



## *Shanghai and Hong Kong as Service Hubs*

Yun-wing Sung

# 香港亞太研究所

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## Introduction

In the first decade of China's reform era, Guangdong was given special policies, allowing it to go "one step ahead" in reform status. With the help of investment and skills from Hong Kong, Guangdong developed rapidly from a comparatively backward province to the leading province in China, and Guangdong rapidly surpassed Shanghai in gross domestic product (GDP), in industrial output and in exports. However, since the opening of Pudong in 1990, the focus of national development has shifted to Shanghai. The city's official mission is to become the "dragon head" of the Chinese economy, developing itself into "three centres," namely, a financial centre, a trading centre and an economic centre.

Shanghai's performance in the 1990s has been mixed. Despite the opening of Pudong and the granting of many special policies favouring the city, the gaps between Guangdong and Shanghai in GDP, industrial output and exports have remained large. However, Shanghai has achieved some success as an international port and centre of international trade. Shanghai has clearly emerged as the leading domestic financial centre of China, though its position as a regional and international financial centre has remained far behind Hong Kong.

Table 1 compares the shares of Guangdong and Shanghai as regards China's GDP, industrial output, value-added of tertiary sector and exports. In 1978, Shanghai's share of China's GDP, industrial output and exports were 7.5 per cent, 12.1 per cent and 29.7 per cent, respectively, which were the highest among the provinces. However, Guangdong grew much faster and surpassed Shanghai in terms of GDP in 1983, in exports in 1986 and in

**Table 1** Share of Shanghai and Guangdong of China's GDP, Industrial Output, and Exports (%)

	Shanghai				Guangdong			
	GDP	Industrial output	Value-added of tertiary sector	Exports*	GDP	Industrial output	Value-added of tertiary sector	Exports*
1978	7.5	12.1	5.9	29.7	5.1	4.7	5.1	14.2
1979	6.7	11.9	6.2	26.9	5.0	4.6	5.8	12.5
1980	6.9	11.6	6.8	23.3	5.4	4.3	6.4	12.0
1981	6.7	11.5	6.7	18.2	5.9	5.0	6.8	11.4
1982	6.4	10.9	6.5	16.5	6.3	5.1	7.0	10.3
1983	6.0	10.3	6.3	16.4	6.1	5.1	6.5	10.7
1984	5.4	9.6	5.6	14.7	6.1	5.3	6.4	10.2
1985	5.2	8.9	4.8	13.0	6.2	5.5	6.1	11.4
1986	4.8	8.5	4.6	13.3	6.3	5.6	6.8	15.7
1987	4.6	7.8	4.6	12.0	6.8	6.4	7.3	25.7
1988	4.3	7.2	4.2	11.3	7.4	7.2	7.7	31.2
1989	4.1	6.9	3.7	11.6	7.8	7.5	8.0	34.5
1990	4.1	6.9	4.2	10.2	7.9	8.0	8.6	35.8
1991	4.1	6.9	4.3	9.4	8.2	8.9	8.5	37.7
1992	4.2	6.6	4.4	8.6	8.6	9.4	8.5	39.4

1993	4.4	6.3	5.1	8.3	9.4	9.9	9.3	41.0
1994	4.4	5.5	5.5	8.2	9.4	9.4	9.8	44.0
1995	4.3	5.2	5.5	8.8	9.4	9.5	9.9	39.7
1996	4.3	5.1	5.9	8.7	9.6	9.3	10.9	39.7
1997	4.5	5.0	6.4	8.1	9.8	9.7	11.0	41.6

Note: \* *China Customs Statistics* are used for Shanghai and Guangdong for 1993 and 1987, respectively (earliest available data), while MOFERT (Ministry of Foreign Economic Relations and Trade) statistics, which are less accurate, are used for previous years. MOFERT statistics greatly understate Guangdong exports due to the importance of processing exports in Guangdong (Sung, Liu, Wong and Lau 1995:71-74). The problem does not exist for Shanghai as processing exports are insignificant there.

Sources: Exports since 1993: *China Customs Statistics*, Economic Information and Agency, Hong Kong; Guangdong's exports from 1987 to 1992: *The Statistics of the External Economy, Trade and Tourism of the Guangdong Province*; Guangdong Statistical Bureau (internal document), 1990, 1991, 1992; other statistics are obtained from the Shanghai, Guangdong and China Statistical Yearbooks of China Statistical Publishing House.



industrial output in 1989. Guangdong has been China's number-one province in inward foreign investment since 1979, in exports since 1985, in GDP since 1989 and in industrial output since 1995.

The opening of Pudong in 1990 failed to shrink the gap between Guangdong and Shanghai. From 1990 to 1997, Shanghai's share of China's GDP rose marginally from 4.1 per cent to 4.5 per cent. Meanwhile, Guangdong's share rose markedly from 7.9 per cent to 9.8 per cent. From 1990 to 1997, Shanghai's share of China's industrial output dropped markedly from 6.9 per cent to 5.0 per cent, while Guangdong's share rose from 8.0 per cent to 9.7 per cent. Shanghai also performed poorly in terms of exports: its share of national exports dropped from 10.2 per cent to 8.1 per cent while Guangdong's share rose from 35.8 per cent to 41.6 per cent. Shanghai only performed well in services: its share of the value-added of China's tertiary sector rose from 4.2 per cent to 6.4 per cent. Guangdong's share also rose, from 8.6 per cent to 11.0 per cent, and the gap in services output between Guangdong and Shanghai is still very large.

However, in 1998, Guangdong appeared to suffer more from the Asian financial crisis than Shanghai because Guangdong's economy was more open. In particular, Guangdong, closely linked to Hong Kong, suffered a negative growth of 5.1 per cent in 1998. The bankruptcy of GITIC (Guangdong International Trust and Investment Corporation), the second largest corporation owned by Guangdong, in late 1998 was also likely to affect Guangdong adversely.

Due to the lack of land and cheap labour in Shanghai, and because of the rapid industrialization of China's coastal areas, there is no hope that Shanghai's shares of China's GDP and industrial output can recover to the level of the pre-reform era, not to mention Shanghai's dominance of the Chinese economy in the pre-1949 era. However, as a metropolis, Shanghai's mission is to be a service hub rather than an industrial centre. The rapid growth of Shanghai's services sector suggests that Shanghai has had some success in this area.

As a service hub, the role of Shanghai as a centre of shipping, international trade and finance will be examined below. For purpose of analysis, comparative figures from Hong Kong will be presented.

