

**Presentation to Cambridge Chamber of Commerce**  
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**UK Basic statistics**

Population 63 million  
 Languages English, Welsh, others.  
 GDP 2011 US\$ 2.25 trillion  
 GDP per capita 35,900  
 GDP growth 1.1% 2012 negative  
 Sector Services 77% Industry 21%  
 Unemployment 7.9%  
 Public debt 79.5% of GDP  
 Taxation High

**Hong Kong**

Population 7 million  
 Cantonese, English Putonghua  
 GDP US\$ 224 billion  
 GDP US\$ 35,537  
 GDP growth 2011 4.3%  
 Services 92.9%, Industry 7.4%  
 Unemployment 3.4%  
 Public debt 17.8% of GDP  
 Taxation Very Low

**Other interesting facts about Hong Kong**

**Some simple facts for Hong Kong 2012**

Size 1092 sq Kilometres  
 Exchange rate = approximately 10 HK\$ = 1 Euro  
 Budget surplus around 60 Billion HK\$  
 Reserves February 2012 US\$292 Billion  
 Life expectancy 79.4 male and 85.5 female  
 Public Housing 32% average rent HK\$1393  
 Domestic Helpers in Hong Kong 125,000  
 Wine tax 0%  
 Lowest wages per month – toilet cleaner around 6500 HK\$ per month  
 Minimum wage US\$3.60 per hour (27000 in this bracket)  
 Income tax 15%, Profits tax 17%, TVA 0 Capital gains (equities, property) 0  
 Currency 7.74 – 7.78 HK\$ = one US dollar (pegged) 12.2 HK\$ = one pounds sterling.

**Introduction**

In March the Irish prime minister on a visit to Beijing reflected on the similarities of the Irish Economy and that of the PRC – which to some extent reflects the lack of proper analysis to say the least about doing business in China. Yes, they have problems with real estate, but really that is the end of the meaningful comparison.

In European Union leaders go cap in hand to ask for Chinese help to pull the organisation out of its economic crisis. Businessmen and women flock to China to do business and see it as

some Eldorado where all is possible. Nobody seems to want to look at the problems of doing business and many get their fingers burnt in the process.

Now, there are opportunities to be made in both Hong Kong and in China but in order to make the most of them a cool appraisal of the advantages and possible problems by an aspiring company should be of the highest priority.. In the PRC exports are down, imports are down, corruption is up, GDP is slowing. And the general rule is that given Hong Kong's increasingly dependence on China when China has a cold Hong Kong gets pneumonia.

So after my optimistic introduction let us proceed to the advantages on doing business in Hong Kong and how Hong Kong is a good base for engaging in business in the PRC.

### **Hong Kong as a place to do business**

Obviously, there is no real opportunity to set up a manufacturing base in Hong Kong as it is too expensive. Virtually all manufacturing has now gone over the border into China. In 1978 manufacturing was around 25% of GDP but it is now fairly moribund. However, Hong Kong has real advantages and some disadvantages in doing business. So what are the advantages?

1. The rule of law operates robustly independently of the PRC.
2. Corruption is fairly low. Hong Kong is number 12 in the world with a score of 8.4, the United Kingdom is number 16 with a score of 7.8 and the PRC is number 75 with a score of 3.6.
3. An efficient Civil Service with a superb back up by Invest Hong Kong and other agencies such as the Hong Kong Trade and Development Council (HKTDC) for advice and guidance.
4. Low taxation on salaries tax and corporate tax.
5. A business oriented government – some say a little bit too much so.
6. A healthy environment in terms of health provision in the private sector and the public sector.
7. A stable currency linked to the US\$ with low interest rates from banks.
8. Ease of setting up of a company.
9. Highly educated work force with connections into the PRC.
10. A highly stable political environment with a free press and free speech.

However, there are downsides which we must not ignore. They are.

In general terms it would not be accurate to describe Hong Kong as Laissez-faire. It has strong aspects in certain areas but in others it is highly non- competitive. Why are there only two major supermarkets? Why are land prices so high? Why is there no free competition legislation in Hong Kong? However on a more specific context.

