

# THE BUSINESS ENVIRONMENT IN HONG KONG

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## **I**NTRODUCTION

In 1989 China passed through another cycle of abrupt economy correction and a severe crack down on political dissidents in Tienanmen Square. Some people were confused over these issues and concluded that for a Hong Kong economically dependent on an ailing economy managed by officials wearing Chinese jackboots, the future was dim (Mann 1990). This has led some people mistaken that Hong Kong might crumble in the near future. On July 1<sup>st</sup>, 1997 Hong Kong was returned to Chinese sovereignty and this territory is now called Hong Kong Special Administrative Region (HKSAR) of China with a high degree of autonomy. The Joint Declaration of “one country, two systems”, was registered at the United Nations in 1984. Hong Kong remained a free port, a free trader and level playing field for business. HKSAR is empowered to conduct its own external economic relations and enjoy a separate membership of the World Trade Organization, APEC and other international economic organizations. The Joint Declaration also states that Hong Kong is to be ruled by Hong Kong people (HKSAR 1997). HKSAR has a great challenge ahead; which is to maintain and prove that HKSAR will still be a competitive place for business and restoring confidence of existing and potential foreign investors.

There were still lots of companies coming to Hong Kong in spite of the “uncertainty” after returning to China. The growth of American companies coming into HKSAR will remain high at 6-7% annually. Mcdonald's and Pizza Hut are two cases in point. There is also an increasing trend in investment from Japan into Hong Kong, mainly in the banking, insurance and securities industries. Currently there are more than 1200 Japanese companies operating in HKSAR.

The purpose of this research paper is to examine the current business environment of Hong Kong, understand the country's development model, describe some major and critical issues of doing business in Hong Kong and identify the strategic changes required by MNCs in order to be successful in HKSAR.

## **The Economy**

In 1995, Hong Kong was ranked as the eighth largest trading entity in the world. It is one of the Asian Tigers, along with Singapore, Taiwan and South Korea. Over the past two decades Hong Kong economy has more than quadrupled in size with an average GDP growth of 7.5% in real terms. However, the real GDP began to grow lesser in the recent years; 4.8% in 1995 and 4.7% in 1996 as many labor intensive industries have been relocated to China and Southeast Asia. The GDP in 1997 was slightly higher, at appx. 5.4% due to the recovery of domestic demands. Hong Kong's GDP is lower compared to Southeast Asian countries particularly to other Asian tigers where average GDP is 8%. The local workforce is enjoying continuous rise in income not only in money terms but in real terms too. However, for a business entity, cost escalation may be a key consideration while setting up a business in Hong Kong (Econy Outlook for East Asian 1997).

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The growth rate for Hong Kong's re-exports to United States has been gaining momentum since mid 1996 and has been around 10.8% in 1997. In reality, Hong Kong's economic growth was underpinned by a recovery of domestic demand despite stagnant exports. The Hong Kong economy is highly externally orientated. In 1996, the total trade was US\$ 376 billion with total exports of US\$179 billion (Re-exports US\$ 152 billion and Domestic exports US\$ 27 billion). Although Hong Kong is one of the world's largest exporters of garments, toys and games, electronic products, watches and light industrial products – most of them coming from re-exports (Hong and Cethbridge, 1995).

The Hong Kong Dollar is fixed at the rate of HK\$7.80 to US\$1.00 thus there will be no exchange risk. Inflation rate has been increasing from 4.3% in 1995 to 6.0% in 1996 and 7% in 1997. The pick-up was mainly due to the greater amount of imported inflation as most of the goods are imported into Hong Kong. However, there were indications that the higher inflation rate was also partly due to the expansion of domestic demand.

It is estimated that there will be at least an 8% increase in exports of services mainly in the financial market. Hong Kong has developed into one of the world's leading financial centers in terms of volume of transactions, foreign exchange transactions and in terms of stock market capitalization. The telecommunication service sector is also another rapidly growing area in Hong Kong.

Though Hong Kong's entrepreneurs will continue to diversify their manufacturing base by investment in other countries around the region, the focus has shifted to cheap and productive labour opportunities available in mainland China. As far as the local investment is concerned, Hong Kong is definitely turning into a service centre. It is believed that the economy will continue to grow and has to be positive for the financial service industry.

The level of fixed assets investment has been reducing over the past few years due to the increasing rents and escalating cost; any investor will have to reconsider whether their business will still be viable in Hong Kong. However, Hong Kong is emerging as a center for sophisticated services, transportation and communication rather than just relying on the manufacturing industries to drive its economy.

Looking at Hong Kong's economic strengths and weaknesses, a business organization should also take note of the opportunities and threats that come along in doing business in Hong Kong. This is further illustrated in Figure 1.

