

## **Material for the Book's Web site**

### **Chapter 4**

#### **Page 72 in the book:**

Map of the Pearl River Delta's manufacturing prowess

#### **Page 77:**

Map of Hong Kong's factories in selected cities in Guangdong province

#### **Page 90 (1):**

A.S. Watson Group already operates nine ParknShop supermarkets and three Watson's Personal Care Stores in Shenzhen. Li & Fung's retail arm Convenience Retail Asia (CRA), which operates the Circle K chain, was planning to open up to 1,000 outlets in the Pearl River Delta (hereafter PRD) in the next five to 10 years. Dairy Farm's 7-Eleven has recently opened its 100th store in Guangzhou.<sup>1</sup>

#### **Page 90 (2):**

Separating Shenzhen from the rest of mainland China, this second or northern border consists of a 2.8 meter-high chain link and barbed-wire fence, which was approved by the central government in 1983 and was completed in 1986. Extending 85 km with only nice crossings, the border has been heavily policed. The beneficial functions of the border such as limiting free migration into Shenzhen and fee collections have been outweighed by economic losses for businesses from higher costs associated with traffic congestion and delays at the crossings, considering there were 170 million people and 92 million vehicles crossings over the second border in 2001. According to

estimates, time delays at the second border cost Shenzhen about US\$1 billion a year, while property prices inside the border would drop by US\$120 per sq meter if the border were abolished due to its economic distortions. The second border also has impeded balanced development in Shenzhen, as residents and factories crowd themselves south of the barrier. Although fees for passes through the border and vehicles crossing it have been reduced recently, which would cause the central government millions of U.S. dollars annually, non-Shenzhen residents and migrant workers continue to cross the border with relative ease by getting employer sponsorship, purchasing passes through travel agents, taking the train into central Shenzhen from Guangzhou or Dongguan, and even bribing border guards for as little as US\$5.<sup>2</sup>

**Page 91:**

During SARS, the booming restaurants in Shenzhen that depended heavily on regular border crossing customers from Hong Kong suffered badly, with some facing the danger of closing. At the same time, a few Hong Kong investors in the local hotels and restaurants were reported to have taken advantage of the down time to add new investments for remodeling and expansion in anticipation of renewed cross-border businesses when the SARS crisis subsides.<sup>3</sup>

**Page 95:**

In 2004, China Airlines and other Taiwanese carriers did not repeat the historic charter flights to the mainland during the Lunar New Year holiday because they were unprofitable in 2003. Taiwan felt that profitability might be improved if mainland

authorities allowed the flights to carry passengers both ways as the Taiwanese airlines were allowed to carry only mainland-based Taiwan business people in 2003. The mainland also suggested that its airlines be allowed to fly charter flights to Taiwan. President Chen Shui-bian's anti-Beijing remarks during the Presidential election in early 2004 also lessened the likelihood of resumed flights.

In early 2005, however, the governments of China and Taiwan agreed to allow direct charter flights of six carriers from each side to carry Taiwanese businessmen and their families to Taiwan for the Chinese Spring Festival and back to the mainland from January 29 to February 20. With such a large number of airlines from both sides flying their own aircrafts from and to three mainland cities (Beijing, Shanghai, Guangzhou) and two Taiwanese cities (Taipei and Kaohsiung) through Hong Kong without changing planes, it marked another historic first in cross-strait transport links.

**Page 98:**

In 1999, the Hong Kong government unveiled an ambitious, US\$30 billion plan for building major road, rail, and port projects, most of which aimed at providing more extensive links with and through the border into Guangdong province. In 2000, Kowloon Canton Railway Corp (KCRC) began to build a 7.4-km line connecting from Sheng Shui on the exiting East Rail that runs to Luohu. This new spur line, which was scheduled to be completed in 2004, will provide a second rail link to Shenzhen at the 24-hour land crossing point of Luomazhou. Not only will the new link lighten the existing load on the only rail line between Hong Kong and Guangzhou through the PRD, it also will help Guangdong shift industrial development to its less developed western part. Route Y will

stretch from Chek Lap Kok to the Hong Kong-Guangzhou superhighway and eventually link up with a 50-km bridge that the port city of Zhuhai is planning to build across the Pearl River estuary to connect with Hong Kong. The Route 10 project will involve building Tsing Lung Bridge across the Ma Wan channel, the main shipping route connecting the Chinese mainland with Hong Kong, through northern Lantau Island to Yuen Long in western New Territories. This will extend the road ultimately to the proposed Deep Bay link to Shekou on the mainland. An overall network of 25 roads linking major cities in the PRD with Hong Kong and Macau is being built. The biggest project on the drawing board is the proposed US\$2 billion bridge linking Hong Kong, Macau, and Zhuhai, which drew differing reactions from the SAR government, tycoons like Gordon Wu and Li Ka-sing, and various business interests.

