

ENTREPRENEURSHIP IN HONG KONG: REVITALIZING ENTREPRENEURSHIP

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OVERVIEW

Early emigrant entrepreneurs from China largely fueled Hong Kong's phenomenal economic growth and success. Many of the early emigrants fled from economic hardships and sought better lives outside of China. Those who were prosperous entrepreneurs before they left lost their businesses while fleeing the mainland as it fell to the Communists in 1949. Both groups came with few resources, bringing the capacity for hard work and their entrepreneurial experience. They developed and mainly worked in the textile and manufacturing industries. With a British colonial government that gave them an unfettered environment with a laissez-faire economic policy, they built, and in many cases rebuilt, their fortunes.

Small and medium-sized enterprises (SMEs) characterize the efforts of Hong Kong's present day entrepreneurs. SMEs are defined as manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees.¹ Hong Kong's 290,000 SMEs account for 98 percent of the local enterprises. They employ more than 1.36 million people or 60 percent of private sector employees. About 90 percent of these enterprises have fewer than 10 employees. Most of the SMEs are concentrated in the services sector with the majority of activities taking place in the import and export trades, wholesale and retail, and restaurants and hotels (See Appendix A).

This report will incorporate findings from two research studies. One study, which was carried out for the Hong Kong Trade Development Council (TDC), is comprised of interviews with 25 SME entrepreneurs.² These entrepreneurs had run their businesses for at least three years and had already generated revenue. The second study is part of the Global Entrepreneurship Monitor (GEM) project,³ and is comprised of interviews with 39 country experts.⁴ These experts were asked to assess the entrepreneurial environment of Hong Kong according to nine entrepreneurship conditions in the GEM Conceptual Model.⁵ The GEM studies began in 1999 with nine countries, and in 2002, the

¹ SMEs in Hong Kong, SME Information Centre- <http://www.sme.gcn.gov.hk>

² Bee-Leng Chua and Charles Steilen, "Success Factors of SMEs in Hong Kong: A 10-Step Entrepreneurship Model," study conducted for the Hong Kong Trade Development Council (2001).

³ The Global Entrepreneurship Monitor (GEM) project develops an annual measurement of entrepreneurial activity by examining its link with economic growth and the factors that contribute to an entrepreneurial climate. The effort involves three types of data collection: standardized surveys of the adult population, detailed assessments of public policy makers and national experts and their views on the entrepreneurial sector in their country, and standardized data from international sources that include the World Bank, the European Union, the OECD and the United Nations.

⁴ The country experts are entrepreneurs, venture capitalists, bankers, academics and professionals who deliver services to entrepreneurs. Four experts are invited to assess each of the nine Entrepreneurship Factor Conditions (EFC). The findings from the GEM country experts in the 2002 study are preliminary at this time of writing. A complete and detailed report will be available after the release of the GEM Global Executive Report in November 2002.

⁵ The nine EFC's are Financial Support, Government Policies, Government Programs, Education and Training, Research and Development Transfer, Commercial and Professional Infrastructure, Market Openness/Barriers to Entry, Access to Physical Infrastructure, and Cultural and Social Norms.

project expanded to 37 countries. Hong Kong is participating in the project for the first time, and the study is led by a team of faculty members from the Chinese University of Hong Kong.

In examining entrepreneurship in Hong Kong, it is important to view Hong Kong in conjunction with mainland China. With a population of 6.7 million people, Hong Kong is considered a small market for many of its entrepreneurs. North America and Europe have been the major markets for Hong Kong businesses. With China now a member of the World Trade Organization (WTO), it is clear that the preferred market has moved closer. Although the Chinese market is presently concentrated in Southern China, it is expected to extend to the rest of the country. Hong Kong's proximity to China and its status as a Special Administrative Region (SAR) of the mainland is one of the most unique aspects of its entrepreneurial experience and growth.

RATE OF START-UPS

In recent years Hong Kong has faced two economic downturns that have shaken business confidence. The first downturn occurred in 1997, and was followed by a brief recovery, and the second began in late 1998, and has lasted until now. However, new companies have been incorporated even as many have closed down. The record of incorporation in the Companies Registry shows that this "business churning" is a healthy sign of Hong Kong's entrepreneurial robustness despite trying times. The 1998 figure for the incorporation of private and public companies was almost 60,000, while 29,983 companies were dissolved. In 2000, the figure for incorporation was more than 46,000, while 22,826 companies closed down. The number of companies on the registry also showed an upward trend, with 474,594 in 1998 and 511,503 in 2000. Although the number of registered companies declined to 510,380 in 2001, the number of new companies registered in the first six months of 2002 was 23,204, an increase of 20.7 percent from the same period in 2000. These figures from the Companies Registry should be inferred with caution, as there is no distinction of the type and size of the companies (See Appendix B).

The GEM studies measure the level of indigenous entrepreneurial activity in the chosen countries. In the 2002 study, it will be possible to see how Hong Kong ranks with the other 39 countries in the project.

CULTURAL/DEMOGRAPHIC FACTORS

ATTITUDES TOWARD ENTERPRISE CREATION

Hong Kong's recent depressed economic environment could have dampened the propensity for creating and extending enterprises. However, in a 2001 survey by the Hong Kong General Chamber of Commerce, most of the respondents reported that the extent of their operations in Hong Kong would remain about the same throughout 2002 and 2003, with 60.7 percent indicating that there were no plans for change in 2002. Increased confidence in the economic recovery could be inferred from the 29.2 percent who reported that they expected to expand in 2003, while 14.5 percent of the respondents said they might expand in 2002. None of the respondents said that they expected to close their businesses in 2002.

Each quarter, the Hong Kong Productivity Council (HKPC) has been conducting a survey on “Business Operating Environment Index for SMEs.” The most recent survey included an analysis of SMEs’ expectation of business growth and profit for the next 12 months.⁶ The results show that SMEs remain cautious in light of the current economic slowdown. However, the risk assessment index increased from –6 percent to –1 percent showing expected stability in the business environment. They also indicated that they are able to control operations cost at this time, and may also have greater access to human resources with the increased number of skilled workers in the job market.

ATTITUDES TOWARD FAILURE/SUCCESS

The GEM country experts were unanimous in their assessment that in Hong Kong, entrepreneurs are respected and valued for their success. In a recent survey of young respondents, Li Ka-Shing, Hong Kong’s most famous tycoon, was designated as a hero for his wealth and ability to rise from rags to riches. There was a general agreement that many people in Hong Kong still aspire to have their own businesses. In the TDC study of 25 entrepreneurs, all had left previous jobs, raised the necessary funds and set up their own businesses. Their work experience and knowledge of the industry and markets would have helped them manage their own companies and sell their own products. While depressed economic conditions may have made some people cautious, the entrepreneurial desire and skills are still present and only need to be revitalized. One country expert noted that the general belief among Hong Kong people was that “you cannot make money working as an employee. If you want to be rich, you have to start your own business.” Another country expert, who also is an entrepreneur, summed it up succinctly when he said that entrepreneurs expect to experience failure. When that happens there is sadness, but there is no shame in failing.