## Shanghai as a Shipping Centre

Shanghai has long handled the largest amount of cargo among Chinese ports. However, with decentralization in the reform era, provinces around Shanghai have tried to build their own ports, resulting in Shanghai's share of China's cargo handled at ports falling from 40.1 per cent in 1978 to 18.1 per cent in 1997. The absolute volume of cargo handled at Shanghai ports reached a peak of 176 million tonnes in 1993 and has since declined to 164 million tonnes in 1997.

Despite the decline in the total volume of cargo, the volume of ocean-going cargo (30.0 per cent of Shanghai's water transportation in 1997) and containers handled has continued to grow, largely as a result of the rapid development of its container terminals. The change in the composition of cargo away from river to ocean-going or container cargo is healthy as the rate of value-added is higher.

Table 2 shows rapid growth in Shanghai's ocean-going cargo, especially since 1995. However, this type of ocean-going cargo is still small relative to Hong Kong's (31.5 per cent in 1997). Table 3 shows the rapid growth of Shanghai's container throughput, reaching 3.05 million TEUs in 1998.<sup>1</sup> The growth is partly attributable to the help of Hutchison Whampoa, Hong Kong's foremost container operator, which started its joint project to modernize Shanghai's container terminal in 1993. It should be noted that Shanghai's container traffic is still small relative to Hong Kong's (20.7 per cent in 1998).

Table 4 shows Hong Kong's ocean-going cargo by territory. In 1992, 3.4 million tonnes of Hong Kong's seaborne containerized cargo was accounted for by Shanghai. This was only 3.0 per cent

**Table 2** Cargo Carried by Ocean-going Vessels: Shanghai versus Hong Kong

	Shanghai			Hong Kong	
	mn tonne	Per cent of		mn tonne	Per cent of China's
		China's	Hong Kong's		
1978	9.39	25.7	—	—	—
1979	—	—	—	—	—
1980	10.98	25.6	—	—	—
1981	11.18	24.7	—	—	—
1982	10.97	23.8	—	—	—
1983	12.09	25.4	38.3	31.57	66.3
1984	13.70	24.7	38.8	35.29	63.6
1985	14.02	21.2	35.3	39.69	59.9
1986	16.34	22.6	34.4	47.47	65.7
1987	18.47	23.1	34.5	53.56	67.1
1988	20.32	23.8	33.1	61.32	71.9
1989	20.66	22.9	32.0	64.65	71.6
1990	22.46	23.9	34.0	66.01	70.2
1991	24.91	23.6	32.6	76.45	72.3
1992	25.25	22.6	30.3	83.45	74.6
1993	25.29	—	26.3	96.10	—
1994	26.05	—	23.5	110.95	—
1995	27.78	—	21.8	127.18	—
1996	35.94	—	28.6	125.84	—
1997	42.01	—	31.5	133.30	—

Sources: Shanghai data: *Shanghai Statistical Yearbook*; China data: *Statistical Yearbook of China*; Hong Kong data: *Hong Kong Annual Digest of Statistics*.

**Table 3** Containers Handled: Shanghai versus Hong Kong

	Container throughput (10,000 TEU)		Weight of cargo (10,000 tonnes)	
	Hong Kong	Shanghai	Hong Kong	Shanghai
1983		8		85
1984		11		117
1985		20		184
1986		20		202
1987		22	1802 (100)	247 (13.7)
1988	403 (100)	31 (7.7)	2174 (100)	345 (15.9)
1989	446 (100)	35 (7.8)	2970 (100)	351 (11.8)
1990	510 (100)	46 (9.0)	3281 (100)	446 (13.6)
1991	616 (100)	58 (9.4)	4091 (100)	611 (14.9)
1992	797 (100)	73 (9.2)	4629 (100)	716 (15.5)
1993	920 (100)	100 (10.9)	5476 (100)	870 (15.9)
1994	1105 (100)	126 (11.4)	6959 (100)	1077 (15.5)
1995	1255 (100)	159 (12.7)	8130 (100)	1410 (17.3)
1996	1341 (100)	202 (15.1)	8125 (100)	1801 (22.2)
1997	1454 (100)	253 (17.4)	8675 (100)	2304 (26.6)
1998	1476 (100)	305 (20.7)	—	—

Note: Figures in brackets represent percentage share of Hong Kong's container traffic.

Sources: Shanghai data: *Shanghai Statistical Yearbook*; Hong Kong data: *Hong Kong Shipping Statistics*.

**Table 4** Hong Kong's Ocean-going Cargo by Territory  
(10,000 tonnes)

	Seaborne cargo			Seaborne containerized cargo		
	Total	Mainland	Shanghai	Total	Mainland	Shanghai
1983	3157	434	79	—	—	—
(i)	(100)	(13.7)	(2.5)			
(ii)			(6.5)			
1984	3529	484	103	—	—	—
(i)	(100)	(13.7)	(2.9)			
(ii)			(7.5)			
1985	3969	572	138	—	—	—
(i)	(100)	(14.4)	(3.5)			
(ii)			(9.8)			
1986	4747	706	167	—	—	—
(i)	(100)	(14.9)	(3.5)			
(ii)			(10.2)			
1987	5355	820	151	1802	156	40
(i)	(100)	(15.3)	(2.8)	(100)	(8.7)	(2.2)
(ii)			(8.2)			(16.2)
1988	5132	893	182	2174	235	68
(i)	(100)	(14.6)	(3.0)	(100)	(10.8)	(3.1)
(ii)			(9.0)			(19.7)
1989	6465	977	164	2970	265	79
(i)	(100)	(15.1)	(2.5)	(100)	(8.9)	(2.7)
(ii)			(7.9)			(22.5)
1990	6601	982	159	3281	270	78
(i)	(100)	(14.9)	(2.4)	(100)	(8.2)	(2.4)
(ii)			(7.1)			(17.5)
1991	7644	1165	187	4091	934	276
(i)	(100)	(15.2)	(2.4)	(100)	(9.8)	(2.9)
(ii)			(7.5)			(45.2)
1992	8422	1221	184	4629	1215	342
(i)	(100)	(14.5)	(2.2)	(100)	(10.7)	(3.0)
(ii)			(7.3)			(47.8)
1993	9610	1390	222	5476	723	187
(i)	(100)	(14.5)	(2.3)	(100)	(13.2)	(3.4)
(ii)			(8.8)			(21.5)

**Table 4** Hong Kong's Ocean-going Cargo by Territory  
(10,000 tonnes) (Continued)

	Seaborne cargo			Seaborne containerized cargo		
	Total	Mainland	Shanghai	Total	Mainland	Shanghai
1994	11094	1671	266	6959	1021	232
(i)	(100)	(15.1)	(2.4)	(100)	(14.7)	(3.3)
(ii)			(10.2)			(21.5)
1995	12718	1969	335	8130	1288	308
(i)	(100)	(15.5)	(2.6)	(100)	(15.8)	(3.8)
(ii)			(12.1)			(21.8)
1996	12584	1960	303	8125	1226	283
(i)	(100)	(15.6)	(2.4)	(100)	(15.1)	(3.5)
(ii)			(8.4)			(15.7)
1997	13330	1990	293	8675	1280	271
(i)	(100)	(14.9)	(2.2)	(100)	(14.8)	(3.1)
(ii)			(7.0)			(11.8)

Notes: (i) Percentage share of Hong Kong's total.  
(ii) Percentage share of Shanghai's total.

