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COMBINING THE TRADITION OF BUSINESS PRACTICE BETWEEN EAST AND WEST ON THE EXAMPLE OF HONG KONG

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*Acknowledgment: This article is dedicated
to my dear mentor and professor Blagoje Babić.*

Abstract: The economic history of Hong Kong development shows that combining two seemingly unmatchable business traditions - British and Chinese (Western and Eastern), has resulted in one of the most successful economic developments in history. The first section of the paper deals with economic development of Hong Kong during the British rule while the second one addresses its development during the period from 'return' to China to the present day. It also looks into how the British colonial rule affected the Chinese system of business practice and how it complied with British practices. This is followed by the analysis of how Hong Kong business practice system changed during the period after the return to China. The last part is dedicated to proving the hypothesis that combining two business practices and two business cultures results in a creation of a new business culture which has the characteristics of both Chinese and British business cultures.

Key words: Hong Kong, Eastern and Western tradition, economy, business culture.

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BASIC GEO-ECONOMIC DATA ABOUT HONG KONG

The city of Hong Kong was part of Great Britain from 1842 to 1997 when The People's Republic of China resumed control of it. It covers the area of 1,104 square kilometers, out of which 1,054 is mainland and 50 square kilometers is the sea. Hong Kong's terrain is predominantly hilly and mountainous and the climate is subtropical.

As it is largely urban area, only 1% of the territory is used for agriculture. Apart from the harbour with an outstanding strategic position the city has no natural resources. The city consists of the main regions: Hong Kong Island, Kowloon Peninsula and New Territories. The literal translation of the name Hong Kong would be "Fragrant Port", since this used to be an island where wood products and fragrances were traded. Hong Kong is composed of approximately 260 islands and has a land border with Shenzhen and Guangdong province.

According to the data from 2015, the city has the population of 7,141,106. Average life expectancy is 43.4 years while birth rate is 0.38%. As for ethnic groups, 93% of the population are Chinese, 1.9% Filipino, 1.9% Indonesian and about 3% is other nations.

From 1842 to 1997 Hong Kong was under British colonial rule when the People's Republic of China resumed the control and now has the status of the Special Administrative Region, like Macao.

Gross domestic product according to purchasing power parity was US \$397.5 billion in 2014, while the GDP growth rate in the same year was 2.3%. In the structure of GDP, agriculture accounts for 0.1%, industry 6.6% and tertiary sector 93.3%.

The export during 2014 amounted US \$528.2 billion and the main export partners were China, the USA and Japan. Top export products included electrical machines, textile, clothes, footwear, clocks, watches, plastic, precious stones and printed materials. The import in the same year was US \$560.2 billion and top importing countries included China, Japan, Taiwan, Singapore and the USA. The import primarily included raw materials, semi-finished products, consumer and capital goods, food and petrol.²

² On the official CIA website, the numbers for import are calculated by cost, insurance and freight (c.i.f.) or free on board basis (f.o.b.) method and export by free on board basis (f.o.b.) method. Note: Re-export and re-import are very important in Hong Kong's economy and they are adding to the total value of export and import, and at the end to GDP. The official statistics of World Bank and Hong Kong Government are all including re-export and re-import, when they are calculating export and import of Hong Kong in their statistics.

THE HERITAGE OF BRITISH COLONIAL RULE: THE “TRANSFER“OF EUROPEAN BUSINESS PRACTICE

Hong Kong had a very turbulent history and development during the centuries which resulted in a very particular economy. Although its development is normally related with colonial rule of Great Britain, the case of Hong Kong is a particularly good example of how colonial rule can be used in a good way and also how the return to the home country after more than 150 years can be used as a new momentum for further development.

In the middle of the XIX century China was at war with Great Britain. This war is known as The Opium War and it lasted from 1839 to 1842. The aim of the war was to make China allow new import of opium from Great Britain. Initially, Britain imported expensive goods like tea from China and China imported silver from Britain in return. However, silver export became too expensive for Britons, so they decided to offer China a new kind of goods which would be cheaper. That was opium. The opium originated from India, and was imported in China by the famous British East India Company. Naturally, as the opium import rose, the number of drug addicts increased in China. Chinese Government strictly forbade opium import and these led to brutal conflicts of the British navy and Chinese army. In this war China was defeated by the opponent that was equipped with -of-the-art weapons.

