half of the 1970s, to be exact. In 1973, a memorandum was issued proposing Chek Lap Kok as the site for a new airport (Ng, 1992, pp. 137–138). It is extraordinary to see that this very site was chosen more than 15 years later. In 1973, the PRC was still led by Mao Zedong, and Hong Kong manufacturers had hardly thought about relocating their industries across the border. As a matter of fact, the studies leading to PADS did not pay enough attention to the potential of other possible sites.

From the beginning, observers and scholars have noted that one of the main inconveniences of Chek Lap Kok was the difficulties it posed in integrating Hong Kong with the PRD, and this is quite obvious from its location. Other sites have been suggested, including two

in the New Territories, near the border with the Mainland, but they were not considered seriously by the Hong Kong Government (Rimmer, 1992, pp. 44 *et seq.*). Furthermore, the cost for the relocation of the airport to Chek Lap Kok was eventually much higher than if it had been erected in the New Territories, due to the heavy infrastructure (roads, rail, bridges, tunnels, etc.) that needed to be built to support it. Therefore, the government probably did not regard integration with the PRD as the most important factor; the potential for the development of Lantau Island, with which Chek Lap Kok is connected, was probably the key point (despite environmental problems). A Hong Kong-centered development approach was therefore preferred, and the interest in developing Lantau Island was obvious a few years later with the decision to go ahead with the construction of Hong Kong Disneyland, which will open soon.

In short, the Hong Kong Government, in actively promoting Chek Lap Kok, showed a concern for the future of Hong Kong in the 21st Century. The huge investments, finally allowed by an international agreement between the United Kingdom and the PRC, provided Hong Kong with a first class infrastructure, which will help it develop into an informational city. In the same token, the construction of the new container terminals ensures that Hong Kong will retain its position as one of the leading ports in the world. Nevertheless, the location of the new airport shows that the colonial government concentrated mainly on the development of Hong Kong, and that the integration between the PRD and the colony was never high on its agenda. Hence, PADS was mainly a Hong Kong-centered strategy.

This general stance does not mean that the PRD was not taken into consideration at all. In fact, after the decision to go ahead with Chek Lap Kok, the TDS was reviewed in order to take the PRD and its increasing links with the territory into consideration. Also, some joint commissions between the British and Chinese were set up (such as the Sino-British Infrastructure Co-ordination Committee). After 1997, other committees were set up between the Mainland and Hong Kong to tackle this problem. Some were even led by powerful businessmen such as Gordon Wu, of Hopewell Holdings, who has been advocating the construction of a bridge between Hong Kong, Macau, and the SEZ of Zhuhai in the PRD for more than 10 years. For example, Project 2022 (2022 is the mid-term of the 50 years planned for the existence of the Hong Kong SAR) 'was initiated by a group of Hong Kong business people with a keen interest in understanding and anticipating the future developments in Hong Kong and the Pearl River Delta (...)' (Project 2022, 2001, presentation page).

Nonetheless, it is fair to say that, after more than 25 years of reforms in China and growing traffic between Hong Kong and Shenzhen, the transportation system here appears to have reached its maximum capacity. There are only three roads from Hong Kong to the PRD, and they are used every day by thousands of trucks and other vehicles. Another way to cross the

border is to take the KCR up to Lo Wu and cross the border on foot. Despite simplification of the immigration procedures and longer opening hours of the border crossing, queues have actually gotten longer.<sup>17</sup> The direct train between Hong Kong and Guangzhou is frequently overloaded. At this moment, the existence of other means of transportation between Hong Kong and the PRD and/or the PRC, such as planes and boats (further developed in recent years), has made a marginal impact on resolving the congestion problem. In the future, it is therefore hoped that this problem will be tackled and at least partly solved.

In short, the Hong Kong Government actively promoted the local development of the territory before 1997. But it did not actively promote integration between the territory and the PRD. Market forces were powerful enough to permit the creation of an 'open innovative zone'. There was indeed a lack of confidence shown by the colonial authorities towards the PRC. Also, while Hong Kong's economy was restructuring, the loss of industrial jobs was not received positively, because the task of finding a job in other industries for manufacturing workers who had few other skills was not easy. Therefore, there was a conflict between authorities in the PRD, whose interest was to attract as much FDI as possible, and the Hong Kong Government, which tried to keep an industrial base in the territory and protect its entertainment and retail sectors.