Sources: Shanghai data: *Shanghai Statistical Yearbook*; Hong Kong data: *Hong Kong Shipping Statistics*.

of Hong Kong's total, but this was 47.8 per cent of Shanghai's total. The medium-sized ships at Shanghai sailed to Hong Kong, where containers were loaded onto large vessels for onward shipment. Shanghai was then only a feeder port of Hong Kong. However, with the modernization of Shanghai's container facilities since 1993, Shanghai's share of Hong Kong's container cargo had fallen to 11.8 per cent in 1997; and Shanghai's container port stood largely on its own.

A successful international port must have sufficient freight to attract shipping companies to make frequent calls. A large and busy port tends to be efficient because of economies of agglomeration: an increase in freight will imply a more frequent shipping

schedule which will in turn attract more freight to the port as the freight can be shipped out speedily. The process snowballs until the port is congested. Then, there is the need to develop a new port.

Hong Kong has been the busiest container port in the world for some time, handling 13.3 million containers in 1997. A minimum freight volume of 1.5 million containers a year is needed for the efficient operation of a container port (Sung, Liu, Wong and Lau, 1995:196), which Shanghai reached in 1994. Its container traffic has since grown rapidly, which no other Chinese container port has yet approached the critical threshold. The closest is the Yantian port in Shenzhen, which handled around 1.1 million containers in 1998.

Shanghai's lack of a deep-water port is expected to be a constraint in the long run. Due to sandbars at the mouth of the Yangzi river, ships of 25,000 dwt can only enter the Yangzi at high tide. There is a plan to dredge the channel to a depth of 11-12 metres to allow ships of 50,000 dwt to dock. However, even with dredging, Shanghai will not be able to handle modern third- and fourth-generation ships. Such ships will require a new port.

Although Shanghai is the largest city in the Yangzi delta, the best port of the delta is in Beilun, Zhejiang, which has a channel of up to 20 metres. As a result of regional rivalry, Shanghai is not keen to develop Beilun, which is outside its jurisdiction. Its favourite plan is to develop a port on two small islands (Da Yang and Xiao Yang) some 30 kilometres from Shanghai. The islands, previously under Shanghai's jurisdiction, are presently administered by Zhejiang. However, the choice of the central government is to develop Beilun to serve the whole delta rather than adopt Shanghai's proposal. Shanghai's plan is economically dubious as it involves the costly transfer of cargo from big ships to small vessels 30 kilometres from the coast. Shanghai is still trying to sell its plan despite the decision of the central government. As Shanghai has control of the main source of cargo in the delta, the battle between Shanghai and Zhejiang over the future port of the delta is going to be protracted. As a result, Hong Kong appears to be

destined to be China's dominant ocean-going port well into the early years of the next century.

Though Hong Kong will be China's dominant container port in the foreseeable future, the competitive pressure from Shanghai and Yantian is rising as Shanghai has passed the critical threshold and Yantian is fast approaching the threshold. Presently, the costs of using Hong Kong's container terminals are higher than those in Yantian by 20 to 30 per cent, though the quality of service in Hong Kong is superior. The Hong Kong government is trying to cut costs by 10 per cent to maintain competitiveness (*Hong Kong Economic Times*, 28 December 1998).

### Shanghai and Hong Kong as Centres of International Trade

In the open-door era, Hong Kong has become China's foremost centre of international trade. Table 5 shows the trade of the Chinese mainland with Hong Kong itself and also mainland's trade with third parties via Hong Kong in the form of Hong Kong re-exports. Hong Kong's trade statistics is used in Table 5 because mainland's statistics do not distinguish between its trade via Hong Kong from its trade with Hong Kong itself. Mainland's exports to (imports from) Hong Kong are taken to be Hong Kong's imports from (exports to) the mainland.<sup>2</sup>

Table 5 shows that the share of China's exports re-exported elsewhere via Hong Kong rose from 6.6 per cent in 1977 to a peak of 49.7 per cent in 1993. The share of China's imports via Hong Kong (in the form of Hong Kong re-exports) rose from 0.5 per cent in 1977 to 40.3 per cent in 1997.

In recent years, close to 40 per cent of China's international trade went through Hong Kong in the form of re-exports. This understates Hong Kong's middleman role because Hong Kong's China-related transshipment and offshore trade are excluded. Transshipment is not regarded as part of Hong Kong's trade because it goes to the final destination on a through-bill of lading,

Table 5 China-Hong Kong Trade (US\$mnn)

	China's exports to Hong Kong			China's imports from Hong Kong		
	Total	Retained in Hong Kong	Re-exported elsewhere	Total	Hong Kong goods	Hong Kong re-exports
1931-38 average	87 (31.0)	16 (5.8)	70 (25.2)	88 (21.5)	9 (2.2)	79 (19.3)
1950	137 (24.8)	—	—	221 (37.9)	—	—
1951	151 (20.0)	—	—	281 (23.5)	—	—
1952	145 (17.6)	—	—	91 (8.1)	—	—
1955	157 (11.1)	—	—	32 (1.9)	—	—
1960	207 (11.2)	—	—	21 (1.1)	2 (0.1)	19 (1.0)
1965*	487 (21.8)	384 (17.2)	103 (4.6)	12 (0.7)	3 (0.2)	10 (0.5)
1970	468 (20.7)	362 (16.0)	106 (4.7)	11 (0.5)	5 (0.2)	6 (0.3)
1975	1378 (19.0)	1047 (14.4)	331 (4.6)	33 (0.5)	6 (0.1)	28 (0.4)
1977	1734 (22.9)	1233 (16.3)	501 (6.6)	44 (0.6)	7 (0.1)	38 (0.5)
1979	3045 (22.3)	2043 (15.0)	1002 (7.3)	383 (2.5)	121 (0.8)	263 (1.7)
1981	5315 (24.2)	3163 (14.4)	2152 (9.8)	1961 (8.9)	523 (2.4)	1438 (6.5)
1983	5891 (26.5)	3352 (15.1)	2539 (11.4)	2531 (11.8)	856 (4.0)	1676 (7.8)
1985	7449 (27.3)	3515 (12.9)	3934 (14.4)	7857 (18.6)	1950 (4.6)	5907 (14.0)

