

The Challenges of Hong Kong in moving to an Advanced Service Metropolis in the Knowledge Economy

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Background

The year 1997 was a milestone in the history of Hong Kong both in the political arena and in the economic scene. The smoother than expected handover of sovereignty of Hong Kong from Britain to China with the somewhat expected Asian financial storm which occurred in the same year, and the ever since growing dependence of Hong Kong on its hinterland on the economic front has engendered extensive debates and studies on the future role of Hong Kong. With the reformation and open door policy in China, Hong Kong's industry has undergone tremendous changes, and the economic outlook of southern China has also changed dramatically, especially in the Pearl River Delta (PRD) which has become one of the world's most vibrant manufacturing bases [1]. The extensive is of a magnitude that is rarely seen in Asia or even anywhere in the world. These have become the focus of many studies which include the "Hong Kong Advantage" from Enright of Harvard University, "Made by Hong Kong" from a team of researchers at MIT, many subsequent large scale surveys such as the detailed reports from the Hong Kong Federation of Industries and the Hong Kong General Chamber of Commerce, and from many other professional bodies and learned societies.

The Hong Kong Government has launched many initiatives aimed at reinforcing Hong Kong's strategic node in the global network. These initiatives include: the CEPA (Closer Economic Partnership Agreement) with mainland China, the promotion of Hong Kong as 'Asia's World City' and the capitalizing on the economic development in the expansion the PRD into the "9+2 Pan-PRD Regional Co-operation" which consists of Hong Kong and Macau and the nine neighboring provinces in South China (with a size larger than most countries in Europe).. Hong Kong is well served by its established infrastructure, the high quality of its international service standards, and good business network; also by its connectivity with overseas countries and with mainland China.

An attempt to categorise world cities has been made by the Globalization and World Cities Study Group and Network (GaWC). They denote cities in which there are clusters of multinational companies providing financial and consulting services serving the global supply chain. Hong Kong is a successful global trade platform and is ranked as one of the 10 alpha world cities[3]. Among the world cities ranked by GaWC, the contribution of the service industry to the GPD in Hong Kong is among the highest (>

80%). There is a widespread myth that there is no longer any manufacturing in Hong Kong. The fact is that about 40% of Hong Kong's GDP is dependent on the manufacturing services provided in Hong Kong which include product design, brand management, production control, marketing, supply chain management, merchandizing, transportation and logistics. These activities are counted under "other service" categories in the official statistics or analyses. Due to the close proximity of Hong Kong to the greater PRD, it is perhaps the only "alpha world city" without a strong manufacturing base within its own boundary.

The Past Successes

The huge demand for producer services has been created by the highly dynamic and self-organized dispersed production network that Hong Kong firms have firmly established in the region. Hong Kong enterprises are very experienced in managing production and sales networks that are widely dispersed in different regions, notably in PRD, south-east Asia and to some extent in some others parts of the world [2]. To Hong Kong, global manufacturing does not mean the establishment of huge plants, the standardization of global products and the distribution of products globally for reaping the benefits brought about by the economies of scale, but refers to the distribution of upper stream and lower stream production activities in different regions with different comparative advantages through value-added coordination activity in the supply chain network.

