Studying Hong Kong Economic Development: A Non-Economic Introduction

(A non-proofread draft)

This introduction has three aims: first, to explain why we want to edit a collection about Hong Kong economic development from non-purely-economic views; second, to explain how we select the articles; and finally, to discuss the future agenda for analyzing the Hong Kong economic development.

Why do we need a non-purely-economic reader?

"Economic theorists, like French chefs in regard to food, have developed stylized models whose ingredients are limited by some unwritten rules. Just as traditional French cooking does not use seaweed or raw fish, so neoclassical models do not make assumptions derived from psychology, anthropology, or sociology. I disagree with any rules that limit the nature of the ingredients in economic models."

George Akerlof

After the Asian financial crisis, the Hong Kong economy has been seriously hurt. Hong Kong has experienced its economic decline after the golden boom before the handover. The unemployment rate is rising, and deflation continues. The Special Administration Region government claims to try its best to revive the distressful economy. Our Chief Executive persistently shows the public his commitment to sustain the economic development of Hong Kong. Our government, senior officials and prominent capitalists, on the one hand, untiringly insist on the importance of free market in promoting economic development. On the other hand, they occasionally talk about how and when the government should intervene. All these things come under the heading of promoting "economic development," perhaps the most overused and least understood concept in the public lexicon these days. As our reader subtitle suggested, this reader contains articles which do not employ a purely or mainstream economic tools to analyze the economic development of Hong Kong. Why do we deliberately employ such peculiar criterion? It is our belief that economic development is not equivalent to economic growth; it involves not only growth rate, employment rate, and economic institutions, but also the socio-political and cultural forces that shaping the economic activities that propel or prohibit economic growth.

Development Economics Versus Growth Economics

Indeed, even within the economics discipline, there is a split between growth economists and development economists. They tend to ignore each others work. As development economist Ruttan (1998:1) notices,

“Both growth economics and development economics emerged as distinct fields of inquiry in the early post-Second World War period. Growth economics was committedly macro-economic in orientation and the province of the practitioners of ‘high theory’. Development economics was more micro-economic in orientation and drew on knowledge from related research in anthropology, sociology and political science and on the insight of practitioners.” Thus, traditionally, there is a group of economists willing to broaden their horizon in order to explain economic development realistically.

Furthermore, as the quote from the Nobel laureate George Akerlof we put at the beginning of this introduction shown, there have recently been a number of prominent mainstream economists who explicitly claim borrowing ideas from other social sciences. The interpenetration between economics and other social sciences has been undergoing. Notably, the institutional economists, like Oliver Williamson and Douglass North, are much more open to dialogue with other social scientists. In the past, the economic tools and the major theoretical assumption, the rational choice, to certain extent, colonize many subfields of other social sciences. This kind of imperialism is most prominent in the works of Gary Becker. Becker attempts to use “economic” human to substitute “sociological”, “cultural” and “political” human. Nonetheless, the economic imperialism has been somewhat replaced by a more comfortable kind of cooperation and exchanges between economists and other social scientists. After reviewing what he can learn from other social scientists, Ruttan (2001:23) comments that good economics has to be good anthropology, sociology, and political science; and good anthropology, sociology, and political science have to become good economics as well. We may even add that good analysis of economic development has to be good history and geography too.

**Economic Development as a Field of Other Social Sciences**

Economic development is not an exclusive territory for economists. Other social scientists have long been occupied by the subject. Right after the Second World War, under the rubric of modernization theory, anthropologists, sociologists, social psychologists, and political scientists had carried out many works on explaining why developing countries failed to modernize. Later, Marxian scholars, known as the dependency and world-system school challenged both the modernization school and the neoclassical economics. As the dependency idea lost its appeal to the developing countries and the rise of the East Asian Tigers, state-centric theories of development became dominant in the sociology and political science literature. Simultaneously, there is a revival of studying how culture contributes or inhibits development. Overall, in social sciences there is a parallel line of inquiry about economic development comparable to economics. Unfortunately, only until recently, social scientists attempt to integrate the insights from both economics and other social sciences. For instances, by acknowledging the connection between organizational form and economic development in the Far East, Hamilton and Biggart (1988) contrast three approaches in explaining the economic organizations in Japan, South Korea and Taiwan: the political economy, the market, and the cultural approach. They show that the political economy approach which incorporates economic and cultural factors and allows for historical diversity.
provides the most successful explanation of the variation of economic organization in these countries. Landa (1991) integrates transaction cost analysis, Leibenstein’s theory of N-entrepreneurship and the cultural theories in anthropology to explain the success and persistence of the ethnically homogeneous middleman groups in less developed countries, such as the Chinese in Southeast Asia, the Indians in East and Central Africa and the Lebanese in West Africa. Anthropologist Ensminger (1992), by employing transaction cost analysis, gives an illuminating account of how market was established among a group of Kenyan pastoralists, the Orma, and what effect the market had on local economic performance and welfare.

In the literature about Hong Kong economic development, such a bifurcation between economists and other social scientists is quite obvious. The stories of Hong Kong as told by mainstream economists mostly around the themes of the success of free market, the positive noninterventionism or the laissez-faire policy of the city-state, the export-led development strategies, and the agile Hong Kong entrepreneurship in adapting to the ever-fluctuating world economy. However, other social scientists have more diverse views. Some attribute the Hong Kong success story to distinctive Hong Kong Chinese culture; some argue the role of the city state; some focus on the local and international network capital endowed within the enterprise structure; and still others emphasize Hong Kong’s unique geopolitical location. Besides explaining the success story, social scientists further scrutinize the politics of Hong Kong economic development through examining the governing ideology as well as the consequences or the dark side of the economic growth. In accounting for the demise of the Hong Kong economic growth after the Asian financial crisis, social scientists may have foretold the fall by pinpointing the weaknesses of the economic structure of Hong Kong. Unlike the standard economic viewpoint as expressed in popular newspapers, they are not blaming the government interventions that interfere efficient market operations, but criticizing the government intervening too little and too late.

**Different Assumptions from Mainstream Economics**

Why do social scientists have so diverse views on the Hong Kong economic development, but the economists seem to have a unique answer? In general, the major difference between economists and other social scientists, or at least for sociologists, in studying economic action stems from their views about the nature of economic activities. Economists regard economic actions as rational, calculative individual activities that aim at utility maximization. They take self-interests as the very starting point, rather than being constituted by other socio-cultural or political forces in studying economic actions. Nonetheless, sociologists Swedberg and Granovetter (1992) have advanced three postulates to study all forms of economic activities to counteract the undersocialized view of economists:

1. *Economic action is a form of social action.* As social actions, economic actions cannot be separated from the quest for approval, status, sociability, and power. Hence, instead of merely studying economic actions in terms of profit maximization, the influences of noneconomic elements or motives on economic action must be taken into account. This view is well captured by the notion of
“noncontractual elements in every contract”, a la Durkheim.

2. *Economic action is socially situated.* Since economic actions are socially situated, they cannot be explained by reference to individual motives alone. Economic actions are embedded in networks of personal relationships rather than being carried out by atomized rational actors. Indeed, as Zukin and DiMaggio (1990:15-23) suggest, there are four different ways in which economic actions are embedded:

- Cognitive embeddedness refers to the structured regularities of mental process that limit the exercise of economic reasoning. This embeddedness is consistent with the notion of bounded rationality. It is the realm of cognitive psychology which treats cognition as a means of processing incoming information with respect to the mental schema which is resulted from previous social learning processes (see Markus and Zajonc, 1985).
- Cultural embeddedness refers to the form of beliefs, ideologies, taken for granted assumptions or formal rule systems that prescribe legitimate strategies of self-interested action (see North, 1990).
- Structural embeddedness refers to the contextualization of economic exchange in patterns of ongoing interpersonal relations. The strength and the scope of the social relationship determine the strength and the scope of market transactions as well as flows of information.
- Political embeddedness refers to the manner in which economic institutions and decisions are shaped by a struggle for power that involves economic actors and nonmarket institutions, particularly the state and social classes. Knight (1992) notices that the way and the direction of how an institution change are largely determined by the distributional conflicts and bargaining processes of the actors at stake.

3. *Economic institutions are social constructions.* Economists often argue that market is the most efficient coordinating mechanism for optimal resource allocation. However, Boyer (1996:95-103) has shown how the concept of market has changed: from referring to concrete bilateral contract or a market-place to an abstract notion of the convergence of conflicting objectives among a group of competing social actors; and he concludes that “the use of the concept of market becomes so loose that it is more mystifying than enlightening”. He then argues that market should be viewed as “completed by or embedded within a series of other coordinating mechanisms which are based either on obligation (and not only self-interest) and/or vertical coordination, alliances, hierarchies, communities, networks, public authorities”. Zelizer (1989) also notices that there is an interpenetration of noneconomic factors with the market. Hence, market should be understood as a cultural and social construct. In other words, different markets have their own sets of values and norms, and are interdependent with other institutions and values. Market exchange is not homogeneous and ahistorical but variable and socially constructed. Furthermore, almost two decades ago, political scientists Streeck and Schmitter (1985) argued that the governance of economic activities should not be exclusively concerned with market. Market is only one of the institutions of allocating economic resources. State, community and association are other institutions that can perform the same tasks, sometimes better than market, though not commonly labeled as
“economic” institutions.

Swedberg and Granovetter (1992:17-19) further argue that economic institutions are constructed by mobilization of resources through social networks against a background of constraints given by previous historical development of society, polity, market and technology. In sum, if we want to study economic development of Hong Kong, we undoubtedly have to deal with the socio-political and cultural forces that the economic development is embedded within. Since different students of Hong Kong economic development may emphasize different socio-political or cultural forces, their analyses may very different. Thus, this reader, rather than a purely economic exposition, provides alternative accounts to the success or/and decline of the Hong Kong economy.

How do we select the articles?