<p style="text-align: center;"><b>STRENGTHS</b></p> <p>Constant high GDP growth rate of 5% World's 2<sup>nd</sup> most competitive Laissez faire Foreign exchange reserves US \$ 63.6 billion</p>	<p style="text-align: center;"><b>WEAKNESSES</b></p> <p>Escalating Cost High Inflation 7%</p>
<p style="text-align: center;"><b>OPPORTUNITIES</b></p> <p>Re-exports Financial services exports Fixed HK\$ against US Dollar</p>	<p style="text-align: center;"><b>THREATS</b></p> <p>Reducing domestic demand South Asia strengthening economies Migration of industries Possible intervention of China</p>

**Figure 1: SWOT Analysis on Hong Kong's economy**

## **Legal and Political Environment**

In order to maintain the confidence of MNCs in future stability and prosperity of Hong Kong, talks began with China in 1982, i.e. 15 years before China resumed administration of Hong Kong (Hong and Cethbridge, 1995). As agreed China has kept up with her pledge as shown during the transition period and to maintain the policies as indicated in the Joint Declaration. As a part of the declaration, the social and economic systems would remain unchanged; freedom of speech, of press, of association, of travel and of religion would be guaranteed by law; the government of Hong Kong would be composed of local inhabitants and the law would remain unchanged, the legislature would be composed of local inhabitants and constituted by election; and the executive authorities would abide by law and be accountable to the legislature.

It is evident that the socialist system and policies of China shall not be practiced in Hong Kong, and the previous capitalist system and way of life shall remain unchanged for 50 years. It is still too early to tell to what extent the Chinese Government may influence the administration of HKSAR in the long-run. As long as the Chinese Government does not interfere "too much", and the people continue making money, Hong Kong will be able to pursue its existing policies. Hong Kong might become more bureaucratic in future but we do not see that Chinese government will make much changes at this point of time as it will effect the business environment of Hong Kong.

In addition to Chinese language, English is used as an official language by the executive authorities, legislature and judiciary of Hong Kong. The Chinese government has started encouraging the use of Mandarin as medium of instruction in educational institutions.

Although Hong Kong enjoys a high degree of autonomy in all its internal matters, the Chinese government manages the external affairs and defence. This was clearly demonstrated by the Chinese army marching into Hong Kong when the clock struck twelve midnight on July 1, 1997. The top position in Hong Kong administration is held by a Chinese citizen, designated as The Chief Executive.

As regards the legal perspective, the Hong Kong protects the right of individuals and legal persons to the acquisition, use, disposal and inheritance of property and the right to compensate for lawful deprivation of their property. Hong Kong has its independence over finance and uses its financial revenues exclusively for its own purposes. The Government of Hong Kong provides an appropriate economic and legal environment for the maintenance of Hong Kong as an international financial center. Hong Kong's currency is backed 100% by reserve fund and Hong Kong \$ is freely convertible, with no foreign exchange control policies (Law of HKSAR).

The HKSAR Government's control over business disclosure is minimal. All wholly owned subsidiaries of US companies need not file any financial statements to the government. There are minimal capitalization requirements for a private company thus encouraging foreign direct investments into Hong Kong. However, the role of the government is larger than it appears with close scrutiny and regulations through various schemes of control, e.g. the grant of franchise to sole supplier, government participation in large-scale projects like container facility at Kwai Chung and the first cross-harbor tunnel.

Though the HKSAR Government does not influence labor and capital prices, it does have considerable control over the price of land and over land policy itself. The intervention in the financial sector is more legalistic and concerned with regulatory control on financial institutions so as to ensure the industry's stability and to safeguard the interest of individuals. Nevertheless, there are also instances of government's direct intervention in the monetary sector. In 1995, the government advised banks not to provide mortgages of over 70% of the purchase price, with the intention to check escalating property prices (Dun & Brad Street, 1996).

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<b>Legal and Political Environment</b>
<ul style="list-style-type: none"> <li>⌘ 1982 Talks began on Joint Declaration – British / China</li> <li>⌘ No interference by China for 50 years – Autonomy in internal Affairs</li> <li>⌘ External affairs &amp; defense – China</li> <li>⌘ Based on British Law</li> </ul>

Firms can be exposed to political and legal risk due to possible government actions or outside the government’s control. Political related risk in Hong Kong can be summarized as shown in Figure 2.