1987	14775 (37.5)	5213 (13.2)	9562 (24.3)	11290 (26.1)	3574 (8.3)	7669 (17.8)
1989	24432 (46.6)	3077 (5.9)	21355 (40.7)	18816 (31.8)	5548 (9.4)	13268 (22.4)
1990	29528 (47.6)	4019 (6.5)	25509 (41.1)	20305 (38.1)	6086 (11.4)	14219 (26.7)
1991	36711 (51.1)	4427 (6.2)	32284 (44.9)	26631 (41.7)	6976 (10.9)	19656 (30.8)
1992	44187 (52.0)	3967 (4.7)	40220 (47.3)	35136 (45.1)	7943 (10.2)	27193 (34.9)
1993	50165 (54.7)	4610 (5.0)	45555 (49.7)	43683 (42.0)	8191 (7.9)	35491 (34.1)
1994	58702 (48.6)	5655 (4.7)	53047 (43.9)	49670 (42.9)	7895 (6.8)	41776 (36.1)
1995	67300 (45.3)	5492 (3.7)	61808 (41.6)	57904 (43.8)	8222 (6.2)	49682 (37.6)
1996	71148 (47.1)	4798 (3.2)	66350 (43.9)	61982 (44.6)	7967 (5.7)	54015 (38.9)
1997	75194 (41.1)	5670 (3.1)	69524 (38.0)	65583 (46.1)	8249 (5.8)	57334 (40.3)
1998	71507 (38.9)	5176 (2.8)	66331 (36.1)	59836 (42.7)	7239 (5.2)	52597 (37.5)

Notes: Figures in brackets represent percentage share of China's total exports (imports).

Mainland's exports to (imports from) Hong Kong are taken to be Hong Kong's imports from (exports to) the mainland.

Hong Kong data: 1931-38, Tom C. F., 1957; 1948-65, *Hong Kong Trade Statistics*; 1966-98, *Review of Overseas Trade*,

Census and Statistics Department, Hong Kong. Chinese data: 1931-48, UN Statistical Office, *Yearbook of International*

*Trade Statistics*; 1950-79, *China Statistical Yearbook*, China Statistical Publishing House, Beijing; 1981-98, *China Customs*

*Statistics*, Economic Information and Agency, Hong Kong.

though the goods change vessels in Hong Kong (e.g., from river vessels to container ships). Offshore trade refers to trade that is handled by Hong Kong traders but does not touch Hong Kong at all in transportation.

Including transshipment and offshore trade (from survey data), Hong Kong accounts for close to two-thirds of China's trade. The recent fall in the share of China's exports re-exported via Hong Kong (from 49.7 per cent in 1993 to 36.1 per cent in 1998) may not indicate a decline in Hong Kong's middleman role. There is a substitution of transshipment and offshore trade for re-exports since 1993 because China has liberalized foreign investment in shipping and cargo forwarding (Sung, 1998:90). Within China, it is now easier to arrange transshipment via Hong Kong.

### *Shanghai's trade and transshipment*

Table 6 shows China's trade through Shanghai's customs, which includes Shanghai's trade as well as transshipment. Shanghai's trade refers to trade (exports and imports) handled by Shanghai's Foreign Trade Corporations (FTCs). Shanghai's transshipment refers to goods handled by non-Shanghai FTCs but shipped via Shanghai's port.

Shanghai's exports can be further broken down into exports of Shanghai products and re-exports (Table 7). Re-exports refer to goods made elsewhere but which are exported by Shanghai's FTCs. Shanghai's imports can likewise be broken down into imports for use in Shanghai and imports for use elsewhere.

The distinction between the export of Shanghai products, re-export and transshipment is important because they are determined by different economic factors. Exports of Shanghai products are closely related to Shanghai's industrial production. As mentioned before, Shanghai's share of national industrial output has declined due to the lack of land and cheap labour. The share of Shanghai's export of local products in national export is thus expected to decline. However, Shanghai should perform bet-

**Table 6** Trade via Shanghai

	China Customs Statistics		
	Total	Exports	Imports
1978	—	—	—
1979	—	—	—
1980	—	—	—
1981	—	—	—
1982	—	—	—
1983	—	—	—
1984	—	—	—
1985	14873 (21.4)	4908 (18.0)	9965 (23.6)
1986	16066 (21.8)	5476 (17.7)	10590 (24.7)
1987	15635 (18.9)	6601 (16.7)	9034 (20.9)
1988	18654 (18.2)	7324 (15.4)	11330 (20.5)
1989	19437 (17.4)	7711 (14.7)	11726 (19.8)
1990	17289 (15.0)	8662 (14.0)	8627 (16.2)
1991	20409 (15.1)	10151 (14.1)	10258 (16.1)
1992	25145 (15.2)	11964 (14.1)	13181 (16.4)
1993	30931 (15.8)	13977 (15.2)	16954 (16.3)
1994	36246 (15.3)	18938 (15.7)	17308 (15.0)
1995	48138 (17.1)	25608 (17.2)	22530 (17.1)
1996	52869 (18.2)	27213 (18.0)	25656 (18.5)
1997	58682 (18.1)	33450 (18.3)	25232 (17.7)
1998	63637 (19.6)	37453 (20.4)	26184 (18.7)

Note: Figures in brackets represent percentage share of the national total.

Sources: Data since 1992 are obtained from *China Customs Statistics*; data before 1992 are obtained from *The Foreign Statistical Yearbook of Shanghai*, Shanghai Statistics Bureau (internal publication).

ter in re-exports and in transshipment as its mission is to be a service hub.

Transshipment should be determined by factors related to transportation, namely, location and port and shipping facilities. Re-exports involve the use of Shanghai's port facilities and also the use of Shanghai's FTCs. Re-exports are determined by the efficiency of intermediation in addition to the efficiency of transportation. Re-exports usually generate higher value-added than transshipment because re-exports involve trading services in addition to transportation services.