There are so many scholarly works on the study of Hong Kong’s economic development. Besides the non-purely-economic criterion, we need to set up a multilevel analytical framework for reflecting the complexity and the interpenetration of economic, political, social and cultural forces. Ellison and Gereffi (1990:370) argue that a multilevel framework is needed because any causal argument about large-scale changes is essentially combinatorial and/or conjunctural in nature. The outcome within a particular level of analysis may be conditioned by elements or trends in its higher or lower levels. Our framework is simply a three-tier model: the macro level is about the global and regional forces; the meso level is the organizational level; and the micro level is the individual level. Besides setting the three levels, we deliberately select articles with relevance to the following debates:

1. How do we comprehend Hong Kong’s economic development, if market transactions are shaped by and embedded within socio-cultural and political forces rather than totally determined by self-interested, profit-maximizing calculation? In other words, what if there is no automatic “invisible hand” that leads to the Hong Kong miracle and its recent demise, what else are responsible? In particular, Hong Kong is often described as an open free market economy which economic survival depends on its international competitiveness in its manufacturing and service industries. Is the Hong Kong’s international competitiveness gained in the past, somewhat challenged currently and maybe lost in the future determined purely by economic forces, or co-determined by other socio-cultural and geopolitical factors?

2. Hong Kong Government’s “positive noninterventionism” is often praised as the cornerstone of Hong Kong’s industrialization and economic development. However, recently, some scholars have contended that Hong Kong industrialization indeed began in the period before the Second World War when the colonial state did not bother to pay any attention to the Chinese dominated manufacturing sector. Thus it is quite questionable whether the colonial state contributed, if any, to Hong Kong industrialization. Nonetheless, there is an argument that after the War, it is government’s reactive rather than proactive economic policies that sustain the economic growth well before the Asian financial turmoil. The controversy is whether the colonial state consciously
adopted “positive noninterventionism” as a consistent economic policy orientation or as a compromise between different business groups and the state? Is it a committed and well-defined economic policy or simply a myth, an ideology, and a way to legitimize whatever the government does? There are numerous studies of East Asian economies that highlight the importance of the state intervention for organizing domestic industries as well as bargaining with international capitals; is there any role of the state in Hong Kong’s economic development? How do we account for the recent economic troubles created by the Asian financial crisis or the relocation of industries? Does the state economic policy have anything to do with these?

3. Economic development is often attributed to the vibrant, flexible and proactive role of the entrepreneurs or capitalists. However, the success of the entrepreneurs or capitalists cannot be achieved without labor or workers. Economic growth accounting often focuses upon formal economic sectors and ignores the informal ones. Nevertheless, the informal economic sectors played an important role in propelling Hong Kong’s industrialization. Standard economic analyses often look at the labor issue exclusively concerned with unemployment or productivity, and when discuss the informal economy with focus upon economic efficiency problems; other social scientists not only examine the consequences of economic growth onto the labor and the informal economy, but also view the socio-cultural and political characteristics of both the labor and the informal economy as constituent factors of economic development. Thus, the third issue of the Hong Kong development is that how important the Hong Kong labor and informal work contribute to the Hong Kong miracle.

4. Finally, culture is often employed as a residual explanation to complement what the standard economic analyses fail to account for the astonishing high growth performance of the East Asian economies during the 1980s and 1990s. In the Hong Kong context, how important is the Chinese culture or Confucian culture to economic development? The original cultural debate of the overseas Chinese economic performance stems from Weber’s thesis of “the spirit of capitalism”. However, in the original Weberian thesis, traditional Confucian culture was a barrier rather than a facilitator to the rise of capitalist production. Then, what is the nature of Hong Kong Chinese spirit of capitalism? Does the Hong Kong Chinese culture differ from the traditional Confucian culture? How does the culture actually affect the economic behaviors of the Hong Kong entrepreneurs or people? If culture does have an effect on economic performance, does the culture itself constitute a single factor with its own logic of development to shape economic activities, or are there any institutional backgrounds for particular spirit of capitalism to arise?

Debate I: Abstract Market versus Concrete Market Institutions

The first one is related to the widespread of neoliberalism nowadays. We insist that market transactions should not be treated as abstract entities such that the socio-cultural and political backgrounds in which market transactions are situated are being abstracted out. Neoliberalism is a kind of contemporary ideology that prescribes a set of economic policies that have been also variously
described as market-oriented, free-market, pro-business, market-friendly and so on. These policies are not always the same, but they share a common orientation towards relying on market forces as far as possible, keeping the public sector budget in surplus or with only a very small deficit, lowering trade barriers, etc. It is claimed that applying such policies in a consistent and sustained manner would bring about economic growth and (gradually) a better standard of living for almost everyone, though most concede that economic inequality would persist in the long-term and even increase (especially in the short and medium terms) in countries treated to neoliberal policies. Neoliberal economists argue, based upon the principle of comparative advantage, that international trade as an engine of economic growth. They also argue, based upon the competitive market model, that free market forces can give accurate price signals, which allow optimal uses and efficient allocation of scarce economic resources. Hong Kong is often regarded as an exemplar of free-market-propelled economic growth, which is in line with the neoliberal explanation. Riedel (1973:3) remarks that the essence of the Hong Kong model of industrialization is:

Hong Kong (1) specializes in the manufacture of standardized consumer goods (2) for export (3) to high-income countries in the West, and at the same time, the Colony (4) relies on Asian countries for the provision of raw materials and on Western countries for capital goods.

Riedel's characterization of Hong Kong economy typically agrees with the principle of comparative advantage, in which Hong Kong takes advantage of its low labor cost in producing labor-intensive goods. Free international trade plays a significant part in promoting Hong Kong's industrialization because most of the raw materials are imported and most of the goods produced are exported. Hence, the well being of the Hong Kong economy is so much reliable upon the supplies and demands of the raw materials and goods in the world economy. In order to sustain economic growth, the Hong Kong economy has to be sensitive to external price fluctuations through flexibly adjusting production costs. Hong Kong economist Sung (1989) attributes the successful adaptation of Hong Kong to external economic conditions to the inherent flexibility of the Hong Kong economy. Flexibility helps the Hong Kong economy cope with external shocks, thereby stabilizing output and employment. Two kinds of flexibility are prominent in sustaining the manufacturing boom. The first one is wage flexibility. Without minimum wage for local workers together with the weak and politically divided labor unions, wages are not rigid and can be totally determined by supply and demand. The second one refers to the flexibility of the manufacturing firms to world demands. Export orientation makes manufacturing firms very sensitive to the fluctuation of consumer tastes in foreign markets, while free trade allows undistorted price signals conveying accurate market information to Hong Kong manufacturers. As a result, the competitive edge of the Hong Kong manufacturing lies in its quick adaptation to the fluctuation of the world economy.

What makes the Hong Kong economy so flexible? Sung (1989:161) argues that the flexibility of the Hong Kong economy is partly a result of government's "positive non-interventionism" which is the
second debate we raise in this introduction. The main idea of positive non-interventionism is that the
government normally does not thwart market forces except in cases of severe market failure. Actually, the
notion of positive non-interventionism to large extent mirrors the idea of neoliberalism: what a
government should do is to let markets run properly. Rabushka (1973:3-5) claims that the adaptability of
Hong Kong's economy is due to the operation of an “automatic corrective mechanism” rooted in free
market. This alters internal costs and prices and brings them quickly into line with costs and prices in the
rest of the world. Rabushka (1979:44) further identifies the non-interventionism of the government as the
most crucial factor conducive to the unimpeded working of the automatic corrective mechanism to get
prices right.

Some articles we collected in this reader contend that the market mechanism, its flexibility and automatic
corrective nature, as portrayed in the neoliberal explanation is somehow abstracting the concrete relational
ties and socio-cultural elements from the real economic transaction activities. Once we scrutinize the
trading and commercial activities with the embedded perspective as mentioned in the previous section, the
myth of free, natural, automatic corrective market mechanism, and thus the account of Hong Kong’s
economic development may have to be revised. Market should not be viewed as an abstract equilibrating
system that is devoid of socio-cultural and political influences. For instance, Hong Kong is well-known
for its export-led industrialization, and is often cited by neoliberal economists as an exemplar of the
success story of international free trade. But do international trading activities simply imply the free
flows of market information so that buyers and sellers can settle their deals with the equilibrium prices?
The flows of information do not exist in a vacuum, but require some kinds of media, middlepersons or
agents responsible for transmitting the information. These media, middlepersons or agents not only
respond to the economic incentives, but also establish the information channels based upon political
and socio-cultural factors.

The History of Establishing International Trading Networks

Hong Kong social scientists have acknowledged that the post-War boom of the Hong Kong economy can
be attributed to the extensive international networks established even before the World Wars. Indeed,
before the Wars, the economic structure of Hong Kong was basically a bifurcated one. On the one hand,
there emerged an economic institutional arrangement that met the trading needs of British merchants
with South China as well as South East Asia. This colonial economic governance structure was
organized through the collaboration of the colonial state, British merchants and indigenous Chinese
compradors (mai-pan). On the other hand, the Chinese society itself developed its own economic

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2 Sir Philip Haddon-Cave (1980:xii), the Financial Secretary during the period 1971-1981, coins the
term, positive non-interventionism, by which, he refers to “the view that, in great majority of
circumstances it is futile and damaging to the growth rate of the economy for attempts to be made to
plan the allocation of resources available to the private sector and to frustrate the operation of market
forces which, in an open economy, are difficult enough to predict, let alone to control”.

governance structure, which linked the overseas Chinese communities and the manufacturing sectors in both Hong Kong and Mainland China through big Chinese merchant houses. The two governance structures were articulated with one another though the big Chinese merchants. The colonial governance structure helped establish and develop the Chinese governance structure, while the latter complemented the former.