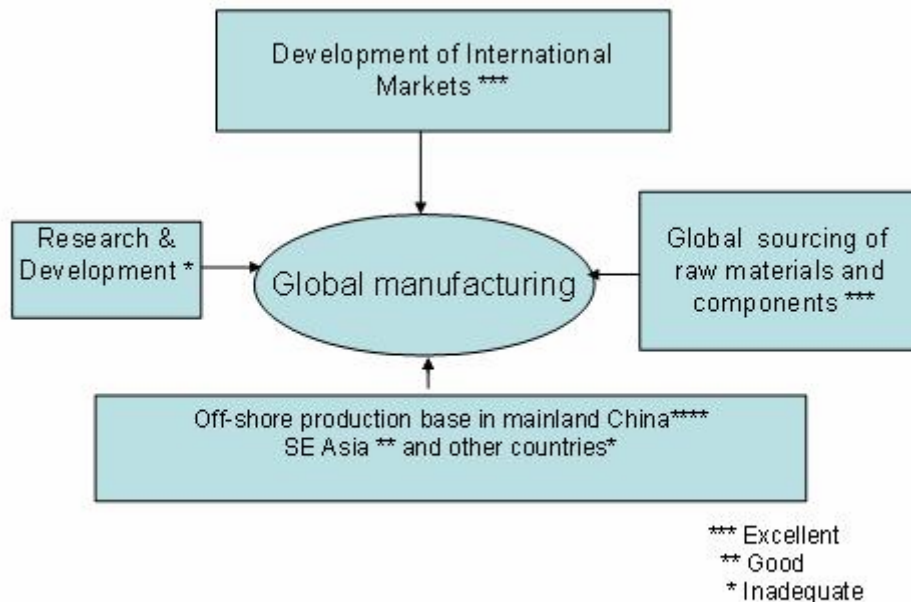


Figure 1 Performance of Global Manufacturing of Hong Kong

The critical factors for the success of a global manufacturing model is shown in Figure 1 [4], These are:

- (i) Effective Management of a dispersed production base
- (ii) Familiarization and development of international markets
- (iii) Free global sourcing of raw materials and components
- (iv) Research & development in product and production technology

In all the above fields, Hong Kong has performed well in terms of production flexibility, short cycle time, order and delivery and a good network with global suppliers and distributors. However, there is insufficient investment in R& D and product innovation among local firms.

Challenges ahead

Despite the apparent success of Hong Kong in fulfilling the criteria of the world city model which is conceived mainly from the standpoint of economic geography, there have been strong debates whether such a model is sustainable for the future development of Hong Kong in the wave of “ globalization” brought by the rapid advances in internet and communication technologies, the global decline on the return of investment in manufacturing and the unpredictability of the global roaming capital. In the majority of the service sectors, the value added per capita is still very low in Hong Kong compared to the advanced producer service cities like New York or London. The problems facing Hong Kong include

- (i) The diminishing competitive advantage of Hong Kong using PRD as a low cost production centre
- (ii) The relatively low value adding ability and low innovation content of its “ service industry” , and
- (iii) The low investment in human resources and applied R& D in both the government and the private sector compared with its neighbors.

There are two types of service economy, the labour intensive type and the knowledge intensive type. To maintain its competitiveness, Hong Kong must increase its knowledge content, in the service sector. At the firm level, the competitiveness of the advanced producers service no longer comes from controlling the cost factors alone, but also from the perceived image of the firm, the corporate strategy, and innovativeness that is more related to characteristics of a good learning organization, i.e., how an organization manages its knowledge and intellectual capital to embark on creativity.

Most recommendations for Hong Kong to maintain and enhance its competitiveness are still based on the “ world city” model which puts more emphasis on the content of the producer services (such as design, accountancy, finance, law and branding) , and the volume of traffic in the city networks and global supply chain. Little attention has been put on the sub-nodal level of intra-firm activities, in which firms are the agents in

the process of knowledge creation, flow and transfer. Most studies on world city studies focus more on the level of international firms, but insufficient attention is given to small firms. In terms of the value they produce over the physical assets involved, some of these small firms could be highly successful in exploiting the knowledge and intellectual asset they possess, e.g., market intelligence and customer relationships. A case has been documented of a small trading firm in Hong Kong competing on a non-traditional business model utilizing extensively its vast amount of unstructured information within its supplier and client network [5]. A map showing the intensity of intra-firm flow of knowledge in different cities at the firm level will be a useful area for research.

In the first generation of knowledge management, the concept that knowledge (mainly treated as codified information) is counted as an entity that can be stocked, is now gradually being replaced by the concept that knowledge does not reside in human brains per se but in interactions and human networks, which are visualized by social network analysis. By the same token, if the first generation of world cities depends on the volume of international traffic in business, monetary value and number of immigrants etc., the new generation of world cities should be assessed by the volume of the flow of knowledge assets and intellectual capital that they can generate and disseminate worldwide to improve the quality of life of its inhabitants in all spheres apart from the economic one. It is not knowledge hoarding nor its protection but the ability of a city to merge, tolerate and generate new knowledge beyond its own physical, economic and mental boundary that will make it into a great regional or global knowledge hub. Hong Kong is well positioned at the junction between the West and the East. This cross-cultural platform if properly understood and utilized can transform Hong Kong into being an example of a world city in the new paradigm of the Knowledge Era.

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