This contradiction was not suppressed by 1997, as shown by the deal (the so-called "Closer Economic Partnership Agreement" – CEPA, implemented in January 2004) negotiated between the Hong Kong Government and Mainland authorities to allow, for example, the entry of more than 4,000 Hong Kong products into the Mainland tax free (Mingpao, June 13, 2003). In the short term, CEPA did benefit the retailing sector in Hong Kong by allowing 'residents in Guangdong Province to visit Hong Kong individually (...) not later than 1 July 2004' (TDC Research, 2003). Already, the increase of Mainland tourists to Hong Kong has boosted consumption, which started to take off in Spring 2004. This also had a positive impact on the property market, even though local businessmen remain cautious (Interview, April 2004).<sup>18</sup>

The decisions made by the Hong Kong Government at the end of the colonial era bear some important consequences for the future, and for the integration of the two territories. It is true to say that better integration planning between the two territories would be beneficial for both economies. Even so, despite the bottlenecks in the transportation system, the huge investments made prior to 1997 are compatible with the establishment of the 'open innovative zone', and without the concrete planning and infrastructure such as the port and airport facilities, the informational city would not have existed. Therefore, the interests of businesses trying to lobby for more PRD integration with Hong Kong or actively promoting the Cyberport are not contradictory, but rather complementary to each other, and the response of

the Hong Kong Government has been positive in both cases. While the reunification process can only promote territorial integration, speeches by the leaders of Hong Kong do not leave any ambiguity concerning the second issue. For example, in his 1999 budget speech, then-Financial Secretary Donald Tsang made the following comment:

*There is no question that, for Hong Kong, to meet the challenge of the 21st Century, it must adapt to the new forces of the Information Age. Technological advances such as the digitalization and broadband networks are introducing new ways of doing business, transforming traditional markets and altering existing competitive advantages.*<sup>19</sup>

The problem is that here too, this commitment is leading to competition with other members in the triangle: Taiwan, of course, which is more technologically advanced than Hong Kong, but also administrative districts in the PRD like Shenzhen (Sum, 2002b, pp. 167–172). Nevertheless, this will not automatically create difficulties, because the IT parks in Taiwan and the PRD will probably be different from the one in Hong Kong. An interesting way of promoting IT in Hong Kong would be to develop the informational city. As noted by Castells, an already well established node of traditional networks has a better chance of making use of the new technologies and reinforcing its traditional networks. Due to the strength of its financial sector and its position in Asia, Hong Kong has an obvious edge over its main competitors.

## Conclusion

During this time of globalization and liberalization, Hong Kong has demonstrated an interesting pattern. On one hand, it shows a clear commitment to a free economy. Its officials are proud to say that Hong Kong is ranked as the freest economy on the planet. Globalization is also promoted through the export economy and the financial sector: the birth of the informational city can only boost the existing networks and reinforce the role of Hong Kong as a middleman for China, and as a place to reinvest available funds.

On the other hand, at the time when the ‘free economy’ is put forward, the involvement of the government in economic affairs has never been so important. Starting from its housing policy, the government had to have a global view and plan for its future. Business groups expect the government to involve itself in the planning of Hong Kong’s economy, as can be seen in the integration of Hong Kong with the PRD and the Cyberport. In this context, the role of the Hong Kong Government, despite the reunification process, is still fundamental, and its hesitation in the decision making process reflects the contradiction between the need for better economic integration between Hong Kong and its hinterland (integration that is largely promoted by the business

community), and the risks involved in such an integration. The recent agreement between the PRC and Hong Kong (CEPA) provides only a partial answer to this debate, but it is clear that in any case, Hong Kong is in a strong position to preserve its intermediary and command functions because the networks it built over the years give it a concrete advantage that is difficult for newcomers to replicate. These networks are the basis of the informational city, and are supported by a high standard of service infrastructure – sometimes partly extended to the PRD, but still controlled by Hong Kong capital.

Therefore, as shown, spatial consideration goes hand in hand with information technology. But a change in spatial conditions can also strongly influence the path taken by the development, and the future competitiveness of Hong Kong depends not only on political decisions made in Beijing, but those made in Hong Kong as well. In other words, the decision made by Hong Kong’s Chief Executive concerning public housing just after the hand-over has borne many consequences: the decision to sell public housing flats at 88% below market prices discouraged people from moving to the private sector and completely changed the conditions of the property market. The government’s subsequent decision to withdraw from the property market did not restore pre-handover conditions, while Hong Kong continues to recover from the Asian Financial Crisis (Ho, 1999; 2002a, b).