As Japanese historian Hamashita Takeshi and British historian Endacott have demonstrated, the economic development of Hong Kong has to be understood in a larger scale, which encompassed the whole Southeast Asian region. Hui (1999) further shows how the colonization and incorporation of Southeast Asia into the world economy made Hong Kong a regional center as early as 1840s. From the mid-eighteenth to mid-nineteenth centuries, the primary commercial interest of British in the Southeast Asian region was in the trade of India, China, and the islands consigned to a greater or lesser degree to the Dutch (Tarling, 1993:35-6). In this period, Britain had been buying increasing quantities of tea from China. In order to pay for the tea, the British began to export opium to China, after the conquest of Bengal. From then on, a three-way trading system was established up to the mid-nineteenth century: the tea Britain bought in China was paid for by India's exports of opium and cotton to China.\(^3\)

However, in the last quarter of the nineteenth century, two important changes had direct effects on the transformation of the British economic governance structure in the Far East. One was the industrialization other Western countries. This resulted rivals for the British in commerce and in politics. The other was the technological development in transportation and telecommunication, like the invention of steamers and telegraph. In addition, the Suez Canal was opened in 1869, and Panama in 1914. These changes provoked the extension of world capitalist production into the Far East. The nature of the British's Southeast Asian Empire was no longer primarily concerned with the “triangular trade”. The Empire had been expanded to Burma, Malaya, Singapore, part of Borneo and Hong Kong. Although these territories were acquired for divergent reasons, they remained important for British commercial interests when they were incorporated in the capitalist world economy.

However, the British distrusted the local population, especially the Southeast Asian indigenous traders, because of their close relationships with the native states. As a result, the imperialists relied upon Chinese migrated traders, as middlemen, to distribute the Southeast Asian goods. With the help of the Chinese compradores, the European were able to export the Western manufactured products, opium and other raw materials from their colonies all over the world, especially those in Southeast Asia to China, as well as to import silk, tea and porcelain from China back to Europe. Hence, the colonial governance structure encompassed a large territory, in which Hong Kong and Singapore were the two major regional centers in coordinating the European trade and exploitation in the Far Asia.

Overseas Chinese (including those in Hong Kong) played an important role in the British colonial economic governance. As the political and economic instabilities in China, a lot of Chinese migrated to the Southeast Asia during the nineteenth century. At the same time, the European also took advantage of the mass influx of Chinese migrants to advance their commercial interests. For example, in the case of Malaya, the growth of the tin mining industry and rubber plantations attracted a lot of Chinese immigrants. The case of Singapore remarkably demonstrated how the British relied on Chinese immigrants to build up the entrepôt (Lee, 1978). These Chinese migrants not only provided cheap labor for the entrepôt business, and the tin and rubber plantation industries, but also helped coordinate the trading activities within the Southeast Asian region.

Massive waves of Chinese migration began in the second half of the nineteenth century, thanks to the well-known coolie trade. As the slavery system was almost abandoned by the Western countries in 1850s, there was a high demand of cheap labor to help build the European colonies, such as Hawaii, Ceylon, Malaya, and the Caribbean. Mainland China became the major source to supply the cheap labor force. The emigration business, or the coolie trade, would not be so flourishing without the collaboration of Chinese mediators, because of most of the contract laborer (coolies) could not speak European languages. As a result, Hong Kong became the major center for the Chinese emigration abroad as well as the major port for the returning Chinese (Sinn, 1995). The coolie trade was very profitable and drove the growth of shipping firms, brokers, and labor recruiters (Tsai, 1993:23-26). More importantly, the coolie trade helped develop overseas Chinese communities all over the world. The Chinese communities became important overseas markets for the Chinese industrial products. The emigration business helped link Hong Kong to the Chinese communities overseas, which retained close ties with their homeland in China. This further strengthened the international commercial networks of the Hong Kong Chinese. Fok’s article on Hong Kong’s economic relations with China documents how Hong Kong performed as the major economic and socio-cultural linkage between the Mainland and overseas Chinese.

The abovementioned global and regional phenomena constitute the macro context for establishing Hong Kong international networks, but how and what did the Chinese merchants actually do, or what are the meso and micro level analyses? The two articles about Yuet Fat Hong collected here give some impression about how a famous Chinese commercial house actually did. In brief, the articles show several reasons why Yuet Fat Hong was so successful when the author’s father was still alive. Firstly, the founder of Yuet Fat Hong was one of the coolies in early years. Being overseas for so many years, he had developed a kind of cosmopolitan outlook. Secondly, the founder’s son (the author’s father) has successfully the Hong’s business scale and scope through building up enormous international networks. His ability of expanding the business was mainly due to his individual political status for attracting business ties as well as advancing his enterprise’s business credibility and reputation.
The micro mechanism of how an international network works is well illustrated in Fok’s study of the private business letters of two merchants, Ma Tsui Chiu and Fung Mun-tak. He finds that both Ma and Fung acted as the middlemen in the encounter between China and the West in the field of trade and commerce. In Ma’s case, his business network operated like this: “All his business clients overseas would either remit directly to him or send money to him indirectly through firms or business contacts in China. Such firms and businessmen in China in turn became Mr. Ma’s business associates and therefore belonged to his trade network as a participant member.” Both Ma and Fung offered services to members of his own extended family, relatives of his wife and other business clients. The services included: 1. To credit orders placed on them by the overseas buyers for different kinds of commodities in Hong Kong or China; 2. To remit the money sent by their clansmen overseas to the senders’ family in China through their business networks; 3. To advance payment to their overseas clients’ family or business associates inside China; 4. To be the co-investors in some business enterprise; 5. To investigate some investment projects proposed by his clients; 6. To provide business consultancy and make recommendation; and 7. To keep their overseas clients informed and concerned about the plight and welfare of their kinsmen back in China. As a matter of fact, the establishment of international commercial connections at that time was not only a matter of profitability or information seeking, it also involved trust-building and investment in reputation which could reduce the opportunism within any contractual agreement.

These kinds of international networking or global and regional brokerage are still working in the contemporary Hong Kong. Ellis observes that the past and the future of the Hong Kong economy largely depend on the tertius, brokerage or middleperson strategies employed by the Hong Kong entrepreneurs that mediate economic activities between the largely untapped markets as well as cheap suppliers of the Mainland and the Western traders as well as overseas Chinese. He sees the possible growth industries are those related to producer services, like logistics, trade financing, sourcing, bulk-breaking, market research, advertising and design etc.

Entrepreneurship as Networking and Brokerage
Traditionally, economists identify entrepreneurship psychologically. It is argued that entrepreneurs have certain personality characteristics that push them to start business, and make profits. These characteristics include high achievement need (McClelland, 1965), risk taking propensity (Brockhaus, 1980), alertness to information (Kirzner, 1973), the superior ability to make decisions under uncertainty and being innovative (Schumpeter, 1971). However, recently, the importance of establishing and maintaining networks of social connections in seeking business opportunities and in managing businesses have been universally recognized among economic sociologists and institutional economists nowadays (Williamson & Ouchi 1981; Powell 1990; Powell & Smith-Doerr 1994). This kind of networking is often known as called guanxi in the Chinese context. The social network approach holds
that a successful entrepreneur must be able to identify opportunities and obtain scarce resources from his/her environments. The resources are obtained through exchange relationships between the entrepreneur and his/her social networks (Aldrich, Rosen, Woodward, 1987). The perspective has been successfully applied in studying the founding and the profitability of businesses (Aldrich, Rosen, Woodward, 1986; Holt, 1987; Larson, 1990) in the United States. Johannisson (1986) shows that entrepreneurs who have personal friendship networks overlapping with their business connections are more likely to survive and prosper. Aldrich, Reese, and Dubini (1990) also show that a successful entrepreneur will get close contact with the go-between or “brokers” to reach beyond his/her immediate social circle by facilitating the interests of persons not directly connected to one another. The social network approach, with an embeddedness view of entrepreneurship, is very useful in understanding the Hong Kong Chinese business operations.

Building intensive international business networks may be the main reason for the success of big manufacturing firms and commercial houses, but, as we know, most of the firms in Hong Kong are small and medium in size. What really explain their survival and development? Sit’s article about the small and medium sized firms gives us some brief description of how these firms develop by building up extensive subcontracting interfirm networks. These interfirm subcontracting networks, as I argued elsewhere (Lee, 1997), are complementary to the guerrilla business tactics employed by the Hong Kong entrepreneurs. It is the guerrilla business tactics combined with the extensive interfirm networks which are embedded within a historical institutional setting that contribute to the flexibility of the Hong Kong firms as well as the Hong Kong economy. In other words, Hong Kong’s flexibility is hardly originated from the automatic self-correcting market mechanism.

As documented in Sit’s article on Hong Kong’s transferred industrialization, Hong Kong manufacturing firms have been confronting with severe international competition since the late 1970s. In response, the firms have mostly shifted their manufacturing operations northward to the Mainland in form of out-processing. As a result, the Hong Kong industrial economy transforms itself into a “front shop, back factory” model. What are the factors determining where and with whom the firms subcontract or out-process their manufacturing operations? Leung Chi Kin dissects the nature of contemporary Hong Kong Chinese interfirm networking through examining Hong Kong’s subcontracting investments in China’s Zhujiang Delta Region. His findings suggest that most Hong Kong still rely on preexisting kinship and business ties as well as making connections with the state-owned enterprises in subcontracting their business operations, though different size of the firms have various emphases on employing the different networking strategies. Most importantly, Leung finds that locational or area-specific factors which are highly stressed in standard economic literature are usually of secondary importance to preexisting social and institutional relationships. As a result, the geographical distribution of the Hong Kong firms’ subcontracting activities is largely explained by the economic considerations that are highly influenced by the network factors.
Despite the past success of the Hong Kong firms, Tsui-Auch demonstrates the weaknesses of the Hong Kong-style production strategies and networking in technology transfer and skill formation as compared with the American and Japanese counterparts. The Hong Kong entrepreneurs who rigorously establish production networks merely aim at spotting business opportunities and getting around laws and regulation rather than engaging in a more congenial relationship with local partners and workers for developing technology and skill. Thus, Tsui-Auch argues “the Hong Kong networks are good at coping with market fluctuations and constant renewal, but are weak in capital investment, technological upgrading and joint product development and innovation.”

In sum, these selected articles highlight that economic transactions are not carried out in a vacuum, but within an institutional setting in which the socio-cultural and political factor matter. In order to comprehend and explain the economic development of Hong Kong, markets should not be treated as abstract entities that automatically equilibrate supplies and demands, but as concrete economic institutions that interpenetrated with other socio-cultural and political institutions.