**Loss as a result of:**

<b>Contingencies :</b>	<b>Government Control</b>	<b>Factors Outside Govt. Control</b>
Involuntary loss without adequate compensation	<ul style="list-style-type: none"> <li>⌘ Revert to Socialism</li> <li>⌘ Expropriation</li> <li>⌘ Confiscation</li> </ul>	<ul style="list-style-type: none"> <li>⌘ Revolution</li> <li>⌘ Terrorism</li> <li>⌘ Extortion</li> </ul>
Reduction in value of benefits expected from the foreign – controlled affiliate	<ul style="list-style-type: none"> <li>⌘ Intervention on property mortgages</li> <li>⌘ Regulating land price</li> <li>⌘ Future remittance control</li> <li>⌘ New import duties on health, safety and security products</li> <li>⌘ Restriction on exports</li> </ul>	<ul style="list-style-type: none"> <li>⌘ Nationalistic buyers/suppliers</li> <li>⌘ External induced financial constraints</li> <li>⌘ External limitation on imports</li> <li>⌘ Sanctions on China</li> </ul>

**Figure 2: The Political and Legal Risk Exposure in HKSAR**

**Social Structure**

Hong Kong’s national language is Cantonese. However, Hong Kong Cantonese is not exactly same as the actual Guangzhou Cantonese or Punyu Cantonese, which was regarded as the purest form of Cantonese. Over the years, Hong Kong people have developed and enriched the language with “emotions” and Western “borrowed” words (Lithbridge 1980). Hong Kong is bilingual society, with English being the most frequently used language in their daily work. Interestingly, one who speaks Hong Kong Cantonese need not necessarily be Chinese. Many foreigners from Philippines, Britain, America, Australia, Japan, India and Pakistan working in Hong Kong speak fluent Cantonese, thus making Hong Kong a well-integrated society, with over 95% of the population having communication skills in Cantonese. Hong Kong has two major systems of social stratification, one European and the other Chinese. They do not interlock, although high-ranking members from each are found working together amicably. Each system is too autonomous with its symbols, rituals, rules and gradation of status (Hong and Cethbridge, 1995). It is possible to distinguish four main categories of Europeans in Hong Kong. They are:

1. Government servants.
2. Those employed or self-employed in private sectors.
3. Members of professions; teachers, clergymen and missionaries, nurses and social workers in voluntary organizations and
4. Technicians and supervisors.

There were no Europeans working as bricklayers, dockers, machinists, fitters or plumbers, and other skilled or semi-skilled labor.

Dual-income family is a norm among Hong Kong Chinese. Fact is that female gender discrimination in job recruitment, income and political rights exist although Hong Kong has reached the status of an advanced industrialized society. The social class differences are classified according to gradation of wealth. Hong Kong people can be distinguished into:

1. Professionals and top managers
2. Business entrepreneurs
3. Bureaucrats and clerks
4. Semi-skilled and unskilled labor

Educational achievements and hard work are considered the most critical personal factors for success. Today's dynamism of Hong Kong has been achieved through the predominant goal of the society – doing business and all that entails for advancement and material well-being. This may be due to the historical imprint resulting from lack of identification with the colonial regime and identity vaunting opportunity, mobility and success.

### **Social Structure**

- ꞑ National Language – Cantonese
- ꞑ Bilingual society
- ꞑ Two major system of social stratification – Europeans & Chinese
- ꞑ Dual-income family
- ꞑ Gender discrimination occurs
- ꞑ Materialistic
- ꞑ Secret society and lubrication

Hong Kong has most of the social problems found in other developed countries plus a few unique ones. Drug addicts, secret society members, conventional and white collar crimes are common. There are conspicuous numbers of shady businessmen, corrupt policemen and civil servants. Lubrication is common in the lower social class in order to get things done effectively. Independent Commission Against Corruption (ICAC) was established to eliminate some syndicated corruption within the police force that gave protection to those that gained livelihood illegally from prostitution, gambling and drugs.

Hong Kong, from whatever perspective one views it, is an extra-ordinary society, a mixture of the antique and the modern; economically advanced though socially backward in many areas. It is a place where different communities come together, principally in the market-place.

### **Business Culture**

Hong Kong has a huge foreign population of expatriate business people, though 98% of the population is Chinese. Although Hong Kong Chinese traditions and values have been influenced by the Western presence, they possess many characteristics which are difficult for Westerners to understand this cultural transmission which is called 'collective programming of the mind' by Hofstede (Czinkota 1996).

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Foreign business must try to grasp the moral values and traditional concepts which shape the Chinese mentality if they want to operate successfully in Hong Kong. Hong Kong Chinese are influenced by the Confucius teachings which emphasize obedience and respect for superiors and parents, duty to family, loyalty to friends, humility, sincerity and courtesy.

