



Corpus Christi and Coastal Bend Economic Pulse

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Another Tale of Two Cities: Corpus Christi and Hong Kong

By Jim Lee

This article looks at factors that have contributed to the growth miracle of Hong Kong. With an early history as a trading post along a deepwater harbor, this city-state bears much resemblance to Corpus Christi. Yet a laissez faire institutional structure, in which highly competitive markets operate alongside an efficient public sector with a low tax burden, contributes much to Hong Kong's economic growth that is four times greater.

It seems inconceivable to compare Corpus Christi and Hong Kong side by side. One city is located in the Gulf of Mexico, the other in southern China. But the two cities are quite similar in that both are located in the sub-tropical region so they are relatively warm and humid year round. Also, the history of both cities began in the late 1800s as a trading post with a deep seaport. Corpus Christi is nicknamed the Sparkling City by the Sea, and the name of Hong Kong literally means "fragrant harbor" in Chinese. While their resemblances pretty much end here, a look at these two cities' different economic institutions and growth patterns might offer some fresh perspectives on regional economic development.

Hong Kong has been a Special Administrative Region of China since 1997, when the 99-year lease to Great Britain expired. Prior to its official handover of sovereignty, the British government signed an agreement with China in 1984 to formulate a "one country, two systems" policy that would ensure the city a high degree of autonomy in its economic and legal systems for 50 years through 2047. Today, Hong Kong remains a city-state with a laissez faire system that contrasts sharply with China's authoritarian regime.

No Resource Curse

In Corpus Christi, land is relatively flat and abundant. In Hong Kong, land is the most precious resource. This Asian city has less than one-third of the landmass in the Corpus Christi metro area, and much its landscape is mountainous and so uninhabitable. Its over 7 million population makes it one of the most densely populated cities. Relative to household income, housing in Hong Kong is the least affordable in the world. The high housing cost is responsible for its high cost of living that is more than twice the level for Corpus Christi.

During the past decade or so, much of Corpus Christi's population growth came from births, and a negative migration rate was the norm. Despite scarcity in land supply, Hong Kong's population expanded at an average annual rate of about one percent over the past 20 years. Most visitors can enter Hong Kong without a visa. Despite this open door policy, population growth in Hong Kong has shown a downward trend since 1960. Hong Kong residents have one of the world's lowest birth rates—0.9 per woman. Migration from mainland China has been a main source of the city's population growth.

Keeping Up with the U.S.

One reason for Hong Kong's low birth rate is its rapid pace of economic growth. According to International Monetary Fund, average income in Hong Kong, as measured by GDP per capita, was less than one quarter of that in Corpus Christi and the United States in 1960. Today, Hong Kong residents on average have already caught up with Americans in terms of income, which is US\$3,000 more than the average income for residents in Corpus Christi. This convergence was the outcome of economic growth in Hong Kong that was four times faster than that in the United States.

Despite its proximity to mainland China, Hong Kong's growth miracle shows little resemblance to China's recent growth experience. In its early history as a British colony, Hong Kong served as nothing more than an entrepot for cargo trade between the Far East and the rest of the world. In the aftermath of World War II, most of its population was made up of refugees who fled the ruling communist regime in mainland China. In response to a surge of labor supply, the economy switched from trade to manufacturing. Its main exports also switched from toys and textiles in the 1960s to consumer electronics and watches in the 1970s.

Now Hong Kong's manufacturing industry has all but evaporated since China began economic reforms in the late 1970s and subsequently entered the world market through the WTO. In 1980, manufacturing accounted for over 30 percent of Hong Kong's total output. Today, only 8 percent of its output comes from the production of goods.

With virtually no natural resources, including fresh water and fertile land, Hong Kong must rely on China and the rest of the world for all of its consumption of food and commodity supplies. Yet this seemingly fragile city has consistently run a surplus in its trade balance. Most of its exports are now in the form of services, particularly logistic and financial services.

Tourism also plays a key role in Hong Kong's trade accounts. In sharp contrast to the reputation of having a corrupt police force some 30 years ago, Hong Kong is now regarded as one of the safest cities with low crime rates. This tiny city is also renowned for its duty-free "shopping paradise." The government levies no sales tax on most goods, except cigarettes and alcohol.

Area Profiles, 2010

	<u>Corpus Christ MSA</u>	<u>Hong Kong</u>
Land Area (squared miles)	1,527	401
Population	416,095	7 million
Population Density (people per sq. mile)	272	17,456
Educational Attainment		
High School Graduate	28.8%	52.2%
Bachelor's Degree	12.3%	18.3%
GDP per capita	US\$42,423	US\$45,736
% Manufacturing	31%	8%
% Services	69%	92%
% Export	103%	194%
% Import	150%	187%
Taxes		
Individual Income Tax	28.0%	15.0%
Corporate Income Tax	40.0%	16.5%
Sales Tax	8.25%	0.0%
Total Tax Revenue as % GDP	26.9%	13.0%
Quality of Life Indexes		
Median home price, US dollars	US\$136,300	US\$330,939
Median Home Price Relative to Household Income	3.18	11.4
Crime Rate per 100,000 in population	5,660	1,063
Cost of Living Index, U.S.=100	91	215

Source: International Monetary Fund, World Bank, OECD, and Bureau of Economic Analysis

Laissez Faire Economy

Hong Kong is one of the few world economies that operate with a flat tax system. The government imposes a 15-percent rate on individual income and a 16.5-percent rate on corporate income. Its overall tax burden as a share of income is 13 percent, one of the lowest in the world, as compared to a more than twice as high for the U.S.