Table 6 shows that the share of China's trade through Shanghai's customs declined from 21.4 per cent in 1985 to a low of 15.0 per cent in 1990 and, then, recovered to 19.6 per cent in 1998. Exports and imports exhibit similar trends to that of total trade. It will be shown below that the initial decline in the share of China's trade through Shanghai's customs is due to a relative decline in Shanghai's exports of local products, whereas the subsequent recovery is mainly due to a relative expansion of transshipment.

### *Shanghai's exports*

Table 7 shows Shanghai's exports (exports handled by Shanghai's FTCs) since 1978. Shanghai's exports are disaggregated into exports of local products and re-exports of products made elsewhere. Goods handled by non-Shanghai's FTCs but shipped via Shanghai are regarded as Shanghai's transshipment rather than Shanghai's exports. This section focuses on Shanghai's exports whereas Shanghai's transshipment will be discussed in the following section.

It should be noted that some products made in Shanghai are exported by non-Shanghai's FTCs, and they are not regarded as Shanghai's exports. For instance, there is a number of enterprises located in Shanghai that are managed by the national rather than Shanghai's municipal government. The exports of these enterprises are handled by national FTCs rather than Shanghai's FTCs. Such goods are usually exported through Shanghai and are re-

**Table 7** Shanghai's Exports\* (US\$mn)

	Total	Shanghai products	Re-exports	China's exports of Shanghai products	Shanghai's net re-exports
1978	2893 (29.7)	1725 (17.7)	1168 (12.0)	—	—
1979	3675 (26.9)	2220 (16.3)	1455 (13.6)	—	—
1980	4266 (23.3)	2777 (15.2)	1489 (8.1)	—	—
1981	3807 (18.2)	2950 (14.1)	857 (3.9)	—	—
1982	3605 (16.5)	2737 (12.5)	868 (3.9)	—	—
1983	3648 (16.4)	2689 (12.1)	959 (4.3)	—	—
1984	3587 (14.7)	2762 (11.3)	915 (3.5)	—	—
1985	3361 (13.0)	2619 (9.6)	742 (2.7)	—	—
1986	3582 (13.3)	2590 (9.6)	992 (3.2)	—	—
1987	4160 (12.0)	2924 (8.4)	1236 (3.1)	—	—
1988	4605 (11.3)	3142 (7.7)	1463 (3.1)	—	—
1989	5032 (11.6)	3491 (8.0)	1541 (2.9)	—	—
1990	5317 (10.2)	3712 (7.1)	1605 (2.6)	—	—
1991	5740 (9.4)	4086 (6.7)	1654 (2.3)	—	—
1992	6488 (7.6)	4569 (5.4)	1919 (2.3)	6635 (7.8)	-147
1993	6566 (7.2)	—	—	7577 (8.3)	-1011
1994	9157 (7.6)	—	—	9937 (8.2)	-780

**Table 7** Shanghai's Exports\* (US\$mn) (Continued)

	Total	Shanghai products	Re-exports	China's exports of Shanghai products	Shanghai's net re-exports
1995	12964 (8.7)	—	—	13134 (8.8)	-170
1996	13028 (8.6)	—	—	13135 (8.7)	-107
1997	15069 (8.2)	—	—	14767 (8.1)	302
1998	15956 (8.7)	—	—	15642 (8.5)	314

Notes: \* MOFERT (Ministry of Foreign Economic Relations and Trade) statistics are used from 1978 to 1991, while *China Customs Statistics* are used from 1992 onwards.

Figures in brackets represent percentage share of China's exports.

Sources: Data on Shanghai's exports are obtained from *Shanghai Statistical Yearbook*, data on exports of Shanghai products and re-exports are provided by the Shanghai municipal government, the other data are obtained from *China Customs Statistics*.

garded as Shanghai's transshipment rather than Shanghai's exports.

Table 7 shows that Shanghai's share of China's exports was large in the pre-reform era. Besides the very substantial amount of Shanghai products, Shanghai's re-exports were also large. This was a result of central planning rather than the efficiency of Shanghai trading. Other provinces were compelled to sell their products to Shanghai's FTCs for export.

China's planning system crumbled in the reform era, and Shanghai's re-exports halved from 1980 to 1985. Since 1985, there has been some recovery in the amount of Shanghai's re-exports, largely because some Shanghainese enterprises have relocated to Jiangsu and Zhejiang to take advantage of lower costs, and the output of these enterprises are re-exported via Shanghai (Tian,

1994). The share of Shanghai's re-exports attributable to planning declined from 100 per cent in 1978-80 to 41 per cent in 1985 and declined further to 21 per cent in 1992 (Tian, 1994:8). In other words, the bulk of Shanghai's re-exports since 1985 is attributable to the development of market relations (Shanghainese investment in Jiangsu and Zhejiang) rather than planning. However, despite the growth in the absolute amount of Shanghai's re-exports since 1985, the share of Shanghai's re-exports in national exports fell from 13.6 per cent in 1979 to only 2.3 per cent in 1991. Relative to national exports, Shanghai's re-exports are quite small.

Though Shanghai's exports of local products have grown absolutely, their share in national exports declined sharply from 17.7 per cent in 1978 to 5.4 per cent in 1992. As both Shanghai's re-exports and Shanghai's exports of local products have declined relative to national exports, the share of Shanghai's exports in national exports declined from 29.7 per cent in 1978 to 7.6 per cent in 1992. In 1978, Shanghai was the foremost exporter among provinces and sub-central cities. However, Guangdong's exports grew extremely rapidly in the reform era and surpassed Shanghai's in 1985. Shanghai, the traditional industrial centre of the country, suffered from its legacy of import-substitution. Shanghai's industries, which had been built under protection, were not competitive in the world market.

After 1992, it is not possible to break down Shanghai's exports into exports of Shanghai products and re-exports due to inadequate data. Since 1992, it appears Shanghai has performed better in exporting, and the share of Shanghai's exports in national exports has stabilized at around 8 per cent. Available data suggest that this is due to an improvement in Shanghai's exports of local products as well as an improvement in re-exporting.