In modern Hong Kong today, westernization and competing philosophies have diluted Confucianism, but it is still manifested in the behavior of the people. In many Hong Kong business enterprises, the boss is a ruler and a father or guardian to his subordinates. Workers have a duty to obey the boss and work diligently to help company succeed. The boss in return shall make sure that the workers get their basic needs. Age and rank are well respected in Hong Kong. Younger people are expected to show respect to their elders in speech and manner. In return the elder is expected to reward their juniors for work well done.

There is a strong bond among friends in Hong Kong. They establish mutual trust and respect with each other to make each other successful in business. Favors and gifts must constantly be reciprocated. Although Hong Kong people are courteous with their friends, they are rude or uncaring to strangers. No apologies are given and none are expected from strangers.

When doing business in Hong Kong, one must remember that Hong Kong people have high "face value". Having face means having high status in one's peers and it is a mark of personal dignity. They are acutely sensitive to have and maintain face in all aspects to social and business life. It is advisable not to insult an individual or criticize harshly in front of others. Just as face can be lost, it can also be given by praising someone for good work in front of peers or superiors or by thanking someone for doing a good job. Giving face earns respect and loyalty in Hong Kong. You may consider allowing your opponent to win in a game like golf even if you are a better player in order to save his or her face. This symbolically represents the norm of public behavior in Hong Kong. The person whose face you save will not forget the favor and he will remain indebted to you.

In Hong Kong, success in business dealings does not rest upon what you know but rather lip on the right connections. Personal connections are the key element of doing business. A foreign businessman must cultivate close personal ties with business associates and earn their respect and trust. Connections have roots in the traditional concept of Chinese family. The family is the source of identity, protection and strength. As a result, trust and cooperation are reserved for family members and close friends. As such, in this competitive business environment, executives and entrepreneurs constantly work to maintain and expand their networks of connections instead of real marketing network.

Cultivating business relationship can be the biggest obstacle to success in Hong Kong. The best way to make contact with potential Hong Kong business associates is to have a mutual friend serving as an intermediary or introducer. It takes a lot of patient dealing in Hong Kong as you need to establish a personal relationship, prior to business dealings. This can be achieved by spending a lot of time on deepening and strengthening relationship through visits, dinners, gift giving and doing small favors.

It is not easy to generalize the work style and office environments in Hong Kong. Management styles can range from Confucian to modern of Western, but they are usually a combination of both. Business is conducted formally, often in emulation of the British style. Punctuality, efficiency, and frugality are usually pursued in business. Prices are very competitive, and markups on production are minimal. Making money is what matters to the majority of Hong Kong businessmen and western concept of leisure is interpreted as laziness. Although Hong Kong has some element of gender bias, foreign businesswomen should not encounter any discrimination because a businesswomen in Hong Kong is regarded as a person of exceptional competence.

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Non verbal cues are important in Hong Kong. Body language, subtle remarks, and patterns of conduct can tell more about a situation than blunt verbal communication. Pointing at someone with forefinger is an accusatory motion considered rude or hostile. Winking is impolite and it can have a negative connotation.

While meeting Hong Kong business people, foreigners should display sincerity and honesty. They tend to shake hands lightly which lasts as long as ten seconds instead of firm and brisk contact in the West. Business card is given and received with both hands, holding the card corners. A business cards is not put in the pocket immediately, as one should take few moments to read and study what it says as a card represents the person who represents it to you. Business-related gifts are encouraged. Gifts express friendship and they can symbolize hope for good future business. It is not impolite to refuse a gift two or three times before finally accepting it. It is also considered impolite to open a wrapped gift in front of the giver unless being encouraged. Any gift should be wrapped in lucky colors of gold and red. White and black are considered colors of mourning. In a business conversation, family matters can be an important topic to build relationship. Telling joke is encouraged in an informal meeting but it is best to avoid cross-cultural humor, concerning persons, countries and sexual jokes.

Hong Kong Chinese are known to be tough negotiators. Before going into negotiation, foreigners must be prepared for subtle and aggressive tactics from Hong Kong side. They do not jump into substantive negotiations right away. Some small talk or non-task sounding is usually necessary in order to get a feel for those present. Hong Kong people customarily allow the visitors to speak first in negotiation. In some way, this can be to their advantage, but participants usually know enough about each other's positions through prior communication (Hinkelman, 1994).

Hong Kong negotiators are shrewd and use many tactics. Following are the common ones:

1. Threatening to do business elsewhere
2. Using friendship as a way of gaining concessions
3. Showing anger to put pressure on the opposite side
4. Increasing demands for concessions after sensing foreigner's fear of failure
5. Using flattering statements to exploit your ego to their advantage
6. Pressurize you on tight schedule
7. Attrition by excessive entertainment in the evening
8. Invite competing companies at the same time to apply pressure
9. Inflating prices and hiding the real bottom line

In order to be prepared, following are some tips for international marketers in negotiating with Hong Kong business people.