**Debate II: The Role of the State**

**Positive Noninterventionism: A Deliberately Designed Economic Policy?**

As neoliberal economists argue, the free operation of market forces requires a minimal state that merely intervenes when necessary, and for most of the time stays inactive. This neoliberal economic prescription is totally consistent to the Hong Kong government’s claim of positive noninterventionism. However, whether the Hong Kong government has been pursuing the policy consciously, consistently and whole-heartedly arouses recurring debates. The first issue of the debate is whether the colonial state really cared for the well-being of all Hong Kong people as a whole, or the Hong Kong miracle was somehow an unintended consequence of the colonial state whose primary interest was to protect the well-being of the colonizers and the big business interests.

Undoubtedly, the colonial economic policy regime can still be characterized as a free market one, in which markets determine the prices of goods and services. However, Ng Chung Yin queries the good will of the colonial state in bringing economic benefits to the general Hong Kong people. He questions whether the so-called “positive noninterventionism” was a deliberate economic policy which the colonial state considered as the best and fittest policy or as a way to protect the colonial and western interests rather than to strengthen the economic potentialities of the local population through industrializing Hong Kong. Jon Halliday also casts the same doubt on the colonial economic policy. He argues that the noninterventionist economic policy was to let capitalists freely exploit the local workers so as to maximize colonial interests. Indeed, free market operations were restricted to those economic arenas that did not jeopardize the colonial interests. In other words, the intentionality of the colonial state in formulating the noninterventionist economic policy as a strategy to develop Hong Kong’s
Indeed, the noninterventionist economic policy and Hong Kong’s industrialization may be simply a historical coincidence. Ngo discovers that in mainstream or colonial historiography Hong Kong industrialization is treated as a post-War phenomenon. However, Leeming shows that Hong Kong industrialization started as early as 1846. Zhang’s article also demonstrates that the export-oriented industrialization was not a post-War economic strategy designed by the colonial state; it had been well consolidated during the pre-War period. The manufactured products, in the pre-War period, were not only sold to the domestic market, but also sold to various places. Moreover, the export market composition of the pre-War manufacturing is even more diversified than that of the post-war period. One of the reasons why the pre-War industrialization was ignored in mainstream historiography, as Ngo suggested, is that the manufacturing sector developed totally outside the colonial plan and the western business activities.

If positive noninterventionism was not a deliberate economic policy, then how did it form? Chiu traces the origin of Hong Kong’s economic non-interventionism back to the pre-War period. He argues that the policy was made by dint of the limited financial capacity of the colonial government. The choice of Hong Kong as a Crown colony was made by the British Government in strategic response to the demand of the British free traders who wanted to promote trade with China in the nineteenth century. With an overriding concern of trade, the Hong Kong based British merchants strived to produce strong volition in the political machinery to protect and enhance their business interests. These interests embedded heavily in the banking, commercial and property markets and were induced and accumulated with an ever-growing entrepôt trade. These interests were gradually consolidated into a strong finance-trading complex, an institutionalized coalition attempting to assure that the financial and commercial interests could be properly incorporated in the colonial government’s decision-making process. The complex lobbied against tax increases and “unnecessary” expenditure that was not directly conducive to trading activities. Consequently, the colonial government determined to control its budget tightly and kept the taxation as low and simple as possible. Chiu further explains that a more interventionist industry policy never adopted by the colonial state because the interests between the industrialists and the commercial-financial capitalists were not consonant and the industrialists were being marginalized in the colonial power structure. As a result, the colonial state denied the industrialists’ demand for getting cheap industrial land and establishing an industrial bank.

Nevertheless, not all students of the Hong Kong economic development regard the Hong Kong state as a noninterventionist state. Schiffer argued that the colonial state was not as aloof from economic intervention as commonly perceived. Indeed the colonial state had intervened a lot in maintaining rice price and providing public housing which were crucial for reproducing the labor force needed for industrialization. However, the question of whether the colonial state is interventionist is still inconclusive;
the answer depends on what scale and scope of state involvement in the economy and society that one qualify as interventionist. Recently, Chan (1998) has argued that the colonial state’s economic policy is a kind of “selective intervention” rather than positive nonintervention (but which state in the world is not selective in its interventions!).

**The Role of the City-State and Markets**

Neoliberal economists assert that the major role of states in promoting economic development is to restrain its economic intervention so as to make markets freely operate. Moreover, states should resist any political demands for unnecessary intervention that may distort market prices. This economic prescription is often claimed and declared by the Hong Kong government senior officials, though not explicitly using the same terminologies, as the governing principles. Highly related to the question of whether the colonial state deliberately designed and consistently adopted the noninterventionist economic policy is the question of whether the neoliberal prescription is correct in guiding the economic development of Hong Kong.

As Chiu, Chiu and Lui and Choi argued that even though industrialization could take place under a noninterventionist governing regime, Hong Kong’s further economic development hinges on technological upgrading. It is well known that the Hong Kong's export-led industrialization is characterized by huge amount of original equipment manufacturing (OEM) through international subcontracting. The competitive advantage of Hong Kong manufacturing is conditional upon low wages and minimal diversification. This gives rise to a production structure with low design and technology content. As wages go up, its competitiveness will gradually be eroded. Technological upgrading is one of the solutions to maintain Hong Kong’s competitiveness. However, through examining the foreign trade statistics in the period of 1963-82, even prominent economist Edward Chen (1987, 364-5) admits that “Technological intensity and capital intensity are slowly increasing in Hong Kong manufacturing, but the speed does not seem to be adequate for the maintenance of Hong Kong’s economic position.”

Without proper state guidance or organizing, as Chiu and Lui contended, the Hong Kong industrialists choose an easy business strategy of relocating and out-sourcing their business operations northward. This kind of “front shop, back factory” model, as a matter of fact, is a deepening of the labor-intensive industry by incorporating Southern China as the production base while Hong Kong retains the service part of the production process. Technological upgrading is not chosen as a way to survive international competition. Chiu, and Chiu and Lui put part of the blame to the noninterventionist economic policy of the colonial state which is biased against the manufacturing. Chiu and Lui even characterize Hong Kong’s industrial structure as “Unorganized Industrialism” in which the colonial state fails to perform its organizing role to steer the economy towards technological upgrading. Of course, the term “unorganized” is debatable, given the fact that the manufacturing sector itself is highly organized, but
Chiu and Lui do bring out two important theoretical questions of whether the future economic development of Hong Kong requires a proper role of the state and whether markets are the most suitable mechanisms for steering the economy.

However, Choi provides a political interpretation of the failure of the colonial government to upgrade the manufacturing sector in the 1960s. He argues that Hong Kong's conservative fiscal policy at that time was out of the need of the British government to reap the benefits of the surplus generated by the colonial government, rather than a legacy of financial stringency imposed by the finance-trading complex depicted by Chiu. In the 1960s, Britain was hit by a series of sterling crises, which put heavy pressure on Britain's reserves. Through influencing the budgeting practices in the colonial government, the British government employed the Hong Kong reserves deposited in London to defend the sterling. Hence, Choi pinpoints the imperialist influences upon the colony’s economic policies. According to this perspective, the colonial state could not perform its proper role and let markets take its place because of the forces beyond the city-state. As discussed in the first debate, international or global forces should not be ignored in examining the economic development of Hong Kong. Moreover the global political forces are important to understand how the peculiar Hong Kong geopolitical status helps or hinder its development. As the world-system theorists have challenged the conventional development studies as too narrow in terms of restraining the unit of analysis to the nation-state. Both the Hong Kong city-state and its domestic economic activities are nested or embedded in the global commercial as well as politico-military networks.

Choi has already demonstrated how colonizing forces hindered Hong Kong’s technological upgrading. The other two articles by Matthew Turner and Yu and Chin show that the United States is far more influential in shaping the Hong Kong economic development than the British or the colonial state. The United States has been the major export market of Hong Kong’s products. Apart from the international commercial networks built up before the War, why and how does the United States become the biggest buyers of Hong Kong products? Yu and Chin delineate all the political concerns of the United States in employing Hong Kong’s unique political status, its geopolitical position and its connections with the Mainland during the beginning of the Cold War. The United States Far East foreign policies had greatly facilitated Hong Kong’s export-led industrialization. Indeed, as Menzel (1986) and Koo (1987) remarked that the United States has actively promoted rather than hindered the economic development of the Far East so as to prevent the spread of communist revolution especially from China and North Korea. Turner even argues that the United States Embassy, due to the necessity of enacting the Cold War foreign policies, had more knowledge about the Hong Kong economy than the colonial state at the beginning of Hong Kong’s industrialization. Against the supply-side argument, that is the colonial state failed to support industrialists in upgrading production processes, Turner gives a demand-side proposition that Hong Kong’s failure to upgrade their technology, to establish their design facilities and to build up their own brand names were driven by the huge demand of the low to medium end products from the United
States as well as the active lobbying activities pursued by the big American retailers and traders against the American domestic protectionism.

After the handover of Hong Kong back to China, a lot of people ask whether Hong Kong simply converts itself from a British colony to a Chinese colony. Huang discusses how the political integration may affect the rule of law and fair market competition which Huang considers as the pillars of Hong Kong’s laissez-faire economy. Unlike other authors mentioned previously, Huang seems to see the laissez-faire economy as unproblematic and the colonial state was by and large fair and neutral in its economic regulation. Nevertheless, he does pose serious potential problems that ignored by other authors who appreciate the middleperson role of Hong Kong, especially deinternationalization, that Hong Kong may confront with when the Chinese firms somehow influence the Special Administrative Region government’s economic regulation and when Hong Kong becomes exclusively a gateway to China rather than a city with global reach.

