

Research Horizons

Volume 10 | Issue 2
September 2016

Hong Kong to Feel Pressure from China's Free Trade Zones

The further development of China's new free trade zones (FTZs) is likely to affect Hong Kong's tourism industry in various ways, according to SHTM Ph.D. student Mingjie Ji, Associate Professor Mimi Li and Professor Brian King. In a recently published paper, the researchers review the areas that are most at risk from the development of FTZs. They conclude that although Hong Kong may lose some mainland tourists, it stands to benefit if it adopts a cooperative approach to seeking closer socioeconomic integration with the mainland.

China's New FTZs

The researchers situate their observations within a framework of FTZs being used in many countries to encourage foreign direct investment to boost local economies. China's first FTZs opened in the 1980s, they note, focusing on manufacturing and exports, although these were soon challenged by "lower-cost competitors" in Southeast Asia.

With an eventual shift towards more service-oriented FTZs, the Shanghai Free Trade Zone (SFTZ) was established in September 2013 with a focus on reforms to

financial, shipping, trading and professional services, cultural services, and public services. It also served as a prototype for the more recently established FTZs in Guangdong, Fujian and Tianjin.

As the link between international trade and tourism development is "widely acknowledged", the researchers predict that China's development of service-oriented FTZs may have negative effects on Hong Kong's tourism industry, one of the city's four economic pillars. They thus investigated both the potential micro-level effects on the tourism trade and the macro-context of FTZ development.

Cruise Industry and Medical Tourism

The area most likely to be affected first, according to the researchers, is Hong Kong's "fledgling cruise-tourism sector". Hong Kong intends to develop itself as a leading cruise hub, but this expansion may be compromised by the development of the cruise industry in Shanghai. Both the national and the municipal governments are committed to expanding the International Shipping Centre within the SFTZ and the number

of cruise liners using Shanghai's ports has increased considerably in recent years. The expansion is set to continue with the Wusongkou Port Authority's development of its own cruise brand and cruise management services, focusing on "staff recruitment and training and materials supplies". With these developments, the researchers suggest that Shanghai is "poised to divert" Chinese cruise tourists from Hong Kong to other destinations.

Medical tourism is another area that could see business diverted from Hong Kong to China. The researchers observe that the SFTZ offers China a way of expanding its medical tourism industry, with foreign-owned institutions located there offering improvements in the quality of services and communication with overseas patients. At present, Hong Kong is established as a "hub for cancer treatments" in the region, and is keen to develop in other areas of medical tourism. Whether Shanghai intends to focus on cancer treatment is not yet clear, but the Chinese government's enthusiasm for developing medical tourism "cannot be overlooked" in Hong Kong, the researchers assert.

Shopping, Artworks and Exhibition Services

Hong Kong's strong reputation as a "shopping paradise" for mainland Chinese visitors may also be threatened, according to the researchers. With Shanghai planning to offer "duty-free retail hubs" in its FTZ, Chinese shoppers from the affluent Yangtze River regions may well decide to remain in the mainland when shopping. The effect on Hong Kong's retail sector could be considerable, and perhaps even heightened by recent local protests against "parallel trading activities" and the subsequent restrictions on multiple-entry visas for Shenzhen citizens.

In terms of the art trade, Shanghai's newly constructed International Artwork Trade Centre will offer storage, trading, logistics, insurance and financial services, and is expected to turn the city into what the researchers call a "leading platform" for trade in Asia-Pacific artwork. The tax-free warehouse stores more than 2,000 international artworks from around the world and is likely to "accelerate the development of the artwork trade relative to Hong Kong".

The SFTZ is also competing with Hong Kong in exhibition services, with the construction of China's National Exhibition and Trading Centre. Given that founding members such as Australia have taken over entire floors of the centre to exhibit their national products and services, the researchers suggest that international companies may be "lured to Shanghai", with detrimental effects on Hong Kong.

Hotels and Entertainment

The increased demand for hotel rooms in the SFTZ will almost certainly see an increase in the number of high-end hotels being built in Shanghai, argue the researchers. At present, the city only offers four luxury hotels for international visitors, and a steep rise in occupancy followed the opening of the SFTZ.

The range of entertainment facilities in Shanghai offering visitors "enhanced excitement" is also set to increase as the sector opens up to foreign ownership. This year was seen the opening of the long-awaited Shanghai Disneyland, for instance. Together with the expansion of duty-free retail outlets, hotels and exhibition centres, the researchers argue that the SFTZ will become an "enhanced integrated tourism destination for mainland visitors", many of whom would otherwise have visited Hong Kong.

Emerging Opportunities

Despite these challenges, there is also cause for optimism, with the FTZs offering potential business opportunities for Hong Kong. The researchers point out that Hong Kong has tended to rely on the Closer Economic Partnership Agreement to access the mainland market "ahead of other countries", but the Guangdong FTZ is now providing a range of measures and arrangements to facilitate cross-border e-commerce as well.

The Guangdong FTZ will also offer various new services to Hong Kong businesses in the shipping, education, travel and medical industries. In the future, the FTZ plans to develop international trade with countries on the Maritime

Silk Road, which should help to consolidate Hong Kong's "position as an Asia-Pacific trade and shipping hub".

The Way Ahead

The researchers advise that Hong Kong adopt a "philosophy of cooperation rather than leadership" in its relationship with the mainland. With China's FTZs increasingly focusing on sustaining growth through domestic consumption, Hong Kong now needs to respond by "diversifying its range of products/services and creating resources from its existing assets, such as the "unique cultural resources" of its "'Lingnan' Chinese culture, British colonial legacy and film history". In those areas where it is in competition with China's new FTZs, it could benefit by seeking "closer integration" with the mainland. That, however, may be beyond Hong Kong's aspirations, the researchers reluctantly conclude.

POINTS TO NOTE

- China is developing its FTZs to attract more foreign direct investment.
- The new FTZs present various challenges for Hong Kong's tourism industry.
- Hong Kong should seek closer integration with China.
- It should exploit its unique resources and diversify its tourism products.

Ji, Mingjie, Li, Mimi and King, Brian. (2015). "The Impacts of China's New Free-Trade Zones on Hong Kong Tourism". *Journal of Destination Marketing & Management*, Vol. 4, No. 4, pp. 203-205.