Since 1992, data on the national exports of Shanghai's products have become available (Table 7). In 1992, national exports of Shanghai's products totalled US\$6,635 million, of which Shanghai's exports of local products were US\$4,569 million. The difference (US\$2,066 million) represented Shanghai's products exported by non-Shanghainese FTCs, mostly national FTCs han-



dling products manufactured by nationally managed enterprises located in Shanghai. In 1992, Shanghai's net re-exports (Shanghai exports minus national exports of Shanghai products) were negative (-US\$147 million). However, the net re-exports of Shanghai turned positive in 1997 and 1998. This could be due to a fall in the export of Shanghai products by national FTCs as China's planning system has faded away. Or, it could be due to the continuing rise in the export of non-Shanghainese products by Shanghai's FTCs. Both factors have probably contributed to the turnaround. This suggests an improvement in Shanghai's re-export performance. However, the amount of Shanghai's re-exports still appears to be small as the change in net re-exports is quite small in absolute terms.

As Shanghai's re-exports appear to be small, the improved performance of Shanghai's exports should indicate improved performance in Shanghai's exports of local products. This is consistent with the data on national exports of Shanghai products as they have been growing at roughly the same rapid pace as China's exports (the shares of Shanghai products in national exports have been quite stable). The improved performance of Shanghai's exports is largely due to the rapid growth of exports from Shanghai's foreign-invested enterprises. This is related to Shanghai's success in attracting foreign investment. From 1992 to 1998, foreign-invested enterprises accounted for 75 per cent of the increase in Shanghai's exports. In the same period, the average annual growth rate of exports by foreign-invested enterprises in Shanghai was 40.4 per cent, while the corresponding growth rate of exports by other Shanghai enterprises was only 6.2 per cent. The share of foreign-invested enterprises in Shanghai's exports rose from 19.7 per cent in 1992 to 51.2 per cent in 1998 (*China Customs Statistics*, various years).

### *Shanghai's re-exports and transshipment*

Table 8 shows Shanghai's re-exports and outward transshipment, and Hong Kong's re-exports of Chinese products are shown for

**Table 8** Exports of Non-local Chinese Products: Shanghai and Hong Kong (US\$mn)

	Shanghai			Hong Kong
	Re-exports	Transshipment	Total	Re-exports
1978	1168 (12.0)	—	—	691 (7.3)
1979	1455 (10.7)	—	—	1002 (7.3)
1980	1489 (8.1)	—	—	1493 (8.2)
1981	857 (3.9)	—	—	2030 (9.2)
1982	868 (3.9)	—	—	2142 (9.6)
1983	959 (4.3)	—	—	2539 (11.4)
1984	915 (3.5)	—	—	3182 (12.2)
1985	742 (2.7)	1547 (5.7)	2289 (8.4)	3934 (14.4)
1986	992 (3.2)	1894 (6.1)	2886 (9.3)	5852 (18.9)
1987	1236 (3.1)	3677 (9.3)	4913 (12.5)	9562 (24.3)
1988	1463 (3.1)	2719 (5.7)	4182 (8.8)	14912 (31.4)
1989	1541 (2.9)	2679 (5.1)	4220 (8.0)	21355 (40.7)
1990	1605 (2.6)	3345 (5.4)	4950 (8.0)	25509 (41.1)
1991	1654 (2.3)	4411 (6.1)	6065 (8.4)	32284 (44.9)
1992	1919 (2.3)	5476 (6.4)	7395 (8.7)	40220 (47.3)
1993	—	7411 (8.1)	—	45555 (49.7)
1994	—	9782 (8.1)	—	53047 (43.9)
1995	—	12644 (8.5)	—	61808 (41.6)
1996	—	14185 (9.4)	—	66350 (43.9)
1997	—	18381 (10.1)	—	69524 (38.0)
1998	—	21497 (11.7)	—	66311 (36.1)

Note: Figures in brackets represent percentage share of China's exports (*China Customs Statistics*).

Sources: Chinese products re-exported via Hong Kong: *Review of Overseas Trade*, Census and Statistics Department, Hong Kong. Shanghai's re-exports are taken from Table 7, Shanghai's outward transshipment is obtained by subtracting Shanghai's exports (Table 7) from exports via Shanghai (Table 6).

comparison. Shanghai's re-exports are taken from Table 7. Shanghai's transshipment is obtained by subtracting Shanghai's exports (Table 7) from exports through Shanghai's customs (Table 6). For instance, in 1997, exports through Shanghai's customs were 18.3 per cent of national exports, whereas Shanghai's exports were only 8.1 per cent of the national total. The difference (10.2 per cent of national exports) represents Shanghai's outward transshipment.

Table 8 shows that, while the share of Shanghai's re-exports of national exports has declined, the share of Shanghai's transshipment of national exports has more than doubled from 5.1 per cent in 1989 to 11.7 per cent in 1998. This can be attributed to Shanghai's success in containerization.

Relative to Hong Kong's share of China's exports, Shanghai's share is quite small. Shanghai's re-exports are very small relative to that of Hong Kong. This may be due to provincial barriers, or it may be because Shanghai's FTCs are not very efficient. It should be noted that China's FTCs are not very competitive and foreign investment has only be allowed in the sector in a very restricted way. As a result, China's system of import/export trade tends to follow administrative rather than market forces. China's trading system impedes Shanghai's emergence as a trading hub. As a centre of international trade, Shanghai clearly has a long way to go.

### Shanghai as a Financial Centre

Shanghai's has had some success in developing its financial services. The capitalization of Shanghai's stock market had surpassed Shenzhen's in early 1992, and the size of the Shanghai stock market was a few times that of Shenzhen's in 1998. With the 1994 reform of the foreign exchange regime and the unification of China's exchange rate, Shanghai has become the centre of foreign exchange transactions in China, and the volume of transactions

was US\$70 billion in 1997. Shanghai also has the largest number of foreign banks in China.

However, Shanghai is only a domestic financial centre. Unlike Hong Kong, Shanghai cannot claim to be a regional or an international financial centre. Unless China achieves capital account convertibility, Shanghai cannot develop international financial business. The Asian financial crisis has slowed down the opening of China's capital account. Though Shanghai has proposed to start an offshore financial market in its Weiguochiao free trade zone since 1994, Beijing has not approved the proposal for fear of possible impact on the stability of the *renminbi*. Presently, Hong Kong has the largest offshore market for the trading of the *renminbi*.

The gap between Hong Kong and Shanghai in international financial activities is very large. At the end of August 1998, 170 foreign banks operated in Hong Kong versus only 59 in Shanghai, of which only 9 could engage in business involving the local currency. Hong Kong has 323 foreign securities or commodity trading firms, and Shanghai has only 3. Hong Kong has 122 foreign insurance companies, and Shanghai has only 6. Hong Kong has 1,182 foreign unit trusts, while Shanghai has none (Zhu, 1998:9).