*Asian Financial Crisis, Markets and the City-State*

At the year of handover, the Hong Kong economy experienced its brightest moment in history. However, the Asian financial Crisis exposed that the boom was simply an asset bubble. Most people blamed the wrong-headed policies of the new SAR government, especially the public housing policy. The new city-state was criticized of deviating from the positive noninterventionism and urged to reverse its previous noninterventionist orientation. Jaulin and Huchet challenge that the heart of the current economic recession is the asset bubble built up by a property-led growth model which has been taken place since the 1980s and is exhausted now. Again the property-led growth model was neither a well-thought and deliberate economic strategy designed by the colonial state, nor the natural order/outcome spontaneously created by the invisible hand, i.e. the market. The root of the model was an unintended consequence of a number of political decisions, namely, the Hong Kong and US dollar peg, both the colonial and the Chinese authorities lacking guts to abandon the peg before the beginning of the crisis, and the setting of a ceiling on land sales of 50 hectares a year in the Joint Declaration of 1984.

In a similar tone, Lim argues that Hong Kong has never had a free market in land. The state interventions in the property and stock markets are politically as well as economically motivated. The property boom was induced by the high inflation rate coupled with low nominal interest rate, which made the real interest rate basically negative. After the Hong Kong dollar pegged with the US dollar in 1983, the government lost its monetary autonomy in combating high inflation rate, as the interest rate had to be aligned with that of US. As the real interest rate remained negative, it created an irresistible incentive for both businessperson and high-income groups to borrow money and invest in real assets. As long as borrowers anticipated that the value of their investment would at least increase with the inflation rate, they would earn profit (Mole, 1992). The negative real interest rate associated with the pegged exchange rate induced a property boom as well as a bull stock market. As asset prices rose, a
reinforcing cycle occurred: people had further incentive to borrow from banks and invested or most likely speculated the money in the real estate and stock markets. The above economic analysis reveals that real estate had become the main income sources and profitable investment opportunities for the major economic players including the government, households, banks, shareholders and companies. As a result, any significant downturn of the property market would be immediately translated into a politically sensitive and socially disruptive issue.

Jaulin and Huchet argue that the new SAR administration had recognized this problem and had attempted to slowly deflate the real estate bubble by providing 85,000 public apartments per year. Unfortunately, the new administration did not anticipate the Asian financial crisis and underestimated its impacts. As a result, the bubble burst and the Hong Kong economy was seriously hurt. Finally, Jaulin and Huchet cast doubt on the solution of merely reversing back to the workings of market flexibility because of the complexly intertwined political and economic factors involved in creating the bubble. Lim also noticed that the property tycoons are too close to Tung and control too many economic stakes of Hong Kong, and they are the main beneficiaries of state intervention. Thus Lim predicts that any move made by the state, no matter reverting to rely on markets or continuing its interventionist stance, will further politicize the Hong Kong economy.

Indeed, Lim’s observation of the close ties, if not the so-called crony capitalism as Paul Krugman put it, between state and business is confirmed by the South China Morning Post study. According to the study, “when the Government asks for advice, overwhelmingly it asks men. It shows bias towards lawyers and businessmen, and Liberal Party members in particular, even in areas with no business links”. Of course, this kind of state-business alliance was not absent in the colonial period, as shown in many articles cited previously. What the SCMP study shows is the state-business alliance has not been changed after the handover, and the economic policies are still heavily influenced by big business interests rather than designed neutrally.

Hui and Sin highlight how the boom and burst of Hong Kong’s property market are related to the global economy. One the one hand, they argue that the expansion of the global financial market in the 1980s and 1990s induced lots of global capital, first Southeast Asian, then Japanese, followed by Taiwanese and Mainland capitals, flowing into Hong Kong real estate market for seeking higher return of profits. On the other hand, property developers require tremendous cheap capitals to finance their real estate long-term projects, and the plentiful hot money emerged during the expansion of the global financial market provided such favorable condition for the Hong Kong property developers. Once the Asian financial crisis deteriorated the confidence of the global capitals and made them reluctant to speculate (and investment?) and continue their lending, the Hong Kong property market collapsed.
Positive Noninterventionism, Laissez-Faire and Omnipotent Free Market: Rhetoric or Reality

The final issue about the role of states and markets is whether the ideas “positive noninterventionism”, “laissez-faire” and “the omnipotent free market” are referring to the “real” situation of Hong Kong. The previously mentioned works on the economic policies of the colonial state, no matter how they view the role of the colonial state, share an assumption that “positive noninterventionism” is somehow regarded at least as an economic ideology, if not a consistently pursued concrete policy that influences every aspect of the Hong Kong society. Yue and I contend “the development of Hong Kong underlies politics without a policy --- without a deliberate policy guided by an ideology”. We argue that under conditions of a high level of information ambiguity, technological uncertainty, value conflicts and fluid participation, Hong Kong policy makers with very limited state capacity supports are quite impossible to formulate clear policy goals and develop comprehensive policy programs. Positive noninterventionism is a rhetoric devise that is employed to justify the inconsistent and somewhat arbitrary state actions that resulted from various demands of the governing coalitions raised situationally, rather than an ideology that guides the state how to achieve its predefined policy objectives and/or protect the well-defined interests of the power coalitions. In other words, we fundamentally query about the very existence of positive noninterventionist policies that highly praised by the neoliberal economists, but severely criticized by other social scientists. The economic policies are seldom consistently designed, chosen with a sound economic reason and implemented to achieve some well-defined goals. However, these seemingly unrelated, inconsistent and arbitrary policies are presented by the state as if designed under the principle of positive noninterventionism.

The success of the colonial state’s rhetorical strategies in legitimizing its whatever policies presuppose the Hong Kong public accept the idea that markets are good to the Hong Kong development. As Lau and Kuan surprisingly discovered, even though Hong Kong people heartily embrace laissez faire as the guiding principle defining the state roles in the economy, they buy the principle merely because they believe the principle indispensable for Hong Kong economic success. Indeed, laissez faire in Hong Kong is weakly grounded in the mind of Hong Kong people and Hong Kong people scantily know the substantive content of the principle.

Hui’s article on rhetoric and translation shows why Hong Kong people often causally associate free markets with Hong Kong’s economic success. He attacks that some Hong Kong neoliberal economists through their discursive strategies construct an omnipotent image of market mechanisms as well as the causal link between free market operations and economic performance. One of the reasons why Hong Kong people heartily embrace the laissez faire principle while knowing little about the principle and why the colonial state can successfully employ the positive noninterventionist rhetoric to justify its inconsistent policies is that a number of neoliberal economists through their extensive exposure in mass media intentionally or unintentionally construct an abstract nonexistent omnipotent market and help spread the idea of the benefits of laissez faire towards the Hong Kong economy.
Debate III: Labor and Informal Sector

Political Exclusion of Labor and Industrialization

Most neoliberal economists believe that by improving the business environment to facilitate capital accumulation, the benefits resultant from growth will trickle down to the labor. Thus, the early sufferings of the workers due to pro-business economic policies will be mitigated by later gratification. Consequently, the neoliberal economic prescription always suggests deregulating labor markets and resisting labor unions’ “excessive” demands. However, Marxist theories (like the dependency and world-system theories) have accentuated the issue of prolonged or even everlasting labor exploitation and domination during the whole development process. Will economic benefits ultimately trickle down to the labor? Will the labor live long enough to get their prize? Even the life of the labor is indeed improved, are the economic benefits reasonably, if not evenly, distributed? Indeed, economic development is not merely concerned with the overall growth rate and the level of capital accumulation, but also with economic inequality as well as how the benefits of growth are distributed between workers and capitalists.

Deyo (1987) has argued that disciplined and low-cost labor was a prerequisite for the East Asian industrialism. As a result, labor was deliberately excluded from the political power structure so that domestic and foreign capitalists could take advantage of the absence of organized labor to lower their production costs and control the production processes. In Hong Kong, the absence of organized labor is reflected by the lack of collective bargaining and large-scale labor protests. Instead of collective action, labor turnover is viewed as a form of worker protest; it represents an expression of discontent with existing conditions but based on an individual and unorganized basis (England and Rear, 1981:41).

There are several factors causing the weakness of trade unionism during Hong Kong’s industrialization. Firstly, the Hong Kong labor unionism was divided by the political nature of the unions: most of them were either pro-Communist or pro-Kuomingtang. Moreover, these two major groups of unions were composed of a large number of small occupational based organizations, which were merely aggregated by political ideology rather than merged together for taking any collective bargaining or labor actions (Turner, 1980:25-30). In addition, the unions’ political character was repellant to a labor force that contained a high proportion of political refugees who have no wish for further entanglements (England and Rear, 1975:99).

Secondly, union organizations could hardly penetrate into the major expanding manufacturing industry during 1950s and 1960s because most of the firms were small-and-medium-sized. As Deyo (1987:195) argues, the small-scale production induced by the export-led industrialization had generated a greater fragmentation of the industrial workers, which facilitated labor discipline at the firm level, and increased the difficulties for joint labor actions as well. At the factory level, Djao documents how the American electronic firms employed different strategies to control their workers through coercive
measures that were directly related to wages and bonuses and through social and recreational functions to shape workers’ motivation in a way that facilitated firms’ profit maximization.

Thirdly, the export-led industrialization mainly concentrated in light industries in which female workers constituted a major proportion of the industrial labor force. But coupled with the patriarchy ideology, which was prevalent in the Hong Kong Chinese society, as compared to the working nature of the male workers, that of most female workers was relatively temporary, thus hindered their participation in trade unions. The relationships between gender and work will be discussed in more details later in this section.

Fourthly, as Turner (1988) shown, when Hong Kong began to step into a post-industrial economy in the 1980s, the workers’ conditions were bettered, the government’s labor services were improved, and the already established trade unions became more consolidated. But paradoxically, there was a decline in trade unionism, and when dealing with employers, workers seldom relied on trade unions. Turner attempts to explain such a paradox by arguing that the mass of Hong Kong employees found in the newer manufacturing and service sectors were immigrants in the late 1970s and they had no knowledge or contact of the already established trade unions. Moreover, as Turner put it, “the dominant union groups represent a sort of labor aristocracy, orientated largely to its internal interests”. As a result, this great but peripheral mass of workers had little voice in Hong Kong’s labor relations, and when disputes arose, they could only rely on government interventions or informal and spontaneous group actions. Trade unionism or organized labor in Hong Kong’s economic development history has been being politically marginalized partially because the Hong Kong labor is always, for various reasons like immigration, government’s pro-business orientations and lacking central organization (like labor political party) to align and coordinate sectoral interests, fragmented and divided.