Still the Hong Kong government runs a budget surplus more often than a deficit. Land sales, which account for as much as 40 percent of its revenues, contribute to its sound financial status despite relatively few tax dollars. This year, a budget surplus led to a government handout to all Hong Kong permanent residents an equivalent of US\$750. This stands in sharp contrast to the current experiences in the U.S. and Europe.

No Oxymoron in Government Efficiency

Unlike most governments in the world, the public sector in Hong Kong strives to function as a large corporation in terms of efficiency. This is evident in the first moment anyone crosses its borders: Including the time waiting in line, passing through the customs typically takes less than one minute for Hong Kong residents, and no more than 10 minutes for foreign visitors.

The Hong Kong government achieves efficiency partly through compensating its public servants, including police officers, with what economists call efficiency wages, or high earnings. Its head of state, currently Donald Tsang, commands a salary of \$500,000, which is higher than the U.S. president's. The head of its Monetary Authority, Hong Kong's currency board, also earns more than the chairman of the Federal Reserve does. Since 1983, its currency, the Hong Kong dollar, has been pegged to the U.S. dollar, and the currency board's primary function is to oversee this fixed exchange rate mechanism. The currency peg implies that the Hong Kong authority cannot conduct independent monetary policy. Without a central bank, currency is issued by private banks with relatively lax regulation.

Hong Kong's low taxation and highly competitive markets under a laissez faire environment have helped make this city-state the champion in most international rankings of economic freedom ever since such indexes were first developed in the 1980s. It has also been ranked higher than the U.S. in different measures of business competitiveness and ease of doing business.

A skilled workforce is vital to sustained economic growth. Slow income and employment growth in Corpus Christi relative to other U.S. metro areas is highly correlated with its relatively low level of educational attainment. Conversely, rapid income growth in Hong Kong is attributable to its improvement in educational attainment. In 1980, only two universities served the city population of 4 million. Today, there are 9 universities plus various other higher education institutions. By OECD's standard testing standards, the scholastic achievement among middle-school students in Hong Kong is remarkably higher than that of their American counterparts.

Competitiveness Indicators, 2010

	<u>U.S.</u>	<u>Hong Kong</u>
World Competitiveness Yearbook	Ranked #3	Ranked #2
Global Competitiveness Index (World Economic Forum)	5.4	5.3
Ease of Doing Business Ranking (World Bank)	Ranked #5	Ranked #1
Time to Start a Business (World Bank)	6 Days	6 Days
Economic Freedom Rankings		
Heritage Foundation	Ranked #9	Ranked #1
Fraser Institute	Ranked #6	Ranked #1
International Student Assessment (OECD, 2009)		
Math	Ranked #30	Ranked #3
Science	Ranked #23	Ranked #3
Reading	Ranked #17	Ranked #4

Beyond Economic Development

Historical evidence supports that resource abundance, particularly among European colonies, tended to lead to excessive government controls, which in turn retarded economic development. The resilience and vibrancy of the Hong Kong economy are attributable to its lack of natural resources and the legacy of the British government's laissez faire policy. In a matter of two generations since the first influx of refugees from mainland China, this Asian Tiger joined the rank of the advanced economies in the 1980s. Following the Chinese takeover in 1997, it endured tough economic times associated with a financial crisis in Asia, the breakout of an infectious disease called SARS, and recently the global economic downturn. Each time this economy bounced back almost instantly.

Much of Hong Kong's economic success stems from its unique economic infrastructure and political environment. While it seems difficult for U.S. policymakers to draw lessons from its growth factors, this tiny city-state has served as a model for Chinese policymakers in refining mainland China's legal, accounting and financial systems.

Economic prosperity and high living standards do not necessarily translate into a high quality of life. Now there is evidence pointing to Hong Kong's advance toward another stage of community development. The Hong Kong government is making strides in protecting the earth by levying a tax on the consumption of plastic bags in grocery stores and imposing a penalty for any vehicle running idle for more than 10 minutes. By trading economic efficiency for equity and other social interests, this economy is transitioning into another welfare state in the world.

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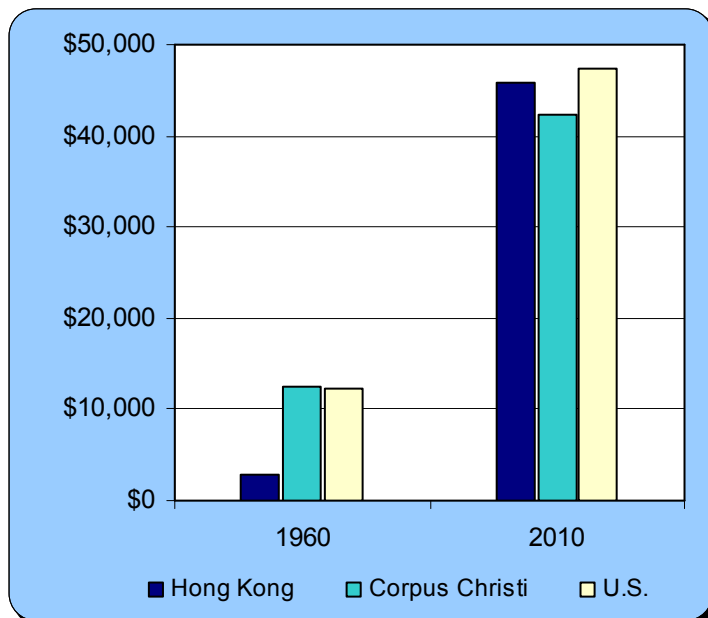
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(cont'd)

GDP Per Capita, Current US Dollars



Source: International Monetary Fund.