The greatest disappointment as regards Shanghai's development as a domestic financial centre is that the specialized banks of China have refused to move their headquarters from Beijing to Shanghai. The government has tried to pressure the Bank of China to move its headquarters to Shanghai, but to no avail. Given China's system of planned allocation of bank credit, banks naturally prefer to stay in Beijing, where decisions on planned allocation of bank loans are made. The Bank of Communications, which traditionally had its headquarters in Shanghai, has found itself to be at a great disadvantage as its managers often have to fly to Beijing to attend meetings on short notice, and they have some times failed to attend some meetings because the planes are fully booked.<sup>3</sup> China's specialized banks will prefer to stay in Beijing unless the state thoroughly reforms its system of administrative allocation of bank credit. East European experience has shown

**Table 9** China's Trade via Shanghai and Hong Kong (US\$mn)

	Via Shanghai <sup>1</sup>			China's trade via Hong Kong with third countries <sup>2</sup>			China's trade with Hong Kong <sup>3</sup>		
	Total trade	Exports	Imports	Total trade	Exports	Imports	Total trade	Exports	Imports
1979	—	3675 (26.9)	—	1265 (4.3)	1002 (7.3)	263 (1.7)	3428 (11.7)	3045 (22.3)	383 (2.5)
1985	14873 (21.4)	4908 (18.0)	9965 (23.6)	9841 (14.2)	3934 (14.4)	5907 (14.0)	15306 (22.0)	7449 (27.3)	7857 (18.6)
1987	15635 (18.9)	6601 (16.7)	9034 (20.9)	17231 (20.9)	9562 (24.3)	7669 (17.8)	26065 (31.6)	14775 (37.5)	11290 (26.1)
1989	19437 (17.4)	7711 (14.7)	11726 (19.8)	34623 (31.0)	21355 (40.7)	13268 (22.4)	43248 (38.8)	24432 (46.6)	18816 (31.8)
1990	17289 (15.0)	8662 (14.0)	8627 (16.2)	39728 (34.4)	25509 (41.1)	14219 (26.7)	49833 (43.2)	29528 (47.6)	20305 (38.1)
1991	20409 (15.1)	10151 (14.1)	10258 (16.1)	51940 (38.3)	32284 (44.9)	19656 (30.8)	63342 (46.7)	36711 (51.1)	26631 (41.7)
1992	25145 (15.2)	11964 (14.1)	13181 (16.4)	67413 (30.7)	40220 (47.3)	27193 (34.9)	79323 (47.9)	44187 (52.0)	35136 (45.1)
1993	30931 (15.8)	13977 (15.2)	16954 (16.3)	81046 (41.4)	45555 (49.7)	35491 (34.1)	93848 (47.9)	50165 (54.7)	43683 (42.0)
1994	36246 (15.3)	18938 (15.7)	17308 (15.0)	94823 (40.1)	53047 (43.9)	41776 (36.1)	108372 (45.8)	58702 (48.6)	49670 (42.9)
1995	48138 (17.1)	25608 (17.2)	22530 (17.1)	111490 (39.7)	61808 (41.6)	49682 (37.6)	125204 (44.6)	67300 (45.3)	57904 (43.8)
1996	52869 (18.2)	27213 (18.0)	25656 (18.5)	120365 (41.5)	66350 (43.9)	54015 (38.9)	133130 (45.9)	71148 (47.1)	61982 (44.6)
1997	58682 (18.1)	33450 (18.3)	25232 (17.7)	126858 (39.0)	69524 (38.0)	57334 (40.3)	140777 (43.3)	75194 (41.1)	65583 (46.1)
1998	63637 (19.6)	37453 (20.4)	26184 (18.7)	118908 (36.7)	66311 (36.1)	52597 (37.5)	131343 (40.5)	71507 (38.9)	59836 (42.7)

Notes: Figures in bracket represent percentage share of China's total.

1. Includes exports of Shanghai products, re-reports and transshipment via Shanghai.

2. Includes only China's trade with third countries in the form of Hong Kong re-exports (i.e., excludes transshipment).

3. Includes also China's exports retained in Hong Kong and China imports of Hong Kong goods in addition to China's trade via Hong Kong.

Sources: Trade via Shanghai: Data from 1992 were obtained from *China Customs Statistics*; data before 1992 were obtained from *The Foreign Economic Statistical Yearbook of Shanghai*; Shanghai Statistical Bureau (internal document). Mainland's trade via Hong Kong and with Hong Kong: *Hong Kong External Trade*, Census and Statistics Department, Hong Kong, various issues. Mainland's exports to (imports from) Hong Kong are taken to be Hong Kong's imports from (exports to) the mainland.

that the reform of the banking system in a Communist economy is a long and tortuous process, and China is no exception. Though China is going into the third decade of its reform era, its banking system is only half-reformed.

It must be emphasized that, in comparison with the stock market, banks play a much more important role in financing in any country. In such countries as the United States, the United Kingdom, Germany, Japan and France, over 80 per cent of the capital investments of firms is raised from internal funds, 15 per cent from bank borrowing and less than 5 per cent through the issue of shares and bonds (Stiglitz, 1993). The relative insignificance of direct financing can be attributed to the inherent difficulty for shareholders to effectively monitor the performance of publicly-listed firms. Despite Shanghai's active stock market, the growth of China's financial system will remain severely stunted unless China thoroughly reforms its banking system. Until then, Shanghai will not be able to realize its potential as a domestic financial centre.

### Impact of the Asian Financial Crisis

The mainland is passing through the most difficult stage of its economic reform which involves the reform of banks, the financial system and state-owned enterprises (SOEs). Mainland's exports and inward foreign direct investment (FDI) have stagnated due to the Asian financial crisis, leading to a fall in economic growth and rise in unemployment. This has slowed down the reform of the SOEs and may adversely affect banking reforms which are crucial to Shanghai's development as a financial centre.

The Asian financial crisis has highlighted the importance of thorough banking reforms. East Asian economies had been able to achieve rapid economic growth through hard work, high savings and export-oriented industrialization. However, most East Asian economies have banking systems that are riddled with bad debts as a result of policy loans and favouritism. Fragile banking sys-

tems turned out to be the Achilles' heel of East Asian economies, and many of them have succumbed to the financial crisis. China's banking system has the same problems of bad debts as in Indonesia and Malaysia. The only reason that the *renminbi* has escaped speculative attacks is that it is not convertible. Even an economy as advanced as Japan has a banking system that is non-transparent and riddled with bad debts and favouritism. Due to the East Asian value of consensual decision making, Japan has not been able to force insolvent banks to go bankrupt as that would be too harsh on the directors concerned. Likewise, Japan has not been able to clean up favouritism and corruption in its banking system. The case of Japan shows that the reform of the banking system is difficult, not only because of its economics, but also because banking reforms require political and cultural changes that go to the heart of East Asian political culture.