ACCEPTANCE OF WOMEN IN THE WORKFORCE⁷

As of February 2002, the labor force participation was 51 percent of the population, and women made up 43 percent of the labor force, which was up from 36 percent in 1990. The increases were significant in the community, social and personal services sector, in which women made up 63 percent of the labor force in 2000. With the expansion of education and training opportunities, female managers and administrators have also increased from 16 percent in 1993 to 25 percent in 2000. Approximately 60,000 or one third of the civil servants are female. In the government, three of the 12 Executive Council Members are women. Eleven (19 percent) legislators are women, as are 72 (14 percent) of the people who are now serving on District Councils. Within the government advisory and statutory bodies, there were 1,000 (19 percent) women as of March 2002. Seven of the 24 principal officers are female.

More women than men have taken up new jobs in Hong Kong’s export-oriented sector. According to the Hong Kong Annual Digest of Statistics, the number of females who are engaged in the trading sector increased by over 38 percent from 1990 to 1999, while the number of males increased by only 8.7 percent. However, this increased access to paid employment does not infer that women’s overall condition has improved. Often, in times of economic crises, women have had to work to

⁶ Hong Kong Productivity Council, “Local SMEs Cautious Towards Hong Kong’s Business Operating Environment,” press release, 18 July 2002, <http://www.hkpc.org.hkpc/html/>

⁷ Women’s Commission Employment-Related Services, Vocational Training and Retraining Programmes for Women, Women’s Commission, WoC18/01, 10 July 2001.

supplement the family income. Moreover, many of the jobs that are held by these women are likely to be part-time or insecure.

The engagement of women in jobs that were formerly occupied by men has increased. With the liberalization of trade expanding the services sector, more women are finding their way to service jobs in data processing, telecommunications and financial services. The number of females between the ages of 15 to 19 years who are entering the workforce has also declined due to the fact that more young people are choosing to pursue higher education. The nine-year universal basic education that was introduced in 1978 has also provided opportunities for women to acquire the knowledge and skills that are needed for the areas in which they aspire to work. In 2000, about 25 percent of the female labor force had received tertiary education, which was a rise from only 15 percent in 1990.

From 1990 to 2000, earnings for women rose approximately 107 percent. This increase was greater than the corresponding figure of 83 percent for males. However, the median monthly salary of a woman in Hong Kong was still 23 percent lower than her male counterpart as of 1999.⁸ Although this discrepancy may be attributed to different types of jobs held by men and women, male-dominated jobs often pay better than female-dominated jobs.⁹

In her study of women entrepreneurs in Hong Kong, Chu (2000) maintained that female entrepreneurs were most often found in traditional female-oriented businesses in the small service sector, largely in the clothing industry.¹⁰ From the population censuses, she observed that the number of female employers increased in all sectors, especially in manufacturing where the number of female employers rose from 2,183 in 1981 to 2,667 in 1986 to 7,086 in 1991. In the manufacturing sector, there was a net increase of 4,415 employers from 1986 to 1991. From February to April 2001, the number of self-employed women was 45,100, and the number of female employers in the same period was 26,700.¹¹

Women have started their own businesses in Hong Kong, including a small number of women who set up e-businesses during the years of prolific Internet-related company growth. Even women on the economic fringes have aspired to own businesses. This is evident from the high response to and participation in two programs that were launched in 1996 by an NGO, the Hong Kong Women Professionals and Entrepreneurs Association, to help women who had lost jobs or suffered income reduction to start their own businesses and thus be assured of a livelihood. The first program involved a publication entitled “Women’s Guide to Starting a Business” and accompanying workshop. The second program was the “Business Start-Up Assistance Scheme,” in which HK\$100,000 loans were awarded to women who had viable business plans. These women were assigned “mentors,” who guided them in preparing their plans. The loans were administered by a local bank and funded by the organization’s charitable trust. The applicants proposed businesses mostly in the areas of retail, personal services, food, wholesale business and education-related services.

⁸ The General Household Survey, Hong Kong Government SAR (1999).

⁹ Anna Wu, “Women Business Leaders in Hong Kong – Where are They?” Chairperson of Equal Opportunities Commission speech to The American Chamber of Commerce of Hong Kong, 22 May 2001.

¹⁰ Priscilla Chu, “The Characteristics of Chinese Female Entrepreneurs: Motivation and Personality,” *Journal of Enterprising Culture*, Vol. 8, No. 1, (March 2000): 67-84.

¹¹ These indicators are taken from the General Household Survey, Hong Kong SAR, which was conducted in 2001. The General Household Survey is conducted every 5 years. Even without the 1996 survey, while surveying 1981, 1986 and 1991, it is easy to see that the number of female employers has increased since 1981.

EFFECTS OF AN AGING SOCIETY AND OTHER DEMOGRAPHIC TRENDS

According to the latest population projections, the proportion of people who are aged 65 and above will grow from 11.2 percent to 24.3 percent in 2031. By 2025, one out of four Hong Kong people will be age 60 or above. The Hong Kong government has set up the Elderly Commission to advise it on policies and services for older persons. A symposium was recently held¹² to review the concept of aging, and examine the implications of an aging society for the workforce, environment, retirement protection and health maintenance. The country experts in the GEM study suggested that older citizens might be prospective investors for new businesses. Middle class retirees have high levels of savings, and as one expert noted, they “may be sitting on piles of cash.” While they might not prefer to start new businesses, they could be interested in investing in potentially viable proposals.

BUSINESS ENVIRONMENT

THE STATUS OF THE FINANCIAL SYSTEM

The Hong Kong Monetary Authority (HKMA) is the SAR’s quasi-central bank. Hong Kong’s economy grew just 0.1 percent in 2001 in the midst of the global economic slowdown. The government continues to peg the Hong Kong dollar to the U.S. currency despite debate. The reason cited is that the linked exchange rate system provides a predictable and conducive business environment for an economy that “imports practically everything it consumes, processes, or re-exports.”

ACCESS TO CAPITAL

Start-ups or new businesses have little access to formal financing. In a study of 25 SME entrepreneurs, all of the respondents disclosed that they used their personal savings or borrowed money from family and friends to raise the necessary funds to start their businesses. They said that banks would not loan them the desired funds unless they mortgaged their residential properties. A number said that they preferred this way of raising money because family members would not charge them interest. Friends who supplied money would do so as an investment in the new business as shareholders. Secured loans were a second source of financing although the process of making applications, providing documentation and waiting for approval also discouraged entrepreneurs.

Two studies conducted by the Hong Kong Monetary Authority (HKMA) in 1999 and 2000 confirmed this financing situation of SMEs.¹³ Selected banks and SMEs took part in the study.¹⁴ The surveys revealed a gap between the demand for bank credit by SMEs and the supply of funds by banks. It also confirmed the heavy reliance on personal savings as the major funding source for starting up and expanding businesses. The SMEs who took part in the study perceived that banks are generally conservative in their lending policies and relied mainly on the availability of collateral.

¹² “Challenges and Opportunities of an Aging Population,” Hong Kong Convention and Exhibition Centre, Elderly Commission, press release, 8 June 2002.

¹³ Hong Kong Monetary Authority, press release, 23 June 2000. The full report is also available.

¹⁴ In the first study, 50 companies were selected from a member list of a major association of small and medium-sized enterprises. About 30 companies were chosen for interviews. The second study conducted in 2000 covered eight banks and four SME associations.