**Gender, Informal Economy and Industrialization**

Informal economy is often regarded by some mainstream economists and governments as inefficient and representing a backward form of doing businesses. However, in the early 1970s, the International Labour Organization (ILO) had noticed the importance and contribution of the informal economy or sector to employment and economic development. Even though there is no single definition of informal sector agreeable to all scholars and researchers, an international statistical definition has adopted officially by the ILO in 1993. The informal sector, according to the definition, consists of production units that typically operate at a low level of organization, on a small scale, and with little or no division between labor and capital as factor of production. The labor relations within the informal sector are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. The informal sector workforce mainly comprises owner-employers of micro enterprises, own-account workers, and paid or unpaid dependent workers including family workers, apprentices, contract labor, homeworkers and domestic workers. One salient feature of informal sector
is that women’s share of employment is disproportionally high, and sometimes, they themselves do not view themselves as workers. According to the ILO, before the 1997 financial crisis, it was estimated that the informal sector typically absorbed between 40 and 50 per cent of the urban labor force in Asia. Thus to better understand the economic development of Hong Kong, the informal sector cannot be ignored. Moreover, the informal economy presents an interesting problem for studies of inequality: whether these informal jobs provide new opportunities and survival spaces for workers or simply represent a further exploitation and marginalization through informal economic relationships.

As previously mentioned, two prominent characteristics of Hong Kong’s industrialization are its flexibility and low cost production. In line with the view that the informal sector as being subordinated to the formal sector (Castells and Portes 1989), Chu argues that the Hong Kong informal sector provides great leverage for the formal industrial sector for maintaining low cost production and production stability. She identifies four types of informal work, namely homework, ambulatory work, subcontracting and out-processing, and examines how each types of informal works are articulated to the formal sector through networks of personal and social ties.

Leung’s article about the invisible business operators further shows how the tripartite employment status system and the recruitment networks of casual workers enable Hong Kong manufacturing firms to pursue flexible labor market strategies so as to create their international competitiveness. Although casual labor contributes much to the Hong Kong miracle, they are now being marginalized and further informalized as most of Hong Kong’s manufacturing industries have been relocated to Southern China. Currently, the work situation of Hong Kong labor is extremely vulnerable; the marginalized workers have to confront with long working hours, low wage, heavy workload, nasty working conditions, stringent management control of the work process, lack of bargaining power, out of labor law protection and job insecurity (Wong and Lee, 2001). The current labor vulnerability is indeed a result of a vicious circle between weak organized labor and the flexible labor market strategies employed by Hong Kong manufacturing firms: the weak organized labor allows the firms to pursue its cost-saving production strategies through informalizing the workforce; at the same time, these strategies further undermine labor influences, and intensify the informalization of the work situations of Hong Kong labor (Levine and Chiu, 1993).

Home constitutes an important “workplace” for the informal sector economic activities including both paid and unpaid works. Families or households are not merely consumption units as commonly portrayed in standard economic analysis. Indeed, household work strategies, notably those of the working class, significantly help establish Hong Kong’s flexible economy, though the prices of it often disproportionally resides on the workers rather than on the capitalists. In his analysis of the household

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work strategy, Lui highlights how the patriarchic ideology combined with the economic considerations determine why married women participate in homework or outwork at home. He delineates different reasons why his informants conduct outworking: as a form of survival, for accommodating special domestic needs, and for earning a supplementary income. No matter for what reason the married women work at home, he insists that their outworking is not simply a voluntaristic and personal action, but embedded within the prevailing ideology of sexual division of labor.

Undeniably, households and women sacrifice about for the Hong Kong economic development. The women sacrifice has been vividly described by Salaff’s working daughter stories. When Hong Kong was at the stage of industrial take-off, the wage was so low that “no individual proletarian wage earner can bring home enough to fill the family rice bowls”. As a result, the working class households had to increase the ration of wage earners to dependents, and the unmarried daughters, especially the eldest ones, under the influences of patriarchic values, had to quit school early and joined the labor force for earning additional income.

Aiming at pointing out the social nature of the supply of female garment workers, Leung’s another article traces the life-courses of the working daughters who entered the manufacturing labor market in the 1970s. Similar to Lui’s findings, Leung discovers that there are various push and pull factors that drew his informants into the manufacturing industries, and these factors involve many household-related considerations, like child-rearing and housework, as well as personal ambitions. Extending Lui’s and Salaff’s arguments, Leung discusses how different stages of a woman’s life-course influence her labor market participation decisions. Moreover, Leung further pinpoints the importance of prolonged interdependence among household members (parents, siblings and adult children) in providing a household-based safety net that absorbs some of the shock of deindustrialization.

Debate IV: Culture and Economic Development
Culture and Economic Activities
As discussed at the very beginning of this chapter, to fully comprehend economic activities, one cannot ignore the cultural background in which economic behaviors are embedded. Anthropologist Topley has clearly revealed how cultures, Western culture and most of the time traditional Chinese culture, affect Hong Kong Chinese’s view of wealth and savings, their ways of wealth acquisition and their saving and borrowing behaviors. Wealth acquisition, capital accumulation, investment, saving and borrowing are basic economic behaviors that determine the performance of an economy. However, as Topley’s article shown, the decision of buying durable consumer goods as a form of wealth is determined by the prestige the goods confer, their convertibility into cash and ability to retain their original value and their use and the pleasure they afford. Thus buying consumer goods is not simply an act of consumption, but also an act of investment and showing off. Topley also explain the reason why Hong Kong Chinese are likely to accumulate land as a form of investment is related to the traditional Chinese
gentry practices.

Notably, Topley notices that “there is a tendency for Chinese investors in all fields to look for the maximum gain in the shortest period”; “many Chinese still prefer to invest in non-industrial property and trade because of the relatively quicker return of capital and profits”; and “when investing in industry, the overwhelming desire of investors is to look for quick profits”. This kind of short-term economic mentality and strategy, or what I call guerrilla business tactics (Lee, 1997), characterizes the Hong Kong entrepreneurs nowadays. Even though the article was published in 1966, it does raise a number of important questions, which may not be fully answered in the articles collected in this reader, about the economic development of Hong Kong:

1. Why and how does the short-term economic mentality emerge? Is the mentality inherent in the traditional Chinese culture or shaped by the Hong Kong institutional backgrounds as well as the colonial state?
2. How does this mentality affect the economic development of Hong Kong? Does the flexibility of Hong Kong economy stem from this mentality? Does the mentality hinder the technological upgrading of Hong Kong firms? Does the mentality associate with speculative behaviors and induce the recent asset bubbles?

**Entrepreneurship and Culture**

It has been previously argued that entrepreneurship can be conceptualized in terms of networking and brokerage. In this section, we will discuss entrepreneurship and market from a cultural perspective. Free markets alone only provide a business environment that conveys accurate economic information to producers and buyers. The main prime movers of economic development are entrepreneurs. However, entrepreneurship remains unspecified within the neoliberal perspective: it seems that entrepreneurship will automatically emerge if there are profitable opportunities. Economic incentives are inherent in market forces. Under perfect competition, in which market signals are not distorted and market entries as well as exits are free, everyone can become an entrepreneur. In this view, there is no difference between entrepreneurs and market participants. In other words, what qualities and features entrepreneurs possess are not theorized in the neoliberal framework. The most important qualities of entrepreneurs, as occasionally identified by neoliberal economists, are risk taking and profit making. Given the accurate price signals, not everyone is willing to take the calculable risk or has the motivation to make profit, but entrepreneurs. However, in reality, the risk-taking and profit-making qualities are not evenly distributed among different cultures.

Weber's classic study about Protestant ethics and the spirit of capitalism shows that culture and economic development are interrelated. The modernization theories in the 1950s follow the Weberian thesis and try to identify the types of socio-cultural barriers that hinder the developing countries to attain Western-styled capitalism. In contrast to their predecessors, contemporary theorists (like Davis, 1987; Hamilton and Kao,
abandon the unilinear view of development as well as the dichotomy of modernity and tradition. Instead of identifying how the non-Western socio-cultural elements impede economic development, they seek the functional equivalent of Protestant ethics in non-Western countries. Moreover, they shift the theoretical problematic from the rise of capitalism to the adoption and further expansion of capitalism and directly examine how non-Western cultures evolve to assimilate the already imposed capitalism into risk-taking and profit-making motivational dispositions.

Hong Kong's unique Chinese culture is often regarded as conducive to active entrepreneurship. Wong Sui-lun lists out four major Chinese cultural elements conducive to Hong Kong's economic growth: incorporative cosmology, high achievement motivation, familism and utilitarian discipline. The incorporative cosmology not only will not inhibit the Hong Kong Chinese to adopt Western practices but also assimilate these foreign elements with the traditional Chinese culture. Consequently, both the merits of the Western and Chinese traditions are well integrated and worked out by the entrepreneurs.

The high achievement motivation, à la McClelland, has been well recognized by the students of economic development. Kahn (1979:122) appreciates that the Confucian ethic helps creating dedicated, motivated, responsible and educated individuals who ensure Hong Kong's labor quality. Geiger (1973:75-6), an early HK observer, discovers that frugality and thrift, propensity to risk taking, compulsion to become one's master as well as the desire to obtain the wealth and social status that go with business success are deeply ingrained Chinese behavioral norms. A result, the HK Chinese entrepreneurs not only save the money in bank, but also invest them directly. Geiger (1973:79-80) has the following impression:

(T)he drive for economic betterment, the alertness to opportunities, the ready adaptability to changing conditions, the willingness to use resources prudently and to take risks optimistically and the ingenuity and capacity for improvisation that characterize not only Hong Kong's businessmen, but also their workers and employees. For, many of the latter expect, if not to become entrepreneurs themselves, at least to be able to raise their incomes substantially by learning the new skills required for advancement.