1. Be absolutely prepared with thorough knowledge of every aspect of the deal
  2. Let them know that they are not the only one in town
  3. Be willing to cut losses and go home
  4. Cover every detail of the contract before signing
  5. Pad your price and be willing to go down a little
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6. Remain calm and impersonal during negotiation
7. Be patient
8. State your commitment to work for mutually beneficial agreement
9. Long term involvement

In short, while negotiating a contract, it is important to understand that Hong Kong business people often view any deal as only one component of a larger, ongoing measure and strengthen reliability and cooperation. Westener who wants to do business in Hong Kong over the long term should appreciate and adopt for his own ventures.

Based on the above description of business culture in Hong Kong, following Figure 3 provides a classification of cultural variables that an International business person needs to take note in order to not offend the local business associates.

<b>Cultural Exclusiveness</b>	<b>Cultural Adiophora</b>	<b>Cultural Imperitives</b>
Maintain "face value"	Small talk before business (not task sounding)	Respect for superiors
Non verbal cues e.g. winking and pointing with one finger	Talk about family	Relationship building
Black & White colors	Gifts/Presents	High business negotiation
Sexual Jokes		

**Figure 3: The Business Culture in Hong Kong**

It cannot be denied that there are cultural differences between countries. Geert Hofstede's framework of cultural dimensions was used to compare and contrast American, British, Japanese, Chinese and the Hong Kong people. Interestingly this will allow us to understand to the extent Hong Kong culture has been influenced by the British and Chinese as shown in Figure 3a.

<b>Country</b>	<b>Individualism/Collectivism</b>	<b>Power Distance</b>	<b>Uncertainty Avoidance</b>	<b>Quality of Life</b>
United States	Individual	Small	Low	Strong
England	Individual	Small	Moderate	Strong
Japan	Collective	Moderate	Moderate	Strong
China	Collective	Large	High	Moderate
Hong Kong	Collective	Moderate	Moderate	Moderate

**Figure 3a: Hofstede's Cultural Dimensions of selective countries.**

The management style of Hong Kong is under influence of the British in several aspects and with some uniqueness as shown in Figure 3b. For instance, both the British and Hong Kong managers practice lay-off when required, prefer top management decision making and believe in top down communication. On the other hand, Hong Kong's management style has got also some similarities

to the Japanese mainly in the behavioral and relationship perspective. They believe in long term business relationship and a business is developed by a “give and take” approach. They also have similarity as regards the approach of sharing and enjoying on shared collective responsibilities in goals attainment.

<b>Management Style</b>	<b>Japan</b>	<b>Britain</b>	<b>Hong Kong</b>
Time Orientation	Future	Present	Present
Employment	Life-time	Lay off if required	Lay off common
Promotion	Based on seniority	Based on competency	Based on competency & seniority
Utilization of employees	Not fully	Fully	Fully
Blue/White collar	Single Class	Double Class	Double Class
External Relations	Long Term	Short Term	Long Term
Group Relations	Keiretsu	Ownership	Ownership
Business Relationship	Give and Take	Market mechanism	Give and Take
Pricing	Flexible	Cost Based	Flexible
Transaction Costs	Less	More	Less
Decision Making	Collective	Individual	Individual
Responsibility	Collective	Individual	Collective
Communication	Top down and bottom up	Top down	Top down
Career ambition	Promotion within company	Promotion in other company	Promotion in other company
Goals	Team based	Individual	Individual

**Figure 3b: A Comparison of Management Styles**

### **The Labour Force**

The major factor attracting overseas investors into Hong Kong is the country’s skilful, adaptable and hardworking labor force. However, in terms of competitiveness measured by Workforce Qualifications, Hong Kong enjoys 18<sup>th</sup> position, with Singapore as number one. This is an area where much still remains to be accomplished. In 1990, the government took a decision to allow importation of more than 12,000 workers. It has eased the shortage of labor in manufacturing and has thus temporarily helped in stabilizing the wage rates. However, today shortage of both skilled and unskilled labor is still an issue. This may be due to high annual growth rate of Hong Kong, keeping the unemployment rate below 3% for the last 15 years. The other reason is that many professionals and managers have left Hong Kong due to the perceived uncertainty. There was also an outflow of qualified personnel into new emerging opportunities in mainland China and South Asia.