The fall in property prices made it difficult for SMEs to obtain bank financing. Banks on the other hand, explained the reasons for their conservative lending policies toward SMEs. These included “relatively high delinquency rates; inadequate disclosure of financial and other information; low transparency of operations and poor accounting standards; lack of discipline in the use of credit facilities; and the low level of cost-effectiveness of such lending.”

Venture capital is not an option for most of the SMEs in Hong Kong concentrated in light manufacturing, retail, wholesale and services. Ventures that are involved with communications and computers account for the majority of funding. Because of the economic downturn, activity in the venture capital industry in Hong Kong has decreased. Many venture capitalists have adopted a strategy of “waiting out the downturn in the industry” and are postponing their activity until positive signs are visible in the private equity industry. The value of venture capital disbursement declined by 54.6 percent from US\$928.3 million in 2000 to US\$421.7 million in 2001. However, the fall did not eradicate the gains that had been made by the industry. It does mean that companies that are seeking their first round of venture capital will find it more difficult, and therefore entrepreneurs will have few opportunities to raise capital.¹⁵ Moreover, the average investment for each company fell from US\$16 million in 1999 to US\$9.6 million in 2001. Although seed funding declined from US\$10.4 million in 2000 to just US\$400,000 in 2001, the figures for other early stage investment changed relatively little between those years.

The Growth Enterprise Market established in 1999 gives a “fund raising venue” for companies that are unable to get listed on the main Hong Kong Stock Exchange because they do not fulfill the “profitability/track record” requirements. The removal of this entry barrier enables a company to raise capital on the basis of its growth potential. This market is geared towards technology companies that are depicted as “high growth, high risk” businesses, hence buyers are cautioned with the advice of “caveat emptor.” More important, it provides an exit for venture capital investment as well as a method to raise further funds.

LENDING AND INVESTMENT ENVIRONMENT

The best lending rate at this point in time is 5.125 percent per annum. The interest rate offered by the banks varies with the level of risk associated with the borrowing company. The amount of collateral that the business owner can offer helps determine the interest rate. The HKMA surveys cited earlier suggested removing obstacles for bank lending to SMEs. These suggestions came from the respondents and included: setting up a Credit Reference Agency for SMEs; disseminating information about the SME loan market; promoting adequate disclosure of SMEs’ financial and other information of SMEs; enhancing SMEs’ accounting standards; and developing and using a credit-scoring system in the SME loan market.

There is no capital gains tax in Hong Kong, and investors in general can keep all of their earnings from gains in any investment venture and vehicle.

Following the Asian financial turmoil, banks have experienced a significant decline in credit demand because of the weakening economy. Loans for use in Hong Kong fell from HK\$2,230 billion in

¹⁵ Hong Kong Venture Capital Association, Report (2001).

December 1997 to HK\$1,881 billion in March 2002.¹⁶ The steady drop in both residential and commercial property prices, and prolonged deflation, have also reduced the value of new loans.

According to a Hang Seng Bank report, the loan-to-deposit ratio dropped from 113 percent at the end of 1997 to 91 percent in March 2002, which created a surplus of Hong Kong dollars. This surplus liquidity has compelled banks to lower interest rates for customer loans. The interest spread of the banks fell from 2.4 percent in 1997 to 2.03 percent in 2001. These and a multitude of other factors have affected the ability of banks to generate earnings in Hong Kong. Hence, they may have to look to mainland China for lending opportunities.

Reliance on Asset-Based Lending

Hong Kong's entrepreneurs have always raised initial capital for new businesses from personal savings, contributions from family and sometimes friends, and from mortgaging their properties. Banks have defended their practice of relying on this form of collateral in SME lending. This practice was developed in past years when the property market was booming, partly because of the difficulties and high risks in serving the SME loan market. The banks also maintained that they were aware of the difficulties faced by SMEs and took steps to improve services by increasing their lending or setting up dedicated business units targeting the SME loan market.

A GEM country expert surmised that the current situation of negative equity would make the potential entrepreneur more risk adverse and lead to delays in starting new businesses. Recently, the Hong Kong Mortgage Corporation announced the introduction of the Home Owner Mortgage Enhancement (HOME) Program. This new mortgage insurance program aims to reduce the financial burden of homeowners who have negative equity. According to the HKMA, there are 67,500 residential mortgage loans in negative equity. The HOME Program provides insurance to cover a bank's credit exposure above 90 percent. It will allow homeowners to refinance their mortgages by borrowing up to 140 percent of the value of their property. Banks can reduce the mortgage rate charged to the borrower. The outcome may offer relief to homeowners who are experiencing financial problems due to the loss of jobs and reduced incomes. It is difficult to say whether the program will be an instrument that entrepreneurs can use to raise funds for new businesses or to expand existing businesses.

Zero Tolerance for Failed Investments

The number of company failures has remained high since January 2002, although it fell slightly from the same period last year. In all, 498 companies were subject to compulsory winding-up orders from January to May, compared to 508 in the same period in 2001.¹⁷ The failure rate among new businesses within their first five years is at least 70 percent for Hong Kong.¹⁸ This is comparable with 80 percent in North America. In Hong Kong, poorly performing, publicly listed companies are generally allowed to remain on the market. Most of these companies are not delisted, and the reasons are complex. In a news report, the following explanation was given¹⁹:

¹⁶ "Challenges of the Shrinking Balance Sheet of Hong Kong's Banking Sector," *Hang Seng Economic Monthly*, Hang Seng Bank, (May 2002).

¹⁷ Enoch Yiu, "Bankruptcies Triple in First Five Months," *South China Morning Post*, 12 June 2002.

¹⁸ Maris G. Martinsons, "Dotbombs Teach Lesson," *South China Morning Post*, 16 June 2002.

¹⁹ Jane Moir, "Dead Firms Need Burial," *South China Morning Post*, 18 June 2002.

In Hong Kong, resistance to such harsher criteria is however likely to come from those concerned with giving investors an exit. The reason so few death row cases have proceeded to the final stages is because of their listing value. In many cases, it is the firm's only asset.

Another way of gauging tolerance for investment failure is to look at insolvency practices. Hong Kong lacks a legislative corporate rescue framework that is similar to Chapter 11 in the United States. Legislation for a procedure called provisional supervision has been proposed but has not yet been enacted. In the throes of the economic downturn, a number of listed companies have had their shares suspended by the stock exchange for poor performance. However, there have been initiatives from the concerned parties of banks and creditors to avoid enforcing claims and bring about liquidation.²⁰

Instead, they have worked with insolvency practitioners to preserve the listing status and obtain, through funds provided by a new investor, better recovery for creditors and a preservation of some, albeit small, value for shareholders, which would not be possible in a liquidation.

The Hong Kong courts have supported this type of corporate rescue. Both the public and private sectors are resolved to ensure that a firm in distress has every chance of survival.