1. The Gini coefficient is not good. At 0.54 it is much worse than the UK (0.34) and even China (0.5). This is showing itself in problems here and, to some extent the change in the Chief Executive in the March election.
2. The cost of commercial and residential property is very high and continuing to rise and is very expensive indeed – comparable if not higher than London. For example,
  - A commercial property in Central District on Hong Kong island: 23,000 square feet, HK\$4.4 million (360,000 pounds) per month. Average between HK\$150 – 189 per square foot.
  - A residential property in Pokfulam ( about two miles from commercial centre) on Hong Kong Island example. 4000 square feet. Purchase price HK\$60.77 million (Sterling 5.6 million) Rent per month 10,000 pounds) There are cheaper residential and commercial rents of course but this is indicative.
3. Expatriate education costs. English Schools Foundation (ESF) which is one of the cheaper private schools and non boarding. HK\$ 95100 (sterling 8,000) per annum.
4. Pollution is a problem in Hong Kong. Many expatriates are leaving because of this and the government is doing very little to alleviate the problem.
5. There are also problems with inflation and most significantly of all the downturn in the Chinese economy.

Having said all this then there are attractions to doing business in Hong Kong but downsides as well. However and nevertheless on balance it is better to set up a company here than it is in the PRC. Many businesses have the head office in HK and then do business in the PRC.

### **Doing business in Hong Kong and China.**

#### **The changing environment in the PRC – Bye bye communist business culture and hello the west?**

- The Four Modernizations.
- The open door policy.
- The major reforms 1978 – 2012.

#### **Cross-cultural criteria and Business in the PRC.**

##### **1. The myths.**

- The Confucian myth.
- The Asian Values myth.
- The hard working myth.

- The “Chinese” working together ethnic myth.
- The Chinese as naturally obedient and well disciplined.
- The greater China myth.
- All China the same myth

## 2. **The real criteria.**

- Strong regional variations. Cantonese are seen as very different by most of the rest of China. Compare with Mongolia and Shanghai
- Rural – City variations.
- Business – non-business variations.
- Socio-economic and educational variants.
- Strong profit orientated society in certain sectors.

## 3. **Example: To work with Chinese in Guangdong and Shenzhen.**

- Shenzhen SEZ very different from Guangdong province.
- a) Shenzhen much more varied in population because of the way it is governed. It is not a part of Guangdong province and should not be seen as such. Its proximity to Hong Kong also makes it most different.
  - b) Guangdong is dominated by Cantonese unlike Shenzhen. Operates on the principle that the mountains are high and the Emperor is Far away.
  - c) Cantonese have a much longer history of interaction with the outside world – are much more cosmopolitan than the rest of China – with the exception of Shanghai.

## 4. **To do business in China you DO need the following.**

### **General**

- a) To build up relations with potential clients based on trust and understanding.
- b) To have an agent who has the ear of the regulating authorities.
- c) To have patience and understand the nature of how to negotiate and what a contract does or does not mean to the other party.
- d) To understand that Chinese knowledge of the western system of business is not as mature as that in the west.
- e) To understand that the Chinese have some difficulty in understanding our way of thinking.
- f) Never to discuss politics or religion with Chinese mainlanders.
- g) To be positive about the PRC.
- h) To always accept the invitation to dinner and the further north you go the more you are expected to drink ( if you do not take somebody with you who does)

- i) To remember the importance of the family to the Chinese – always ask about mother, father, child etc etc etc

**When negotiating.**

- a) State owned enterprises are still very conservative – new businesses and joint ventures changing the culture in major cities on eastern seaboard.
- b) Remember the hierarchical nature of the system.
- c) Remember the significance of the informal part of the business negotiations.
- d) Never shout, lose your temper, show impatience, be too direct.
- e) Never forget that the Chinese do not differentiate as much as the west on the question of professional and social relationships – one is an extension of the other. Also group loyalty is very important.
- f) Ethics are not high up the agenda.
- g) Be aware of the possibility of corruption as it exists in many areas still.
- h) Be careful about taking a favour as it leads to obligation.
- i) Do not think you have the deal – the favour BUT often comes into play.
- j) Never assume anything. Often a Chinese person will pretend not to understand when they do but do not want to offend. Chinese cannot take criticism in such a direct way as we can.
- k) Are only now becoming aware of need for value added service and modern business practice.

**However things are changing rapidly as China modernizes. Large number of graduates coming back from abroad and younger generation and huge number of students graduating from University Business Schools.**

**Hong Kong.**

Myths.