### Labour Force

- ✍ Skilled and hardworking labor force
- ✍ Polychronic
- ✍ Labor shortage:
  - (a) 28% in trades
  - (b) 22% in manufacturing
  - (c) 10% in construction
  - (d) 11% in service
- ✍ Escalating wages
- ✍ Weak trade unions
- ✍ Poor welfare system

In 1996, approximately 27.9% of the total workforce was engaged in the wholesale and retail trade, restaurant and hotel industries, and 23.5% in manufacturing. Other major employers in Hong Kong are transportation, storage and communication industries, accounting for 10.8% of the work force; the construction industry with 8.6% and financial services, insurance, real estate and business services industries with 8.6%. The financial service industry is expected to accommodate a bigger share of the labor force in the years to come.

The wages of Hong Kong industrial workforce is still low compared to the Western standards but higher as compared to other South Asian countries. Wage rates differ among industries and are determined by the forces of supply and demand. The government does not impose any minimum wage. With a low unemployment rate and shortage of labor, Hong Kong has been experiencing high escalating wages recently. Wages of unskilled labor are calculated on hourly basis and supplemented by an incentive bonus based on production volume. A company must be willing to spare no expense in hiring the best personnel available. The salary may go double for a local manager than the industry's average. Money is more important than virtually anything to Hong Kong workers. Job hopping occurs even for insignificant incremental sums. It is a local custom for employers to pay their employees an annual bonus equivalent to one to two month's pay before the Chinese Lunar New Year. Some local employers do offer bonuses for good attendance, free medical service, subsidized employee restaurant, free transportation to and from factories and paid level of absence.

There is an Employment of Children Regulation to control the employment of children under the age of 15. Under the law, no child under the age of 15 can be employed in an industrial undertaking. However, interestingly there are still children under the age of 15 working in the local restaurants as kitchen helpers. Under the Women and Young Persons Industry Regulations, young persons aged 15 to 17 and women are permitted to work a maximum of eight hours a day, six day a week. The regulations also limit overtime employment for women to 200 hours a year. Young people are not permitted to work overtime.

Hong Kong does not have a contributory social security or welfare system, for the provision of health care and pension. It has been proposed that a Central Provident Fund be created but the proposal is still in the preliminary stage. However, increasing number of employers have initiated retirement provident funds to provide their employees with long term security. Although this is voluntary, about 20% of the workforce have access to such a benefit. In this in-house scheme, the employer defines the terms of contribution and it can be as much as 10% of the payroll. Social security can be used as a tool to minimize the escalating wages and employee turnover of the company.

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The government has no restriction on the employment of foreigners except those from East European communist countries. However, foreign nationals may be refused if Hong Kong residents are available and capable to perform a job.

Unions and labor movement are legal and has immunity on certain civil laws. Ironically, the unions' functions are more oriented towards self-help groups, passing on important information to members and addressing issues of concern. Negotiations and collective bargaining do not normally take place in Hong Kong. Less than 25% of the workforce belongs to one of the registered trade unions of Hong Kong.

## **Infrastructure**

About 20% of Hong Kong's trade, in value terms, is air freighted and 80% of the territory's visitors arrive by air. Hong Kong's pivotal location is the second busiest base for international air cargo. Airport Core Program that was announced by the government in October 1989, has shaped up timely and has started its operation from April 1998. The program consists of a new air port at Chek Lap Kok built on 1,248 hectares of Lam Chau reclaimed land and by levelling two tiny islands. The first runway is able to handle 35 million passengers and three tons of cargo annually compared to 27 million passengers and 1.46 million tons cargo passed through Kai Tak airport. The second runway was completed by the end of 1998 and has the capacity to handle 87 million passengers and 9 million tons of cargo annually. In order to support the new airport, five major road projects were developed. This include tunnels and bridges to link Lantau, Tsing Yi and Ma Wan Islands, the Western shore of the Kowloon Peninsula and Central District; plus major reclamation and a new town on Lantau adjoining the airport site. These roads are meant to support the existing Mass Transit Railway, servicing the Tung Chung New Town and Hong Kong Island. A six-lane tunnel under the Western Harbour was opened in April, 97 linking West Kowloon and Sai Ying Pun on Hong Kong Island with a capacity of 180,000 vehicles daily. Kowloon peninsula land area was increased by one-third and extended the waterfront into the harbour by one kilometer after the reclamation program was completed in May 1997. This land is used for transport infrastructure, public and private housing for over 90,000 people, Government and community facilities and recreational purposes.

Hong Kong's container port, serving as a hub for Southern China has feeder services to smaller ports in the Pearl River Delta. In 1996, the total throughput was 13.5 million TEUs and expected to go over 2.5 times in ten years. Hong Kong is unique in being the only major port in the world without port authorities as the government pursues 'laissez-faire' business approach. In order to ascertain the future needs of the port, Port Development Board was set up to form plans and strategies for expansion besides getting feedback form the private sectors.