Under the present rules, companies that are listed on the Hong Kong Stock Exchange can be delisted when they have no business operations and have been suspended from trading for up to two years. Many of these companies are going through the process of liquidation or restructuring. However, there are also many companies whose share prices are less than 10 cents. There are questions as to whether these companies should also be delisted. A current proposal outlines new conditions that would make it easier to delist poorly performing companies.²¹ According to the chief executive of Hong Kong Exchanges and Clearing, the aim is to shorten the delisting process to between six months and a year. At the end of July 2002, the proposal by the Hong Kong Exchanges and Clearing to get penny stocks to consolidate or be delisted caused a panic among shareholders who promptly surged to unload their shares. Although it was only a proposal to deal with poorly performing companies whose shares were trading below 50 cents for 30 consecutive days, the public reacted as if it were a "death sentence" for these companies whose value was being determined by the price of its shares. In view of some observers, this action has put further pressure on SMEs that are already burdened with administrative requirements to meet corporate governance standards. The ability to raise capital will be further curtailed as investors stay away from buying shares in smaller firms.²² To quote from the chief financial officer of an investment company:

I hope we go beyond this 50-cent episode to reflect on the environment we are creating to SMEs who are trying to survive. The future of Hong Kong as a financial center is very dependent on a new wave of SMEs from China coming here to get a listing.

²⁰ David Kidd, "Lifesavers Ahead of Lawmakers," *South China Morning Post*, 12 June 2002.

²¹ Enoch Yiu, "HKE's Mulls Listing Bar for Small Operators," *South China Morning Post*, 17 June 2002.

²² Leo Kym and Gwyneth Roberts, "Vice Tighten on SMEs," *Sunday Morning Post*, 3 August 2002: 3.

IMPACT OF GLOBALIZATION AND THE WTO ON SMEs

Hong Kong's SMEs have abundant experience in global business and trade. The sub-contracting sector is an integral part of an incredibly effective global supply chain management network. Globalization, hastened by the lifting of trade tariffs and restrictions on investment among countries, will ensure a growing world market for Hong Kong's SMEs. Moreover, Hong Kong manufacturers that have long had their production facilities in the mainland will now have free access to the domestic market. However, this will also bring on greater exposure to competition from China's entry into the World Trade Organization (WTO).

There is a great need for Hong Kong businesses and SMEs to understand the opportunities and challenges resulting from developments in China's accession to WTO membership. The Hong Kong government predicts that by 2010, Hong Kong's exports to China will increase by 15 percent and its GDP will grow by 5.5 percent. This is due to China's tariff cuts and non-tariff relaxation on visible trade. The services sector will also begin to be liberalized in China.²³ As China begins to refine its economic and trade regulations and improves its market efficiency, Hong Kong will benefit from reduced transaction costs. Opportunities for HK SMEs will expand in the form of partnerships with overseas companies to enter the China market, as well as with mainland companies wanting to build their overseas markets. Hong Kong's long-standing talent as an arbitrage will once again be its strength.

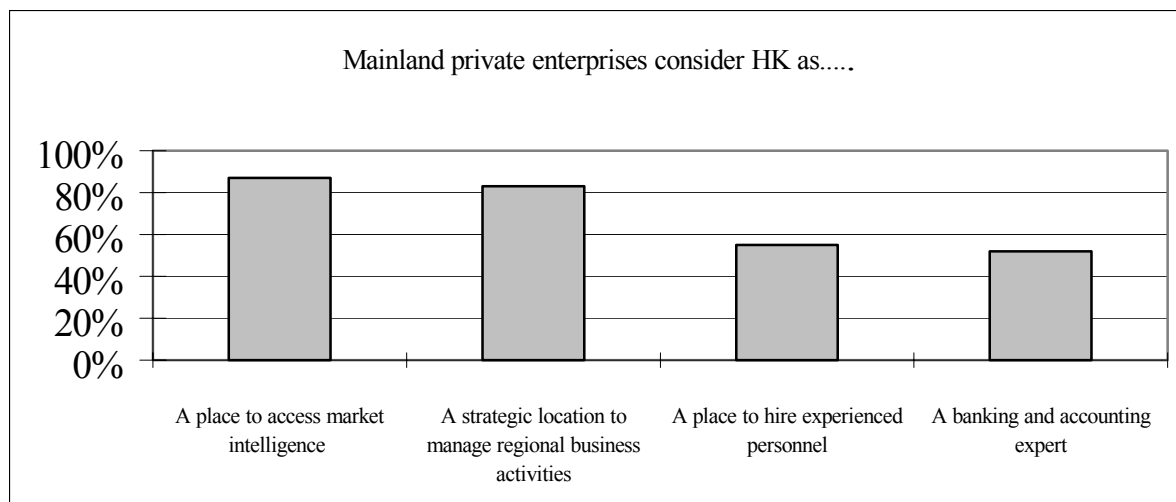
In addition to the anticipated growth in opportunities, Hong Kong's SMEs and larger local companies, which have benefited from their proximity to China over the last 15 years, will have to prepare for increased competition from the foreign companies that will directly invest in the country as it opens up to the world. At the same time they will be able to leverage their past successes, knowledge and experience to create appropriate strategies for responding to the new opportunities that are generated by a more open China market.

Hong Kong companies' scale of manufacturing for export in China has been well documented and the manufacturing sector employs about 5 million workers. By mid-1999, 55 percent of all foreign invested projects in China were by Hong Kong companies, mostly in the Pearl River Delta. By end of 2001, the cumulative value of Hong Kong's realized direct investment was US\$187 billion, accounting for 48 percent of the total external direct investment.²⁴ Mainland companies are looking more at what Hong Kong can do to best help them in the area of services. It is predicted that mainland companies will set up their offices in Hong Kong to capitalize on the highly advanced services and financial infrastructure.

In early 2001, the TDC conducted a survey of 3,337 manufacturers and traders to gauge Hong Kong's trade patterns and economic activities trends. The findings indicated the extent to which Hong Kong affects mainland China, and vice versa. The survey revealed that Hong Kong companies would continue to locate their higher value-added service activities in Hong Kong while operating their factories in China and moving their lower value-added services to the mainland. For example, freight-forwarding arrangements are increasingly being made in China instead of Hong Kong.

²³ Pamphlet on China's Accession to the WTO- http://info.gov.hk/tid/wto_accession/pamphlet.htm

²⁴ "Hong Kong's Investment in the Mainland," Hong Kong Government, Financial Services Bureau, (June 2002).



From the above diagram, Hong Kong is still regarded as the center for higher value-added services, such as business negotiations, marketing, market research, trade finance, insurance, product development and design, and arbitration.