The utilitarian discipline and the familism are intertwined together to form what Lau (1982) calls utilitarian familism, which is a kind of primary networks deliberately constructed for the purpose of achieving materialistic needs. Consequently, utilitarian considerations usually lead to an unusually strong emphasis on the norm of mutual assistance among familial members. Economic cooperation within the family in forms of pooling financial resources, monetary aids and loans is very popular. Moreover, in order to maximize ones' family interests, they often establish some quasi-kinship ties with others who may help accumulating their family fortune. However, this kind of familism seldom inhibits the utilization of appropriate human talents because the job assignment and recruitment are determined by utilitarian criterion, which aims to maximize profits and minimize loss. Although the owners of the
family firms incline to hire relatives or quasi-family members, King and Man (1979) documented, the kinship relation has never cherished as a goal value in itself. The familism is greatly circumscribed by the utilitarian discipline. Apart from the easier financing ability, since a much stronger degree of trust exists among these family or quasi-family members, consensus is easier to attain. Hence, utilitarian familism enables family firms to be more adaptable in their operations. They can make quick decisions and maintain greater secrecy by committing less to written records. For these reasons, they are well fitted to survive and expand in a risky environment.

Gordon Redding, even more ambitious, attempts to formulate a Weberian thesis applicable to overseas Chinese (the Chinese in the Southeast Asia). The Chinese spirit of capitalism comes from the internal psychological tension, created by the Chinese's emphasis on self-achievement for the sake of family honor and status seeking, and the societal insecurity due to alien rules (the colonial government in Hong Kong, the discrimination from the Malaysian, Indonesian and Thailand governments). Without any institutional cooperation mechanism in these alien societies, this psychological drive is translated materially into social networking among the Chinese. Although these networks are based upon paternalism and personalism, the Chinese rely on them for social supports as well as business opportunities. These horizontal and personalized networkings characterize the organizational nature of Chinese business in Southeast Asia.

**Culturists Versus Institutionalist**

Nevertheless, some of these theories, which exclusively attribute the East Asian miracle including the Hong Kong one to culture, are based upon questionable assumptions. Firstly, it should not assume all oversea Chinese communities as Confucian. The integration of the so-called Chinese values is not uniform for all oversea Chinese communities. These values have been incorporated into political structures in strikingly different ways in these East Asian countries. Secondly, certain existing traditional practices may be only favorable to some economic sectors but not to others, so once the economic structure alters in response to the changing world economy, as Hamilton and Kao (1987:299) and Wong (1985) argued, these traditional institutions, like family firms, may handicap rather than promote growth. Moreover, these authors often focus their attention exclusively on how cultural elements motivate economic change, but ignore how culture obstructs change and how culture promotes a quiescent acceptance of the social costs imposed by development (Davis, 1987).

At the heart of the cultural debate about East Asian development is the question whether there are any institutional foundations that make culture work and transform itself into a kind of spirit of capitalism. In Hong Kong, it should also be noted that the present Confucianism held, if any, is very different from the traditional one. Thus King argues that people follow traditions, but they are not traditionalistic. Under this transformed "rationalistic traditionalism", Confucian traditions are preserved and practiced mainly

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5 For a deeper understanding of the culture debate, see Wilkinson, 1996.
because they serve rationalistic goals. This implicitly implies that there must be some institutional settings conducive to this change of value orientations. Therefore, instead of mainly concentrating on the value system, more attention has been placed on the modification of the Confucianism caused by the institutional and historical changes. Wong also recognizes that his culturist framework is inadequate to explain the Hong Kong success story without delineating the institutional conditions.

The culturist framework echoes too much on previous anthropological “national character” studies. The main problem of the national character explanation is that it ignores the internal cultural diversity and the existence of subcultures. The cultural traits of people are not static. There may be some evolutionary changes propelled within the cultural system itself; or these changes may be resulted as responses to the changes in the material environment. More importantly, politics and global political economic forces are not theoretically incorporated. The cultural values and ethos of people can be deliberately or unintentionally changed by state interventions in the society or by the influences of the development of the global capitalism (Wilkinson, 1996).

**Studying Hong Kong Economic Development in the New Millennium**

It is often argued that the Hong Kong development experience is quite unique due to its peculiar conditions: large influx of refugees and the Shanghainese capital, its colonial status and its geopolitical position for containing the spread of Communism in the Far East. In the past, students of East Asian development often (for examples, Deyo, 1987; Appelbaum and Henderson, 1992; Macintyre, 1994; and Kim, 1998) ignored, or at best slightly touched on, Hong Kong in their comparative studies simply because Hong Kong was so different. However, when globalization reigns the world, many scholars believe, more and more societies become more and more interdependent on one another and are forced to converge on their economic outlooks. Thus uniqueness may no longer be a characteristic of Hong Kong economic reality. The future agenda of studying Hong Kong economic development hinges on three interrelated issues: globalization, city-region competition, and economic polarization and social exclusion. The following sections will attempt to sketch out some development-related themes worth-studying in the future by drawing some contemporary literature.

**Globalization and Asian Financial Crisis**

Susan Strange (1986, 1998) describes the current global economy as predominantly driven by global financial capital. She uses the terms “casino capitalism” and “mad money” to characterize what is happening in the global economy. The outburst of the Asian financial crisis seems to confirm Strange’s vivid characterization and arouses debates about the instability and volatility of the global financial market. Even mainstream economists Radelet and Sachs (1998a, 1998b) contend, although there were significant macro-economic and micro-economic problems besetting the victim East Asian economies, these countries did not deserve for the punishment of a financial crisis of such a great magnitude and negative effects. In their view, the Asian crisis is, at first, a liquidity crisis, but later evolves into an
economic recession, caused by financial panic and the disorderly workout in handling the initial stage of the crisis. At the heart of the crisis is the failure of coordinating proper rollover of the credits in resolving the liquidity problems of the solvent banks and corporation so as to avoid the declining creditors' confidence of the Asian region. Radelet and Sachs (1998b:24-5) call their explanation the financial market instability hypothesis. The hypothesis states "the crisis was triggered by dramatic swings in creditor expectations about the behavior of other creditors, thereby creating a self-fulfilling, though possibly individually rational, financial panic" (emphasis original).

Political economist Wade (1998a, 1998b) directly attacks the "Wall Street-US Treasury-US Congress-City of London-UK Treasury-IMF complex" allied with segments of Asian political and financial elites in encouraging and supporting the dramatic financial liberalization in absence of a proper regulation framework for setting up the conditions of the crisis. Wade (1998a:1538-9) also observes that both Japanese and European central banks pursued monetary expansion in order to boost domestic consumption in the 1990s. However, the consumers had been slow to react. Consequently, there was excess liquidity, which spilled over into financial asset markets worldwide. Since the interest rates in the core countries were low, lenders rushed to East and Southeast Asia for higher rate of return. For both domestic and foreign investors, the huge capital inflows created a self-reinforcing effect on confidence, investment and economic growth of the Asian countries. Since foreign investors and lenders had been getting good rates of return before the crisis, a "confirmation bias" was created. They "predicted" that the Asian miracle would continue. This growth illustration made them ignore contrary evidences which against their wish. This over-confidence explains why the crisis is so sudden to most of the foreign investors and lenders (Wade, 1998b).

This lengthy discussion of the Asian financial crisis aims at pointing out how globalization, at least the global financial market, affects the well being of an economy. Hong Kong though being a global player for a long time is now increasingly vulnerable to global economic and political incidents as economies in the world are becoming more interdependent. Although some of our selected articles have already highlighted the global influences, it is still worthwhile to stress the importance for Hong Kong social scientists to incorporate the global dimension in explaining the dynamics of Hong Kong's economic development.

**Asian Financial Crisis and New Developmental Model**

Long before the Asian financial crisis, Krugman (1994) has claimed that the Asian economic growth is simply a myth. Krugman argues that, by using Soviet Union as an example, the Asian growth is typically propelled by the growth in employment, in the education level of workers, and in the stock of physical capital, like machines, buildings, and roads without significant productivity increase measured by total factor productivity. Productivity growth, which implies efficient use of resources, is induced by technological advances. “Mere increases in inputs, without an increase in the efficiency with which
those inputs are used—investing in more machinery and infrastructure—must run into diminishing returns; input-driven growth is inevitably limited” (Krugman, 1994:67). As a result, when the labor participation rate and capital investment rate become steady, the growth rate will slow down.

Krugman’s harsh comment may not be applicable to Singapore, South Korea and Taiwan because much of their technological development is embedded in labor and capital so that it cannot be reflected by the total factor productivity measure. But it is probably true to Hong Kong as pinpointed in the articles of Chiu and Lui and Tsui-Auch (about the technological upgrading) and those of Jaulin and Huchet, Lim and Hui and Sin (about asset-driven growth). If we believe in Krugman’s assessment of the Asian “myth”, the Hong Kong economy had been overheated before the crisis. The overheating reflected an economic bubble in which asset prices were above their fundamental or equilibrium values. The Asian financial crisis represents the burst of a bubble economy and the exhaustion of Hong Kong’s past developmental models when the investors and creditors recognize the beginning of the diminishing returns to investment of the overheating economies. If the past developmental models of Hong Kong have been exhausted, what is the new model that enables Hong Kong to survive and to be competitive in the era of globalization?

After the handover, our Chief Executive, Tung Chee Hwa, has attempted to initiate a number of changes to revitalize Hong Kong’s international competitiveness by transforming Hong Kong from a “a low-tech but high-IQ” regional center to a “global and high-tech” center (Pun and Lee, 2002). However, over Tung’s governing years, we have not yet seen any significant concrete accomplishments and the Hong Kong state still remains in a stage of imagineering, which refers to a process of active imagination and projection of future mode of governance with or without the actual ability of social engineering and political regulation. More future research efforts have to put on examining what potentialities the Hong Kong economy can mobilize and through what mechanisms these potentialities can be channeled properly to sustain its development. Again, searching for the answers to these questions probably begs the more fundamental questions of how globalizing forces, for example the further liberalization of the Mainland China markets, concretely affect the Hong Kong economy in the new millennium and what is the role of the Hong Kong state in responding to these forces.