Hong Kong's infrastructure is one of its core competencies which make the island a major business destination.

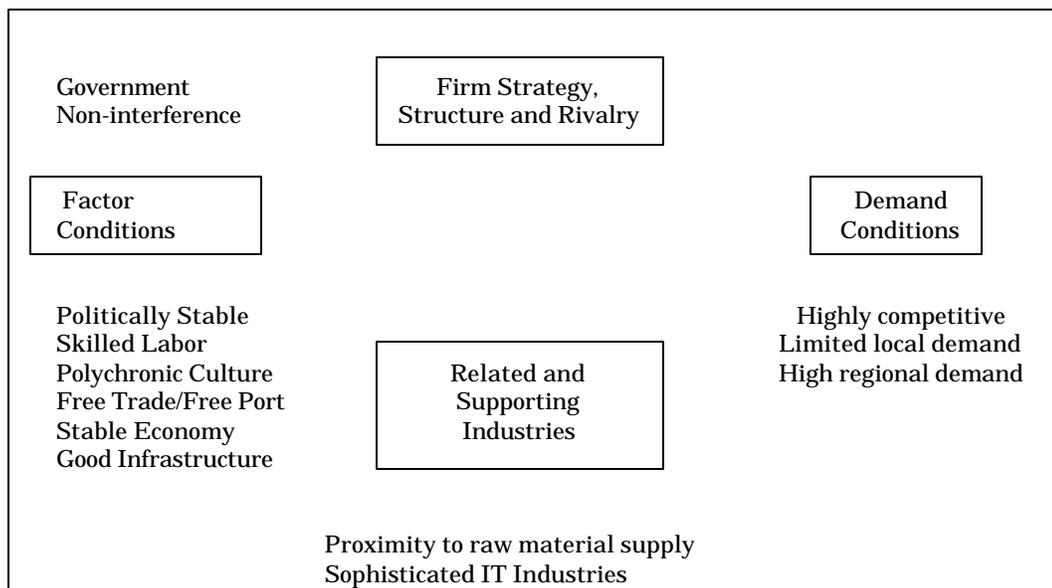
### **Infrastructure**

- Ꞇ World's busiest passenger airport
- Ꞇ World's second busiest air cargo
- Ꞇ World's busiest container port
- Ꞇ New infrastructure on the way Chek Lap Kok International Airport (87 mil. passengers & 9 mil. tonne cargo runway)
- Ꞇ 5 major road projects – tunnels and bridges
- Ꞇ Kowloon land reclamation
- Ꞇ Port development

## Competitive Advantage

Hong Kong enjoys a reputation of its own as a competitive region to invest in business and thus create an excellent environment for international business. Hong Kong's competitive advantage can be explained best by using Porter's Diamond Model (Figure 4). Hong Kong's competitiveness is very much dependent on its factor conditions. The ability of Hong Kong to create, upgrade and deploy skilled labor, its polychronic culture, stable and good infrastructure have made Hong Kong a competitively advantageous business location as compared to its neighbor and other Asian countries. The demand conditions of home market are equally competitive. Since Hong Kong is used as a hub for multinationals to penetrate into Asia, Hong Kong's local demand conditions are extremely competitive and thus create an excellent environment for international business. As such, the chances for the firms to gain competitiveness in the international environment are higher. Although the local demand may be very competitive, its volume is low, thus Hong Kong is used as a regional hub for the extremely high demand markets in South Asia and as an entrance into the market of China. The close proximity to supply of resources like raw material and cheap labor from mainland China and South Asia has advanced information technology system, constant and close interaction through effective information flow with related and supporting industries have become possible with good high-tech fiber-optic technologies and superior infrastructure in Hong Kong. In order to gain competitive advantage, an organization must be able to adapt itself and be flexible in Hong Kong's dynamic environment with strategic missions, clear objectives and suitable structure to overcome rivalry. There is minimal stability in Hong Kong, thus creating chances for a firm to succeed.

Since Hong Kong does not have any natural resources of its own, Hong Kong's global development model is geared towards attracting foreign investment into Hong Kong to serve as a hub for the regional markets. There are no barriers to entry, free trade, free port and laissez faire economy to pull foreign investment to Hong Kong. With the entry of MNCs from all over the world, Hong Kong's market has become domestically and internationally competitive in terms of higher quality and value, technology leadership, lower costs and greater efficiency. Hong Kong's global development model has managed to capitalize on these lines and had made it possible for Hong Kong to gain a competitive edge over other countries (Figure 4).