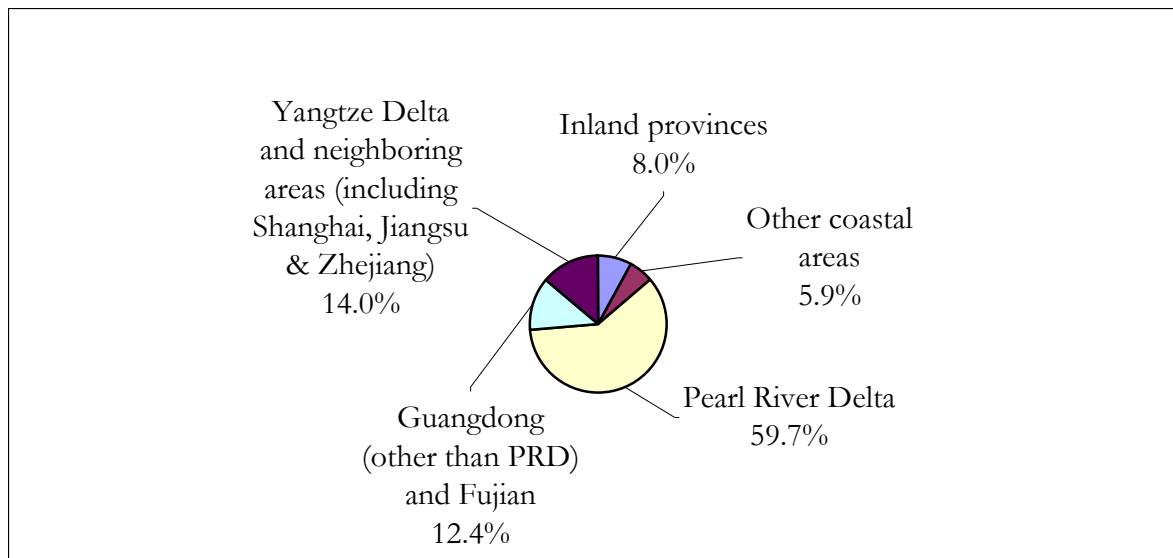
Compared with the 1999 survey, fewer respondents in 2001 said that they would keep their regional headquarters and services in Hong Kong for at least another five years. They saw a physical presence in China as essential for increasing their competitive edge, and were ready to move deeper into the mainland.²⁵

Only 27.5 percent of the companies that were surveyed were selling to the mainland. This shows the untapped potential of China’s domestic market, which will soon increase as the country begins to liberalize in accordance with WTO membership. The respondents also expected more opportunities to sell their products and services in the mainland after WTO entry, or to act as agents of overseas suppliers. At the same time, they anticipated increased competition from Chinese enterprises in China as well as in overseas markets.

High entry barriers to China’s services market are included among the many challenges facing Hong Kong. The Hong Kong government has taken a number of key steps to smooth the way for SMEs to start and operate businesses in China. One of these initiatives is the Closer Economic Partnership Arrangement (CEPA). This comprises a series of high-level consultations between the Financial Secretary and the Vice-Minister of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). One goal in question is to devise an appropriate set of origin rules, and to reduce and eliminate tariff and non-tariff measures. Another agreement, on Trade and Investment Facilitation, will lower business costs and promote trade and investment between the mainland and Hong Kong.

The following diagram shows the extent to which Hong Kong SMEs are already in the Greater Pearl River Delta.

²⁵ “Hong Kong’s Trade and Trade Supporting Services: New Developments and Prospects,” Hong Kong Trade Development Council, (January 2002).



Source: Hong Kong Trade Development Council

ROLE OF GOVERNMENT

The Hong Kong government firmly acknowledges the significant role of SMEs in its economy. Its numerous initiatives and programs are based on a manifesto of creating

A favorable business environment, including a stable macro economy, a simple and clear tax regime with low tax rate, good infrastructure, ample supply of human resources, a culture which encourages application of technologies, as well as a sound legal system to protect individual rights and intellectual properties. With a favorable business environment and minimum necessary regulation, SMEs will be able to operate freely and realize their full potential. ... The aim is to strike a balance between maximum support and minimum intervention.²⁶

EXTENT OF GOVERNMENT AND COMPLEXITY OF REGULATIONS

Starting a new business in Hong Kong is simple. One has only to register the company with the required documents within one month of commencement of operations. The GEM country experts identified this as one of the strengths that promotes setting up enterprises in Hong Kong. The Trade and Industry Department facilitated the processing of business licenses when it incorporated its Business License Information Centre (BLIC) into the Small and Medium Enterprises Information Centre (SMEIC) in August 1999. The SMEIC is meant to be a “first stop” service center for business starters and also provides SMEs with information about business licenses, SME support

²⁶ “Staying Ahead: Smart Motivated and Enterprising.” A Report on Support Measures for Small and Medium Enterprises, Small and Medium Enterprises Committee, Trade and Industry Department, Hong Kong Government SAR, (June 2001).

services and other matters related to running businesses. There is also a website version of the SMEIC.

GOVERNMENT SUPPORT/PROMOTION OF ENTREPRENEURSHIP

The government launched a Special Finance Scheme for SMEs in August 1998, in which it acted as the guarantor for loans of up to US\$2 million from banks or finance institutions, or for 70 percent of the loan value, whichever was less.²⁷ The purpose was to help SMEs that experienced credit loss during the 1997 financial crisis.

The government and its agencies operate a number of other funding support schemes and programs to help industries develop technology-related innovation, as well as to support the development of SMEs in Hong Kong. The programs are as follows.

- Applied Research Fund: This is a venture capital fund to support technology ventures that are undertaken by local companies.
- Innovation and Technology Fund: This fund supports projects that contribute to innovation and technology upgrading in local industry, as well as those that contribute to the upgrading and development of local industry.
- Small Entrepreneur Research Assistance Program (SERAP): SERAP is a “technopreneur” fund that awards seed funding to small, technology-based companies and entrepreneurs to carry out business-oriented research that could become commercially viable.
- Patent Technology Application: These grants aim to assist Hong Kong residents or permanent residents, as well as their companies, who have never owned any patents to apply for patents for their inventions. To place this in context, the number of standard patents that were applied for and granted increased from 147 in 1997 to 2,737 in 2000. There was a substantial increase in 1998, with the approval of 2,434 patents. However, the number of approved patents declined in 2001 to 1,146.
- Industrial Research Chair Scheme: This scheme assists industry and universities with research efforts in technology fields that are not yet developed in Hong Kong, but for which there is good development potential.
- Teaching Company Scheme: This scheme aims to foster university-industry partnerships by enabling local companies to hire graduate students from universities to assist in proprietary research and development work.
- Matching Grant for Joint Research: This scheme encourages private companies to collaborate with universities in proprietary research and development projects. The participating companies share half of the total project cost in cash.
- New Technology Training Scheme: This scheme provides funding support of 75 percent of the total training cost for staff that are trained in new technologies.
- SME Business Installation and Equipment Loan Guarantee Scheme: This scheme helps SMEs secure loans from lending institutions to acquire business installations and equipment, with the government being the loan guarantor. The aim is to help SMEs improve their productivity and capabilities.

²⁷ “Staying Ahead: Smart, Motivated and Enterprising,” A Report on Support Measures for Small and Medium Enterprises, Small and Medium Enterprises Committee, (June 2001): 95.

- SME Export Marketing Fund: This scheme provides financial assistance to SMEs to encourage them to actively take part in export promotion activities in order to expand their overseas markets.
- SME Training Fund: This scheme provides financial assistance to SMEs to send both their employees and owners to training that is relevant to their business operations.
- SME Development Fund: This scheme awards funding to non-profit support organizations, trade and industrial organizations, professional bodies, and research institutes to carry out projects that will improve the competitiveness of SMEs in Hong Kong in general, or in specific sectors.
- TechMart: This scheme aims to assist start-ups in commercializing their technology by lining up potential strategic investors. It was established 18 months ago by the Hong Kong Productivity Council, which is a quasi-governmental body, with the task of promoting the development of would-be technology firms that are approaching the pre-IPO stage.