In this way, while market forces and globalization are two components that have helped shape Hong Kong’s economy – in its territorial base and in its links to the outside world – the Hong Kong Government still plays an important role in its economy. In other words, the ‘open innovative zone’ cannot exist without a territorial basis and informational component, which can only be developed through strong government commitment. In this respect, the policy of the government and its vision of the future are crucial for the future of the Territory, while contradictory interests within the local community, the necessity to preserve local employment, and the divergent positions between Hong Kong and the PRD make the decision making process difficult and hazardous.

## Endnotes

1. A preliminary version of this paper has been presented at the Seventh Annual Asian Studies Conference, Japan, Session 12 (FDI in Asia: Elements of cooperation or competition?), Sophia University, June, 21–22 2003. I would like to thank the Japan Society for the Promotion of Science for its financial support.
2. The transportation program will be examined more closely in the third part of this paper.
3. These documents gave birth to extensive literature published by Hong Kong’s academic circles, as well as by local newspapers. It is therefore

- impossible to quote all the works published on this subject. Readers can refer to Dimitriou and Cook (eds.), *Land Use/Transport in Hong Kong: The End of an Era*, Brookfield, Ashgate, 1998. An historical and well-documented material – even though a bit old – can be found in the Ph.D dissertation of Ng Mee Kam, *The Politics of Planning and Regional Development; A Case Study of the Container Port and Airport Development in Hong Kong*, Ann Arbor, UMI, the University of California, Los Angeles, 1992 and in Peter Rimmer, *Hong Kong's Future as a Regional Transport Hub*, Canberra, Strategic and Defence Studies Centre, Research School of Asia Pacific Studies, The Australian National University, 1992. A more recent perspective can be found in Anthony Yeh, et al., *Building a Competitive Pearl River Delta Region; Cooperation, Coordination and Planning*, Hong Kong, Centre of Urban Planning and Environmental Management, The University of Hong Kong, 2002.
4. Retail establishments are willing to come in such areas, since they can benefit from a captive clientele.
  5. For a discussion on this aspect; cf. Schiffer, 1985 and Augustin-Jean, 2004, pp. 220–222.
  6. On this point, cf. also Christerson and Lever Tracy, 1997.
  7. On this point, cf. also Wong Siu-lun, 1988.
  8. There was also – and there is still – a lack of trained local professionals to conduct R&D in Hong Kong. The education system has not emphasized the need to train such professionals, and this can be considered a failure of the government.
  9. It is worth noting that Yu does not consider this performance an innovation. This is debatable, since it corresponds to the product innovation described by Schumpeter.
  10. While there has been no political negotiation over the establishment of the ‘borderless economy’, the Hong Kong and PRC Governments have recently been keen to sign a formal agreement (CEPA). Its influence has yet to be seen, as it was only implemented in January 2004.
  11. It is not a coincidence that Hong Kong people are always among the first users of new communication technologies, from the telegraph in the 19th century to the mobile phone at the end of the 20th Century.
  12. Of course, the competitive aspect within the PRD helps us understand the shaping of the ‘open innovative zone.’ Nevertheless, it will not be further elaborated on here, since this paper focuses mainly on Hong Kong. For a more complete discussion, the reader can refer to Sanjuan (1997) or Sung (1998).
  13. It is worth noting that these services are not exportable and generally protected from global competition. Their un-tradable nature is only removed, in the case of Hong Kong, by the geographic proximity between the two entities.
  14. The 1966 riot that broke out after a 5-cent increase in the Star Ferry fare – at that time, the ferry was the only means of public transportation between Hong Kong Island and Kowloon – is a point in case.
  15. Double tracking was allowed in 1973, and electrification of the line was applied from Tsimshatsui up to Shatin by 1982 (Leeds, 1998, p. 28).
  16. The indirect subsidy stemmed from the possibility that the railway companies would exploit the land surrounding the stations. Nevertheless, this right has been challenged recently as unfair competition by property developers. Cf. the speech of Michael Suen, Secretary for Housing, Planning and Lands, November 13, 2002.
  17. Cross border traffic increased by an average of 16% per year from 1996 to 2000 (Cheung, 2002: 40).
  18. The consequences of better integration between Hong Kong and the PRD on the former are more difficult to assess. On the one hand, they are beneficial, since a lot of real estate development projects on the Mainland have been handled by Hong Kong companies or include a Hong Kong partner. On the other hand, many Hong Kong residents have invested in the property market in Guangdong, even though most of them are still currently living in Hong Kong. Lower property prices in China have made such investments interesting, and the mortgages are fully handled by the Hong Kong banking system. It is worth noting that the lower living standards in the PRD make it attractive for retired Hong Kong people with limited incomes.
  19. Quoted by Sum, 2002b, p. 169.

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