**Figure 4: Nation's Competitive Advantage: Porter's Diamond Model**

## Market Potential

Looking at the current environment in Hong Kong, there are tremendous business opportunities in some of the sectors of economy. By using the Boston Consulting Group approach, the relation between market attractiveness (market growth rate) and possible firm's strength (market share) in the market has been tabulated below in Figure 5.

		<b>Market Share</b>	
Growth Rate	High	<b>STAR</b> High Tech Industries Financial Services Telecommunication Infrastructure	<b>QUESTION MARK</b> Tourism Trading Construction
	Low	<b>CASH COW</b> Gaming Insurance Education	<b>DOG</b> Textile Plastic Products Value Added Manuf.

**Figure 5: Boston Consulting Group Approach on Hong Kong's Firms**

High technology industries e.g. information system, financial services, telecommunication and infrastructure development seem to have high growth and have high potential in Hong Kong. However, these Star industries require high investment and have high potential in Hong Kong. The gaming, insurance and education are cash cows in Hong Kong with slowing growth rate but still having high share in Hong Kong. Thus this attracts firms with strategies to cash out without heavy investment to consider Hong Kong as the destination. Tourism, trading and construction are question marks with high growth but low market share. There are lesser opportunities for tourism and construction to turn into stars but eventually to turn into dogs unless the firms have a specific product or service advantage to increase market share. According to the Executive Director, Hong Kong Tourist Development, Mdm. Amy Chan, the current currency turmoil and 'bird flu' has a great impact on the industry, reducing the visitors rate by 55% in the last quarter of 1997. Most value added manufacturing industries, plastics and textile have been classified under Dogs. There are not much opportunities in these industries. It may also not even be viable for a firm to invest in these industries.

## Strategies for MNCs

For MNCs to be successful, a proper global strategic planning is required. An analysis of Porter's competitive 5 forces to determine the industries competitiveness in Hong Kong is critical for the MNCs' success. The availability of substitute goods and services, rivalry among competitors, possibilities of new entrants, and the power of supplier and buyers need to be analyzed carefully. The stage of the product life cycle (PLC) need to be examined as competition in Hong Kong is very fierce. The stage in the PLC determines the strategy to employ; e.g. toys manufacturing facilities are relocating into mainland China to take advantage of the cheapest labor as it is at the matured stage of PLC, profit margins are thin as competition is fierce with no technological advantage over competitors. The MNCs need to understand that in Hong Kong, the PLC of a product may reach the mature stage faster than elsewhere as Hong Kong's environment is highly competitive.

For a multinational, the marketing strategies may differ completely from the home country and shall be based upon a thorough, market assessment of the Hong Kong's environment. The product

and promotion strategies are influenced by Hong Kong's economy, culture, local laws, and the product life cycle; e.g., a product packaging should not be in black and white as it symbolizes death. Product pricing is influenced by the local market diversity, and price escalation forces. It is common that a product's prices increase annually by 4-5% due to the inflation adjustment. On the distribution side, it is common to hire a distributor or an agent to push a product into Hong Kong rather than setting up own network to put the MNC's foot into the door.

Above all, human resource management strategies are equally important for MNCs investing in Hong Kong. Although English is widely used, Cantonese language training needs to be taken care of as most local business is conducted in mixed English/Cantonese. Cultural adaptation is another key area for expatriates to assimilate themselves in this highly demanding business environment.

## China-Hong Kong-Britain Ties

The current financial turmoil in Asia has put Hong Kong current ties with China and Britain into test. Due to the devaluation of Asian currencies against US Dollar, Hong Kong has become a less competitive place for investment. The financial borrowing interest rate continues to escalate. The value of properties in Hong Kong has dropped more than 30% in the last six months. Despite these events, the Chinese government has not reacted to the situation and continues to hold by the non-interference policy. The British, on the other hand, were also standing by the side line without offering any assistance for fear that it would be regarded as interference by the Chinese. Both Chinese and British governments, are keeping to the joint declaration.

## Conclusion

Although some observers were uncertain on Hong Kong's future after its return to China, the current environment has not significantly shown any signs of China's interference in the Hong Kong's economy. The "one country, two systems" seems to be effectively executed. From the analytical models used in this paper it appears that there are still good opportunities for setting up business to take advantage on Hong Kong's competitive capabilities of free trade and free flow of funds to operate as a regional hub and service center. Hong Kong's move into information technology has made it possible for it to maintain the competitiveness in spite of the escalating cost, squeezing away profits from firms operating in Hong Kong. The success of MNCs is determined by the international strategies adopted which should go a long way in complementing the competitive strengths available in Hong Kong. The scenario may swing to the favor of other South East Asian countries after the financial turmoil in the region that made the regional currencies depreciate against HK Dollar which is fixed against US Dollar thus making them more cost competitive compared to Hong Kong.

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