Physical Infrastructure (i.e. Incubator Development)

The GEM Country experts reported that the high cost of doing business is one of the most critical factors that prohibit people from setting up businesses in Hong Kong. The cost of offices and industrial rental properties, as well as wages and salaries are high. Many SMEs have already moved their production operations to the Pearl River Delta in southern China because of the lower land and labor costs. Although these costs have declined in recent years because of the economic downturn, prime and good business locations are still not affordable to new businesses and start-ups.

In 2001, there were 3,237 overseas companies with their regional headquarters in Hong Kong.²⁸ This figure is an increase of 10.4 percent from the previous year and shows the extent to which these companies are satisfied with the level of infrastructure available in Hong Kong. Regional offices also rose by 6.8 percent to 2,293.²⁹ The respondents in the survey rated favorably the following factors in making an investment decision to be located in Hong Kong: low taxes; a simple tax system; free flow of information; absence of exchange controls; communication, transport and other infrastructure; and free port status.

The strengths of the physical infrastructure in Hong Kong include excellent telecommunications that enables the free flow of information on business and market trends, utilities, and transportation. Hong Kong has the highest rate of telephone line penetration in Asia. With its 409,715 fax-lines (January 2002), it has one of the highest rates of business fax use in the world. International phone calls are significantly cheaper than in other Asian cities. Hong Kong's broadband network is rolling out quickly. As of January 2002, over 95 percent of households and 100 percent of all commercial buildings were brought into the broadband network. Hong Kong is also well connected to the rest of the world. This is seen with numerous Internet Service Providers, high-speed data links and fiber optic cables to Japan, the United States and Europe. Clearly, this enables local businesses and SMEs to effectively serve their customers in various parts of the world.

The Hong Kong Science and Technology Park was established in 2001 to offer "one-stop" infrastructure support services for technology-based companies. Its services address the needs of the

²⁸ This was identified in the 2001 Annual Survey of Regional Offices Representing Overseas Companies in Hong Kong conducted by the Census and Statistics Department.

²⁹ Regional Headquarters and Offices in Hong Kong- <http://www.info.gov.hk/info/hq.htm>

industry, ranging from nurturing technology start-ups at its business incubation program to providing land, premises and services in the Science Park for applied research and development activities. It also provides land and premises to companies in the industrial estates to build production facilities. Incu-Tech is one of its incubation projects that help technology start-ups prepare their products for the market. Approximately 60 firms are now in the program, which has a target of 100 firms.

The Hong Kong Applied Science and Technology Research Institute Company, Ltd. (HKASTRI) was established in 2000 to provide the research capability for technological development. It aims to perform relevant and high quality research that can be transferred to industry for commercialization. HKASTRI's research programs initially focused on technology areas such as optical, wireless, Internet content and applications, and semi-conductor design.

The Hong Kong Jockey Club Institute of Chinese Medicine Ltd. (HKJCICM) was established as a subsidiary of the HKASTRI in 2001. Its goals are to make Hong Kong a world center in developing health foods and pharmaceuticals based on Chinese medicine. This process will involve evidence-based clinical studies, safety assessment and evaluation.

People-Based Infrastructure (i.e. Business Advisory Services)

Hong Kong has well-established and extensive services that provide professional support to new and existing businesses.

The Trade and Industry Department has been enlarged and renamed its SME Information Centre as the Support and Consultation Centre for SMEs (SUCCESS). Its mission states:

Through partnership with various government departments, licensing authorities, trade and industry associations, support organizations, and professional bodies, SUCCESS provides SMEs with a comprehensive range of information advice, and facilities under one roof. The aim is to help SMEs resolve problems at different stages of their development.

The Hong Kong Productivity Council established its SME Centre in 1997 with the aim of assisting enterprises with financial advice that includes cash flow budgeting, setting up management costing systems, business plan writing and financial performance analysis. Its latest program, TechMart, aims to match innovative individuals with entrepreneurs and investors.

The TDC operates a Customer Service Centre to assist SMEs through trade consulting and advisory services, and also offers a venue for mini-exhibitions and networking opportunities. It reports an average of 1,500 visitors per month. There is also a virtual SME Centre on the TDC's trade portal that supplies up-to-date business information 24 hours a day.

The Vocational Training Council, Management Development Centre houses a Business Start-up Centre to help individuals in setting up their businesses. It provides accounting, marketing, management and legal advisory services to its registered users. Cubicles of varying sizes are available for monthly rental, and photocopy, fax facilities, and telephone and Internet services are provided. It has a capacity for 400 users. The TDC recently launched a similar business service center for start-ups.

In a study that was recently conducted by the TDC, the mainland private enterprises surveyed considered Hong Kong to have many of the critical infrastructure elements that they need to grow and connect to the rest of the world.³⁰ Fifty-three percent of these enterprises said that Hong Kong was instrumental in helping them raise funds to finance their development in terms of listing on the stock market, syndicated loans and venture capital. As a platform for international business, Hong Kong has a large number and high concentration of foreign business associations and multinational companies, ready access to market intelligence on consumers and competitors, a great number of international trade shows and agents for foreign products.³¹ These factors all facilitate global sourcing, contact with international buyers and the development of overseas markets. Thirty-four percent of these enterprises disclosed that they had already set up or planned to set up an office in Hong Kong. Fifty-five percent said that they had not set up a Hong Kong business because they were not currently ready, but would do so when they are ready.

TAX POLICIES

Hong Kong's tax system is the most business-friendly in the world. Taxes are levied on three types of income—profits, salaries and property. There is no value-added or sales tax, and no capital gains tax. Only 15 percent of income that is sourced in Hong Kong is taxed. This has enabled people to acquire high levels of personal savings that can be used to finance new businesses. Profits are taxed when they are derived from Hong Kong as a result of a trade, profession or business. Companies in Hong Kong pay 16 percent corporate tax, which is among the lowest in the world.

The GEM country experts agreed that the low corporate tax was an important factor in making Hong Kong an attractive place for businesses. In a move to encourage more companies to expand production in Hong Kong, 200 industrial enterprises, which had already moved most of their work to the mainland, proposed that the government offer them tax and rent incentives.³² Such incentives could help to lure local and overseas enterprises to maintain design, research and product development in Hong Kong.

EXISTENCE OF A SOCIAL SAFETY NET AND THE EFFECT ON THE ENTREPRENEURIAL SPIRIT

Hong Kong does not have a social security program that is similar to that in the United States. For those who pass the required Means Test to prove that they are indeed destitute, the government provides Comprehensive Social Security Assistance (CSSA)—cash assistance to enable a household to meet basic livelihood needs. Even so, each case receives only HK\$59,404 a year. The Mandatory Provident Fund Ordinance (MPF) that was enacted in 2000 requires that the employer and employee each contribute a minimum of 5 percent of the salary towards the employee's superannuation. The country experts who commented on the MPF said that while it enabled employees to prepare a small “nest egg” for retirement, small business owners lamented that it increased their operations costs.

³⁰ “Hong Kong as an International Commercial and Financial Centre—from the Perspective of Mainland Private Enterprises,” Hong Kong Trade Development Council, 6 June 2002- <http://www.tdctrade.com>.