1. Hong Kong is just another Chinese city and is “losing out” to Shanghai.
2. Hong Kong Chinese are no different from the Chinese on the mainland – there are huge differences between the province and geographical areas of China.
3. That the reason for Hong Kong’s supposed decline is because of the departure of the British.

**Historical Culture of Hong Kong business.**

Surprisingly the basic business culture of Hong Kong has remained much the same in many ways for the last 160 plus years. It can be summed up in the following ways.

- The British set of beliefs coincided with those of the Chinese in terms of low government expenditure, laissez faire economic policies and political interference being a low priority.
- The significance of the role of the business actors having a fundamental say in the conduct of the business environment – this remains constant to this day.
- It follows that there has been a consistent belief in the benefits of low taxation, a recognizable legal system based on western tenets, flexibility of the economic system and a general free wheeling economic system.
- An inexhaustible supply until recently of hard working and cheap labour market from China – most important in the economic miracle of Hong Kong in the 1950s until 1978.
- The lack of trade unions and the relative political stability of the system were essential to the growth of the successful establishment of business.
- Hong Kong's lack of natural resources and space meant that agriculture and primary production could not happen and therefore its wealth was to be predicated solely on the people themselves
- No interest in large scale manufacturing in Hong Kong. For example no petrochemical industry, no car industry, no major shipbuilding, no iron and steel production – emphasis on cheap and cheerful, low tech with many small family businesses.
- The development of cartels and oligarchical practices.

### **The Present day situation**

As indicated the manufacturing base of Hong Kong was undermined in 1978 with the introduction of the “Open Door” policy and “Four Modernisations” introduced in the PRC. By this time Hong Kong was becoming less competitive in this field because of:-

- High rents.
- Rising cost of Labour.
- Competition in Guangdong Province.

Result was the mass movement of factories out of Hong Kong over to Shenzhen and later into the Pearl River Delta (It is often forgotten that Hong Kong is the greatest investor by far in China. The rapid transformation and emphasis on the successful areas of Hong Kong – namely.

- The field of exports and re-exports from China.
- The growth of banking and insurance.
- The massive growth of tourism.

The essential role of the PRC is obvious in all the areas outlined above.

However the need for a settled business environment was still a problem. This is settled by the introduction of the **Basic Law** – which was much concerned with the Business Environment. This mini constitution made a point of guaranteeing the general business environment remained much as it had been before. Capitalism, low taxation controlled by Hong Kong, separate budget, legal system, political system geared towards special business interests, free negotiation on WTO and other institutions for Hong Kong’s benefit etc etc etc.

### **Differences between Hong Kong’s Business Culture and that of China.**

1. The legal context of business.
2. The role of government in business.
3. The lack of corruption.
4. The overall acceptance of the political system in its broadest context.
5. The acceptance by the Hong Kong people of the idea of capitalism “ with a human face”.
6. The positive regulatory context.
7. The largely cosmopolitan nature of the Hong Kong people – levels of English in the professional classes, the advanced nature of the university sector.
8. The flexibility of the labour force.
9. The ethical context of business culture in Hong Kong.
10. Overall understanding of the nature of doing business with the west.
11. For expatriates both Chinese returnees, mainlanders and other nationalities attractive place to work in terms of physical and communications infrastructure, culture, education provision, low crime rate.
12. Low tax rate.

### **Disadvantages**

1. High labour costs (but coming down)
2. Commercial and Private rental costs.
3. Competition in tourism, container terminal costs
4. Political uncertainty over representation.
5. Pollution problems.
6. High cost of living.

### **Trends in the future**

1. Integration into the Pearl River Delta in particular and PRC in general in the business and economic fields.
2. The future development of banking, insurance to service China.
3. The further disintegration of manufacturing in Hong Kong.

### **Conclusion**

Hong Kong is by no means finished and it can expect to compete with its Chinese counterparts for quite some time yet. What is the case is that Hong Kong is now economically virtually totally reliant upon China and as was always the case, the broader external environment for the success of its businesses. The trend will be the extinguishing of manufacturing and the continued growth of the service industry. It maintains its competitive edge over China in these fields and should continue to do so in the foreseeable future.

I could obviously talk for ever on this subject. If you want more information particularly on the Business Environment in Hong Kong then just contact me on my e mail address [hnrprev@hkucc.hku.hk](mailto:hnrprev@hkucc.hku.hk) and I can send you lots of information.