Among the Asian economies, both Hong Kong and Singapore have transparent and sound banking and financial systems as a result of their colonial legacy. Viable and sound banking systems are rare in Asia. The Asian financial crisis again underlines the strength of Hong Kong, both as an international financial centre and as the mainland's gateway. The role of Hong Kong as China's gateway cannot easily be replaced by other cities.

While the Asian financial crisis has increased the difficulties of banking reform in China, the crisis has also demonstrated the urgency of such reforms. China is entering the third decade of its reform era, trying to carry through difficult economic reforms which require concomitant changes that go to the heart of its political culture. If China can bite the bullet and complete its banking reforms, Shanghai will be able to realize its potential as a financial centre.

As a service hub, Shanghai clearly has a long way to go. The developments of high-end services, especially financial services, telecommunications and the information industry, are very sensitive to the efficiency of the regulatory regime. An efficient, clean and transparent government is thus very important for the development of a service hub. The development of Shanghai as a ser-

vice hub requires, not only economic reforms, but also reforms of its bureaucracy and government.

## Notes

1. TEU = twenty-foot equivalent unit, a unit measure in capacity terms for different sizes of containers, one TEU is equivalent to the capacity of one 20-foot x 8-foot x 8-foot container.
2. In mainland-Hong Kong trade, the cost of insurance of freight can be ignored as it is only 1 per cent of the value of the trade (Census and Statistics Department, Hong Kong, 1997).
3. Information obtained from interview.

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## Shanghai and Hong Kong as Service Hubs

### Abstract

While Guangdong was the pioneer of China's reform in the 1980s, the focus of national development shifted to Shanghai in the 1990s. As Shanghai's mission is to be a service hub, this paper compares the role of Shanghai and Hong Kong in shipping, international trade and finance.

Shipping: With reform era decentralization, provinces around Shanghai built their own ports, and Shanghai's share of China's cargo handled at its port fell drastically. This did not imply the demise of Shanghai's port because Shanghai's cargo shifted away from river cargo to ocean-going container cargo which had higher value-added. Since the modernization of Shanghai's container facilities in 1993 (largely attributable to the investment of Hutchison Whampoa Limited, Hong Kong's foremost container operator), Shanghai has been transformed from a feeder port of Hong Kong to a container port in its own right. However, the lack of a deep-water port in Shanghai is a long-term problem. Even with expensive dredging, Shanghai will not be able to handle modern third- and fourth-generation ships.

International Trade: The shipment of non-Shanghai products via Shanghai includes re-exports (products handled by Shanghai trading companies) and transshipment (products handled by non-Shanghai companies). The share of Shanghai's transshipment in national exports has risen due to Shanghai's success in containerization. However, the share of Shanghai's re-exports in national exports has fallen sharply in contrast to the rising share of Hong Kong's. Provincial rivalry and the inefficiency of Shanghai's state-owned trading companies have hampered the growth of Shanghai's re-exports. Though Shanghai has some success as a shipping hub, its performance as a trading hub is quite dismal.

Financial Centre: Shanghai has developed rapidly as a domestic financial centre. However, the specialized banks of China have refused to move their headquarters from Beijing to Shanghai, as the decisions to allocate loans are still made administratively in Beijing. Shanghai's potential as a domestic financial centre is not yet fully realized. Unlike Hong Kong, Shanghai is not yet an international financial centre. The gaps between Hong Kong and Shanghai in international financial activities are very large largely because the *renminbi* is not convertible.

Despite its rapid development as a service hub, Shanghai still has a long way to go. The growth of high-end services (e.g., financial services, telecommunications and the media and information industry) requires an efficient regulatory regime and a clean and transparent administration. Shanghai needs not only economic reforms, but also reform of its bureaucracy and government.

## 服務中心 上海與香港的比較

宋恩榮

(中文摘要)

在九十年代，中國經濟發展的重心已從廣東轉移至上海，要求發展成為全國的服務中心。本文比較上海與香港在航運、國際貿易及金融三個主要服務行業的角色。

航運：隨著經濟改革及權力下放，上海鄰近的省份紛紛建立自己的海港，上海海港吞吐量佔全國的份額急劇下降。這並不意味上海海港衰落，因為上海貨運構成從內河貨運轉移至遠洋貨櫃，而後者的增值率較高。

直至一九九二年，上海不過是香港的輔助港。隨著香港和記黃埔有限公司在上海投資，上海貨櫃設施從一九九三年開始迅速現代化，使上海成為獨立的遠洋貨櫃港。不過，上海長遠的隱憂是缺乏深水港，就是進行昂貴的疏浚工程，上海也難以處理第三代及第四代的貨櫃船。

國際貿易：通過上海出口的外地產品，可分為轉口（由上海的外貿公司出口）及轉運（由外地的外貿公司出口）。

上海在轉運方面的成績遠超轉口。因為上海貨櫃設施發展迅速，經上海轉運的產品佔全國出口的比例明顯上升（由一九八九年的 5% 上升至一九九八年的 12%）。不過從一九七八至一九九八年間，中國經上海轉出口的比例卻大幅下跌

（從 12% 跌至 3%），而同期中國經香港轉出口的比例則顯著上升（從 7% 升至 36%）。上海轉口不振，與各省之間的矛盾及上海國營外貿公司效率低落有關。上海在航運中心方面成績斐然，在貿易中心方面的表現卻令人失望。

金融中心：雖然上海迅速成為國內的金融中心，不過中國的專業銀行卻不肯把其總部從北京搬到上海，這是因為信貸分配仍由北京以行政命令決定。上海作為國內金融中心的潛力是以未能充份發展。

因為人民幣在資本項目方面不能自由兌換，是以上海在國際金融業務方面遠不如香港。上海是國內金融中心而非國際金融中心。

雖然上海的服務業發展迅速，不過上海成為國際級服務中心之路仍然漫長，高增值服務（如金融、電訊、傳媒及資訊）需要有效率、廉潔及高透明度的監管。上海不單止需要經濟改革，也需要行政及政府的改革。