³¹ There were 2,237 multinational corporations (MNCs) with regional headquarters or offices in Hong Kong as of June 2002, an increase of 8 percent from the previous year. The TDC reported that 83 percent of the regional headquarters of these MNCs were responsible for the mainland market.

³² Gary Cheung, “Firms to Lobby For Incentives to Spur Industry,” *South China Morning Post*, 10 June 2002: 4.

However, it could be argued that the lack of a social safety net in past years was a key factor in stimulating self-reliance, a strong work ethic and an unrelenting pursuit of wealth— attributes perceived to be critical for entrepreneurial behavior. In fact, a number of GEM country experts cited the lack of a social safety net as the reason for Hong Kong's entrepreneurial push in past years. Past GEM studies have also found that countries with abundant social welfare programs have lower levels of entrepreneurial activity.

RULE OF LAW AND PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

Hong Kong was perceived by the GEM country experts to have a sound and efficient legal system that strictly adheres to the Rule of Law. Regulations are “transparent” and available for all to see. Hong Kong law is based on the British Common Law System. Hong Kong has an independent judiciary and a comprehensive legal aid system so that any person has access to legal services. The government is a signatory to 14 international human rights treaties. At the pinnacle of Hong Kong's legal system is its final appellate court, the Court of Final Appeal (CFA), which was established on July 1, 1997. The CFA is the ultimate arbiter of common law in Hong Kong.

Hong Kong is consistently rated by international surveys as one of the “least-corrupt” places in Asia. In addition, the work of the Independent Commission Against Corruption (ICAC) ensures that government and firms deal honestly and fairly. The Ombudsman is an independent channel for public appeals and complaints against the government. He has jurisdiction over almost all government departments and many major public bodies. He can also initiate investigations against government abuse.

Legislation on the Protection of Intellectual Property Rights has been firmly established and promoted by the Intellectual Property Department, which deals with intellectual property issues, law and public education.³³ The Patents Registry data presented in Appendix D shows that from 1997 to 2001, there was growth in the number of standard patents being sought and approved. It may be inferred that efforts by the Innovation and Technology Commission to help local companies and individuals apply for patent registration of their inventions are bearing fruit.³⁴

The Customs and Excise Department takes vigorous action against copyright piracy and trademark counterfeiting. Hong Kong's anti-piracy laws and enforcement programs have been praised by the Business Software Alliance (BSA) as the best in Asia. The government claims to have closed down 90 percent of stores that sell illegal software. However, the BSA 2001 piracy study found that 53 percent of the software that was used in Hong Kong was unlicensed, although this figure had slightly decreased from 57 percent in 2000.³⁵ This improvement was marginal despite tough intellectual property laws that were introduced in 2001 to criminalize the use of copied software by businesses, together with a US\$8 million anti-piracy public education campaign.

³³ The Patents Ordinance examines and grants standard patents based on patents granted in the State Intellectual Property Office of the People's Republic of China, the United Kingdom Patent Office or the European Patent Office. It also provides for the grant of short-term patents- <http://www.info.gov.hk/hk2000>.

³⁴ The Patent Application Grant established in 1998 by the Innovation and Technology Commission aimed to promote the development of intellectual property in research and development.

³⁵ Doug Nairne, “Piracy Protection Fails to Bite in Hong Kong,” *South China Morning Post*, 11 June 2002: 14.

CONCLUSION AND RECOMMENDATIONS

Hong Kong is perceived as a place where entrepreneurship thrives and the entrepreneur is well respected. Its physical, commercial and professional infrastructures are well-established strengths for new enterprise creation and the continued operation of existing companies. Such strengths also include a fair and transparent legal system, an economic policy that allows a free flow of capital and currency, no non-tariff barriers and a simple tax system with low rates. The government is clean and efficient, and committed to building an environment that fosters fair competition. There is legislation for intellectual property protection to encourage innovation.

However, Hong Kong has been badly hit by the present economic downturn. The 7.7 percent unemployment rate instills fear in the people as they read in the media about rounds of layoffs. High rentals and salaries have added to the cost of business operations in Hong Kong. Years of prosperity in the 1980s and 1990s, resulting from gains due to speculating in property and stock markets, have inculcated an ethos of “get results fast” among the people.

The economies of mainland China and Hong Kong are intertwined. The proximity to China and a Chinese government that is largely supportive of Hong Kong is its best advantage. The Hong Kong government remains a firm advocate of developing an environment that is conducive for SMEs to grow and improve in the areas of technology application and innovation. Hong Kong’s SMEs have vast experience and knowledge of manufacturing in China, and exporting to the world. They are an integral part of the global supply chain system. Hence, it may seem that among all of the countries that are hoping for a piece of the China market following its WTO entry, Hong Kong will be well poised. However, there is much work to be done. SMEs must now transform into strategic rather than reactive entities. In the study of 25 entrepreneurs, it was evident that few of them had a strategy or business plan when they started their business. If they had something written down, it was a budget, a skeletal marketing plan or a checklist of things to be done. The reason for this was that things were changing so fast that a plan would soon become obsolete. In his observations of the Chinese businessman, Gordon Redding noted that

Denying the usefulness of formal planning, he prefers to absorb information and to use his intuition to process it. There is evidence from their business success to suggest that this allows for a better match with the complexities of this world.³⁶

Venturing into the vast China market will require a long-term plan or strategy, and the SME may need “to go back to school” to begin drafting a mission and evaluating the strategy after its implementation. The landscape of a China that is newly opened to the world has many complexities. Intuition alone may not be sufficient. SMEs in Hong Kong have concentrated on Original Equipment Manufacturing (OEM) work. However, China is primed to be a manufacturing base with a capacity for OEM. Hong Kong SMEs may have to go up the value chain to create their own brands to ready themselves for the Chinese domestic market.

At the government level, there is also much work to be done. Both Hong Kong and mainland Chinese officials are engaged in discussions about how to remove barriers for Hong Kong companies to invest in China and sell products and services to its vast market.

³⁶ Gordon Redding, *The Spirit of Chinese Capitalism*, (De Gruyter, 1990), 77.

More important is winning the “hearts and minds” of the entrepreneurs and would-be entrepreneurs, and encouraging them to focus on the strengths of Hong Kong and their capacity for being entrepreneurial. A sense of uncertainty about the future has meant that Hong Kong people want the government to provide solutions and assistance. The government in turn has to walk a fine line between helping too much and not helping at all. The GEM 2001 study revealed a strong negative association between the level and duration of unemployment benefits and the prevalence of necessity entrepreneurship. Necessity entrepreneurship is when people are self-employed or start their own businesses because they have no other option. There also was evidence of a correlation between necessity entrepreneurship and a country’s GDP level. Many country experts were against handing subsidies and money to help entrepreneurs who are either in distress or want to start new businesses. GEM recommends that national policy should balance the need to protect the unemployed with the need to encourage higher levels of self-sufficiency.³⁷ It will be more helpful to remove barriers and continue to maintain and upgrade existing infrastructure. The GEM 2001 assessment also identified government regulatory burdens as a major deterrent to higher levels of entrepreneurial activity. The recommendation was for governments to ensure that every aspect of their national economic system is supportive of entrepreneurship, including reducing and simplifying the regulatory burden, minimizing taxation and lowering non-wage labor costs.