The Role of State and City-Region Competition

Globalization has provoked a lot of debates about the role of states. Some scholars claim that states have lost its traditional role of guiding and regulating economic development because the movement of capital, labor, goods and services are no longer constrained by the border created by nation-states (for instances, Andrews, 1994; and Ohmae, 1990, 1995). However, other scholars contend that the autonomy of the nation-state has not yet destroyed. Indeed, nation-states are deeply involved and essentially part of the globalization processes (Evans, 1997; Scholte, 1997; Weiss, 1998). It is true that globalization has made markets stronger than ever in allocating factors of production. But as Vogel (1998) observed,
globalization creates stronger markets but not weaker states. While nation-states have lost the autonomy in imposing their power on capital through regulating the wage relation, engineering their preferred developmental path, creating national champions, and effectively practicing their fiscal and monetary policies, they have acquired new roles which request no less state involvements.

Economic governance once confined within the national boundary has simultaneously shifted upwards to the supranational level and downwards to the subnational level. At the supranational level, the issues of economic governance focus upon the establishment of a global legal framework, which guarantees the global rights of capital (Sassen, 1998, Chapter 10), as well as the prevention of global financial crises (Helleiner, 1995). These new roles of states are reflected by the increase of the formal and informal inter-state contacts, like official visits, conferences held by international organizations in which states are members, and trade talks etc. In short, the importance of states is transformed rather than displaced, as states are still the major players, other than private multinationals, in designing and implementing global economic systems.

At the subnational level, globalization in terms of disintegration of production has rendered nation-states to decentralize its administrative and decision power so as to let local states take advantages of their specific mix of factors of production in response meet particular needs of the globalized capital. At a result, local economies increasingly detach themselves from their respective national economic networks, and become nodes within a global economic network (Amin and Robins, 1990:28). Under this new economic context, cities become more and more important as the commanding and controlling nodes, especially for global networks (Sassen, 1991). As the production processes become dispersed to different geographical locations, there is a parallel territorial concentration of producer services. Producer services are intermediate inputs that provided to production firms as well as to all other types of organizations, like governments, schools, and hospitals etc.

However, not all city centers are equally important. Global cities, which provide producer services vital to global production, are more significant and thus command more economic power. Indeed, the competition among cities in attaining the status of global cities is keen and intensive. The economic power of cities are determined by whether the cities can coordinate the production processes in other territories in a coherent whole and direct the flows of capital, labor and goods in a smooth and effective way. In other words, a global city acts as a coordinating center or as the organizing node of a global economic system that articulates the regional production networks as well as the global distribution and marketing networks. City regions, each of them comprises a global/regional city and its hinterland, have become major economic players as well as competitors in the global economy (Ache, 2000; Scott, 2001; and Simmonds and Hack, 2000). In other words, the global economy is transforming itself from

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6 Sassen (2001:80-2) points out that the concept of global city-region is different from global city in three ways: (1) the former is more larger in territorial scale, thus more suitable for studying the
a nation-state-based economic system to a city-region-based one. Petrella (1995) even predicts that the future global economy will be commanded by about thirty city-regions.

The city-region competition has provoked a huge amount of literature about city marketing and place making. Most of these studies highlight the role of city-state in crafting a vision for development or imagineering (Ward, 1998:238; Landry, 1999) and working out concrete strategies, especially in forms of state-business partnership. The aim of marketing a city is to: (1) advertise the city as having a competitive edge for inward investors; (2) create demand for inward investment; and (3) offer the surrounding area as one of the potential locations within the city and its hinterland (Smyth, 1994:21-22). Besides marketing the economic aspect of the city, Bianchini (1993:2) noted, “A lively, cosmopolitan cultural life was increasingly seen as a crucial ingredient of city marketing and internationalisation strategies designed to attract mobile international capital and specialised personnel, particularly in high-tech industrial and advanced services sectors”. Furthermore, city marketing also involves the securing of local approval or enthusiasm for the city visions. As Ward (1998:231) comments, city marketing is usually intended as much to boost internal morale as to change external perception. The whole phenomenon of cities throughout the world deliberately adopting city marketing and place making policies signifies what the rise of "urban entrepreneurialism" (Harvey, 1989) in the global era.

Recently, Jessop and Sum (2000) have examined the Hong Kong development within an entrepreneurial city framework. They also contrasted two major city visions (Harvard versus MIT visions) and entrepreneurial strategies (service versus industry) given before the crisis and explain the recent SAR government’s moves, especially the Cyberport project, by employing their entrepreneurial city framework. Finally they seem to conclude that Hong Kong’s competitors, like Singapore and Malaysia, have adopted the same strategy, the so-called siliconisation, because of the convergence forces induced by globalization.

Some insights about the future agenda for studying Hong Kong economic development can be drawn from above discussion:

1. The Hong Kong state’s openly intervention into the local stock and futures markets on 14 August 1998, to counter speculative attacks on Hong Kong’s economy has shown the essential role of the state in maintaining economic stability against the systemic risks of the global financial market. The research question is what policies and mechanism the Hong Kong state will employ to maintain long-term financial stability.

2. If the global competition is city-region-based, future researches should not be confine to the Hong Kong widespread influences associated with the growth dynamics of globalization; (2) the emphasis on competition and competitiveness is much stronger in the global city-region construct; but (3) the global city construct is more useful in studying cross-border networked activities.
Kong SAR territory but encompass the so-called “Greater Hong Kong” or even “Greater China”. Cross-border activities including the flows of capital, labor and information as well as socio-political cooperation have to be examined to see how integrated the city-region is.

3. Besides studying the manufacturing sector, more research efforts have to be directed to the service sector, especially the producer services, as they are essential to consolidating the command and control functions of a global city.

4. The roles of the Hong Kong state have been changed because of the new city-region competition induced by the global transformation. Whether the Hong Kong state is interventionist may still have its currency, but more research efforts have to put on exploring its roles in promoting or marketing Hong Kong to the global economic and political communities as well as in crafting workable city visions, designing and implementing entrepreneurial strategies.

5. As the city marketing literature shows that state-business partnership is crucial in the city-region competition. Indeed, the Hong Kong state has initiated a number of partnership projects, like Cyberport and Disneyland, as its entrepreneurial strategies. There are a number of factors affecting the success of these partnership strategies: the changing state-business relationships, the public acceptance of the state’s involvement and the capacity of the state in carrying the projects.

Global Postindustrial City and Social Polarization

The social polarization thesis, as articulated by the students of global cities (Sassen, 1991, 1998; and Fainstein, Gordon and Harole 1992), postulates that cultural, economic and political polarizations between a comparatively cohesive core of transnational capitalist class and a disorganized periphery fragmented by race, ethnicity, gender, occupational and industrial location, and the spaces they occupy have turn cities into divided or dual cities (Mollenkopf and Castells, 1991:402). In the context of global competition, cities and regions launch out different sets of restructuring measures through dismantling rigid labor markets, cultivating a knowledge-based workforce and improving information infrastructure etc. to improve their international competitiveness and to attract footloose capitals.

These measures have led to deindustrialization and structural unemployment that deeply hurt the livelihood of the traditional manufacturing blue-collar workers. In addition, different deregulation policies adopted by governments, and flexible production approaches employed by private enterprises through using part-time, temporary and short-term contract workers and subcontractors, pave the ways of dismantling the traditional labor market that further induces job insecurity to large number of low-skilled and low-educated employees. Nonetheless, there is a huge need for people with administrative, managerial, knowledge-based and professional skills for coordinating global economic activities. These groups constitute a transnational capitalist class. Its interests are the smooth functioning of the global system of capital accumulation; its culture is cosmopolitan; and its ideology is consumerists. Ironically, in order to satisfy their consumer behaviors, the low-grade personal service sector is expanded. Both immigrants from the less developed societies and other marginal groups are
recruited to the production of low-wage service. These migrant workers are not only marginalized in the economic sphere, but also socially excluded from the host society. Consequently, the global city’s population is polarized into the “have”s and the “have-nots”.

Although the polarization thesis has been strongly criticized (for examples, Marcuse, 1989; Hamnett, 1994), it does throw some insights about the development of Hong Kong as a global city and urges us to explore some labor-related issues:

1. Of course, we should ask to what extent social polarization constitutes a severe problem in Hong Kong. Indeed, the Gini coefficient, a measure of income inequality with value close to 1 implying absolute inequality, has risen from 0.430 in 1971 to 0.525 in 2001. The figures do seem to suggest the worsening of income inequality, but is this problem attributable to the globalization effects? Moreover, income inequality is only one aspect of social polarization, how about the other aspects: for instances, occupational polarization (e.g. labor market segmentation) and political polarization (e.g. differential access to political rights, like citizenship)?

2. Globalization comprises the movement of people around the globe. Social polarization theorists maintain that migrant workers and the minority groups in a global city are highly marginalized and excluded from the mainstream society. Recently, there are a lot of voices against the new arrivals, illegal workers and imported labor. More research efforts have to be put on examining their devastated work and living situations, their survival strategies as well as the mechanisms that generate, prolong and reinforce their marginalization and social exclusion.

3. Numerous studies show that postindustrial cities exhibit a faster growth rate in the low-paid service sector in which jobs are mostly filled by women along with the growth of the high-paid producer service sector. As Hong Kong has become a global postindustrial city, do the same trends occur? In exploring the future Hong Kong economic development, service industries, which have relatively been neglected when compared with the manufacturing industries, become an important research area.

4. Finally, social polarization poses a serious threat to the legitimation of the state. Corollarily, how does the Hong Kong state respond to social polarization become a significant question in understanding the social conflicts provoked by globalization.

The articles collected in this reader by no means include all the important works about Hong Kong economic development. Our suggested future agenda is not exhaustive either. But we hope that this quite lengthy introduction could help students think and reflect upon Hong Kong economic development in light of both growth and equity.

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7 As Hamnett (1994) argues, income polarization and occupational polarization are not equivalent. Income polarization can be resulted from changes in taxation, state benefits, unemployment, or shifts in household composition and age structure of the population.
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