On the mainland side of the border, the Guangdong government is planning a second highway to link Shenzhen to Guangzhou to meet the anticipated traffic growth from the 2005 launch of Hong Kong's Western Corridor that might exceed the carrying capacity of the existing Guangzhou-Shenzhen-Zhuhai Superhighway. Shenzhen has recently announced a US\$3.8 billion plan to upgrade its ports and airport through a second runway and third passenger terminal. Between 2001-2005 (China's 10th Five-Year Plan), US\$2 billion would be spent to increase cargo handling capacity by 36.2 million tons, which requires 10 new berths to be built at the three major ports of Yantian, Shekou, and Chiwan.<sup>4</sup> Zhuhai International Airport has recently announced that it wants to attract US\$500 million in foreign investment to build an aircraft maintenance center with an express cargo center and other logistics facilities.<sup>5</sup>

**Page 99:**

The centerpiece of the Closer Economic Partnership Agreement (CEPA) is zero tariffs for exports of Hong Kong origin to the mainland. Under the agreement, 273 tariff classes of goods from Hong Kong would start enjoying zero import tariff treatment from January 1, 2004. These products include electrical and electronics products, plastic and paper articles, textiles and clothing, chemical products, pharmaceuticals, clocks and watches, cosmetics and metal products. Zero tariffs will apply to all other goods of Hong Kong origin no later than January 1, 2006. On trade in services, CEPA provides for liberalization in market access for Hong Kong firms involved in 17 commercial activities including: management consulting, conventions, advertising, accounting, construction and real estate, medical and dental, distribution, logistics, freight forwarding, storage and warehousing, transport, tourism, audiovisual, legal, banking, securities and insurance. On trade and investment facilitation, the mainland has committed to simplifying procedures and strengthening co-operation with Hong Kong on customs clearance, quarantine and inspection, quality assurance and food safety, small and medium-sized enterprises, Chinese medicine and medical products, e-commerce, trade and investment promotion and transparency in law and regulations.

While CEPA was expected to give Hong Kong exporters about US\$750 million per year in tariff savings, it might be difficult to quantify the deal's immediate contribution to economic growth and job creation in Hong Kong. Even after the pact was signed in mid-2003, the two sides continued to wrestle with the difficult definition of what constitutes a Hong Kong-made product and hoped to sign an annex to the deal. After CEPA was officially implemented on January 1, 2004, the Mayor of Shenzhen

welcomed the opportunity by saying that “we should actively attract Hong Kong service sectors to Shenzhen and strengthen our co-operation in finance, logistics, exhibition promotion and tourism.” He said Shenzhen would open its market for Hong Kong legal professionals, accountants, property agents and business consultants this year.<sup>6</sup>

**Page 100:**

To push the further integration of the PRD with Hong Kong, Guangdong Governor Huang Huahua urged Hong Kong to shed its obsession with competing with the province and need to play leader. He said both sides should forge closer cooperation to sharpen their competitive edge. In an interview with *The South China Morning Post*, Mr. Huang repeatedly pointed out that Guangdong and Hong Kong had strengths that were complementary and that they could not do without each other. He also claimed that Guangdong and Hong Kong combined should and could become the dragonhead for the Greater PRD that also includes poorer neighboring provinces such as Guangxi and Hunan (the concept was introduced and promoted through a conference in 2004).<sup>7</sup> In this increasingly larger regional economy, local governments may lose certain autonomy just as some of them may need it the most as they have run into growth problems. For example, there has arisen a greater need for restructuring Shenzhen’s economy as its services sector has been in decline for years for depending too heavily on manufacturing and export-orientated business. Once the favorite destination for foreign investors, Shenzhen is falling behind new hotspots such as Shanghai.

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<sup>1</sup> See “Chains join Shenzhen gold rush,” on scmp.com (*The South China Morning Post*’s Web site), accessed on August 15, 2002.

<sup>2</sup> See “Shenzhen’s barrier to development,” on scmp.com, accessed on October 8, 2002.

<sup>3</sup> Reported in *Renmin Ribao* (The People’s Daily), May 16, 2003, p. 5.

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<sup>4</sup> “Terminal upgrade plan sparks under-use fears,” on scmp.com, accessed on November 13, 2002.

<sup>5</sup> “Zhuhai to target air cargo,” on scmp.com, accessed on October 4, 2002.

<sup>6</sup> “Free-trade deal signed with mainland,” on scmp.com, June 30, 2003; “Shenzhen pins high hopes on CEPA,” on scmp.com, February 25, 2004; accessed on January 24, 2005.

<sup>7</sup> “Close cooperation best remedy for region,” on scmp.com, February 16, 2004; accessed on January 24, 2005.