Many of the GEM country experts were concerned that the Hong Kong education system had not prepared its youth for a knowledge-based economy. They observed that young people who were entering the job market lacked independent thinking and creativity, and attributed that to a system that required rote learning, and a narrow curriculum geared towards passing examinations. Poor language skills in English and Putonghua (Mandarin) rendered young people ill prepared for work and activity in a global economy. GEM 2001 recommended that education be enhanced in both general and entrepreneurship-specific ways. Those with limited education are less likely to participate in entrepreneurial initiatives, and they tend to match their business aspirations to their level of skills and knowledge. Consequently, they generally initiate less ambitious business activities.

To rebuild confidence will involve changing the expectations and cultural “mindset” of Hong Kong people towards becoming more entrepreneurial. This will require collective action from both government and the people. The media is an important instrument in influencing public opinion and could have an important role. Stories of failed businesses should be matched with success stories, to inspire an audience that has grown discouraged by the economic downturn. The following are examples of private individuals, groups and organizations that have taken it upon themselves to voluntarily promote entrepreneurship, educate future generations and help businesses.

- Rita Chan, deputy general manager of Hang Seng Bank Ltd., volunteers her time as a school manager. She counsels students on personal growth and development and nurtures their interest in economics and finance.
- The members of the Hong Kong Women Professionals and Entrepreneurs Association (HKWPEA) raise funds for a micro-finance loan program to help economically disadvantaged women start their own businesses and become self-sufficient. The recipients are also assigned mentors from its membership comprised of successful professional women and entrepreneurs. Every three years, HKWPEA organizes awards to recognize outstanding women entrepreneurs and professionals.

³⁷ *Global Entrepreneur Monitor*, Executive Report, (2001): 5.

- Insolvency practitioners help distressed companies recover instead of succumbing to liquidation. Everyone wins—the company, its creditors and the banks.
- A coalition of Hong Kong churches launched a project to address the growing level of unemployment. The result was more than 500 jobs created in five months.³⁸
- The Diocesan Girls School has an annual Bazaar in which secondary school students negotiate with manufacturers to supply them with items that can be sold to fellow students. They are asked to answer the following question: “Imagine if you were to sell something, what would people (your classmates) want to buy?” The popular items are umbrellas, stationery sets and “white elephant” items. The proceeds from the sales are donated to charitable organizations that are suggested by the students. The students from the primary school operate one store.
- Junior Achievement, a non-profit organization operating in 110 countries, established a chapter in Hong Kong in 2001. Its mission is to “educate and inspire” young people from kindergarten to the post-secondary level to learn and develop knowledge and skills in enterprise creation, business and economics. Its supplementary educational offerings, which are hands-on and experiential, are facilitated by business volunteers from multinational and local companies as well as business owners.

Voluntary action builds social capital. It builds relationships and increases trust levels among the various parties. Robert Putnam defined social capital as the sum of complex, dense networks of connections, values, norms and reciprocal relationships in a community.³⁹ Putnam advocated that the stronger the ties that bind, the greater the potential for civic cooperation and trust that can improve everyone’s quality of life. According to a study by Lau Siu-Kai, “Hong Kong is suffering from a long-term depletion of its stock of social capital.”⁴⁰ Social capital may be the building block of economic capital. Ultimately, people who trust one another are more willing to do business with each other.

³⁸ Felix Chan, “Church Initiative Creates 500 Jobs,” *South China Morning Post*, 15 June 2002.

³⁹ Robert Putnam, *Bowling Alone: The Collapse and Revival of the American Community*, (Simon and Schuster, 2000).

⁴⁰ Lau Siu-Kai, “Short on Social Values,” *South China Morning Post*, 21 May 2000.

APPENDICES

Appendix A

		Distribution of Hong Kong SMEs (Sept 2001)	
		Number of SMEs	Number of employees
Industry	Manufacturing	19,532	133,403
	Mining, quarrying, gas, electricity, and construction	674	10,587
Services	Import and export	98,647	413,777
	Wholesale, retail, restaurants and hotels	86,673	381,001
	Financing, insurance, real estate and business services	47,995	218,620
	Community, social and personal services	28,978	152,214
	Transport, storage and communications	9,961	64,978
Total		290,460	1,374,580

Source: HKTDC

Appendix B

Companies incorporated in/outside Hong Kong Number registered and dissolved							
Year	Public Incorporated	Private Incorporated	Total	Total Dissolved	Public on Register	Private on Register	Total
1998	267	29,680	29,947	29,983	5,934	468,660	474,594
1999	363	35,197	35,560	19,367	6,058	484,830	490,888
2000	388	42,971	43,359	22,826	6,310	505,193	511,503

Source: Companies Registry

Appendix C

Hong Kong: GDP and Exports

Year	2001	2000	1999	1998	1997
Real GDP Growth	0.1	10.5	2.9	-5.1	5.3
Exports	19.6	23.3	21.8	24.1	27
Re-exports	170.4	178.6	151.2	148.7	152.1

Appendix D

Patents	1997 (From 27 June 1997*)	1998	1999	2000	2001
Standard patent applications filed	1,179	19,139	6,040	8,295	8,914
Standard patents granted	147	2,434	2,502	2,737	1,146
(ii) Short-term patent application filed	30	113	175	274	312
Short-term patent granted	0	51	117	233	271
No statistics maintained for the processed patents cases.					

*The Patents Ordinance Cap. 514 took effect on 27 June 1997.

	1997	1998	1999	2000	2001
Trade Marks applications filed	18,529	17,631	19,885	28,114	20,945
Trade Marks registered	12,680	13,578	17,135	16,920	14,220
Processed (1st examination report issued)	N/A	N/A	20,568	31,327	22,904

Appendix E

HONG KONG'S LIST OF ACHIEVEMENTS
GDP per capita is over US\$24,100
Trading generated 18 percent of GDP and employed 500,000 workers in 104,000 trading firms
World's 9th biggest trading economy
World's 9th biggest services exporter
World's most service-oriented economy, with a focus on manufacturing-related producer services
Services generated 85 percent of GDP in 2000, employing 87 percent of the workforce
Ranks 1st in the world in terms of export value in clocks, calculators, radios, electrical hair apparatus, telephone sets, imitation jewelry, toys & games, travel goods & handbags and artificial flowers
Ranks 2nd in the world in terms of export value in clothing, textiles, watches, electric food grinders, mixers & juices, fur clothing and umbrellas
World's busiest airport in terms of cargo
World's busiest container port
World's 9th largest stock market
Estimated 1998 outward direct investment from Hong Kong was US\$19 billion
Hong Kong is the 2nd largest venture capital center in Asia
3,237 overseas companies had regional operations in Hong Kong in 2001 (944 regional HQ+2,293 regional offices) –50 percent of the regional offices were in the distributive trade sector and over 90 percent covered the Chinese market
64 percent of Hong Kong's exports originate in mainland China
Hong Kong handles 40 percent of China's total foreign trade

Source: Adapted from CLSA Emerging Markets, 2002⁴¹

⁴¹ Hong Kong SMEs. The primer by Christine Loh for CLSA Emerging Markets. The author would like to thank. Loh for her insights on the significant role of the SMEs in the economies of Hong Kong and China.

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