After the end of this war in 1842, China was forced to sign a treaty in Nanking, and it brought no benefits to the country as it was the defeated side. The fundamental terms of this treaty were the following: the British gained the extraterritorial status, Hong Kong was ceded to Great Britain, trading ports Canton, Xiamen, Fujou, Shanghai and Ningbo became open for all merchants regardless of their nationality, while the Chinese government had to pay for reparation for destroyed opium and war indemnity.

Not all the British were happy with the outcome of the war, or with what Britain gained. There is historic evidence showing that the British population thought that invading Hong Kong territory was a complete nonsense as not many benefits could be expected from the city that only has rocks and the sea. The book “Entrepreneurship and Economic Development of Hong Kong” by Toni Fu –Lai Yu states the following: “When Hong Kong was ceded to the British in perpetuity by the Treaty of Nanking in 1842, Queen Victoria was most distressed to know that only a piece of useless granite was added to her Empire. The British Foreign Secretary Lord Palmerston dismissed Captain Charles Elliot for the reason that he had “obtained the cession of Hong Kong, a barren island with hardly a house upon it. Now it seems obvious that Hong Kong will not be a Mart of Trade. However, entrepreneurs saw things differently. Earlier in 1836, Great Britain’s most significant opium trader, James Matheson (who was Scottish),

conceived the acquisition of Hong Kong Island as a factory for British and notably Scottish traders. He claimed in *The Canton Register* that: “If the lions paw is to be put down on any part of the south side of China, let it be Hong Kong; let the lion declare it to be under his guarantee a free port, and ten years it will be the most considerable mart east of the Cape. History has confirmed the entrepreneur’s insights.” (Yu, 1997, p. 1)

Between 1841 and 1857, the population of Hong Kong increased from 7,500 to 85,000 (mostly Chinese). The number of foreigners also grew by a few hundreds to about 1,600. (Schenk, 2010) During that period, the main business activities were trade, banking and transport by ships. It was when a number of small companies were founded by the Chinese and their primary aim was satisfying the needs of local communities. Foreigners opened several factories that produced sugar, cement and ice. Thus, Hong Kong did not experience industrialization or significant progress. Additional treaties with China from 1860 and 1898 allowed the inclusion of the regions of Kowloon and New Territories. (Chen, 2001, p. 189)

However, historic circumstances in China and the world that followed (overthrow of the Royal Imperial dynasty in China in 1911, the world economic crisis in 1930, the war between Japan and China in 1937, the World War II in 1940 and coming to power of Communist Party in 1949) contributed to the poor development of Hong Kong. The only thing that the city benefited from in this period was the fact that the majority of sailors and merchants used Hong Kong as a port instead of Shanghai. Up to 1950, Hong Kong served as a place of transit trade between China and the rest of the world. Still, after Mao Zedong’s coming to power, a large number of refugees from China came to Hong Kong, as a result of Kuomintang’s regime downfall. The majority of refugees came from Shanghai, and their immigration marked a new era in the development of Hong Kong. That was industrialization. Industrialization in Hong Kong was feasible since China broke off the ties with the West first, and then with the Soviet Union. That way China was excluded from Hong Kong economy. As a result, this city could no longer plan its development on being a mediator in the trade between East and West, but it had to find other means to move forward and that was industrialization.

The emergence of new immigrants from China in Hong Kong had the following consequences:

- more labour force ready to work,³
- adoption of production technology and cotton processing, and

³ Entrepreneurial class came to Hong Kong- craftsmen, workers and merchants after Mao’s revolution, while Taiwan refugees were predominantly the members of former government-politicians, army, and well-off Chinese who had difficulties getting used to the new circumstances in Taiwan (they were not ready to work hard and they thought they would be able to do business the way they used to in China).

– a new spirit of entrepreneurship, which enabled opening of a large number of small and medium companies - their number grew from 91% to 96.5% between 1955 and 1975 (the companies employing less than 100 people), and their export accounted for 40-50% of the total Hong Kong export on the annual level. (Schenk, 2010)

The period from the beginning of industrialization to the opening of China and introduction of “The Open Door Policy” was very successful for the economic history of Hong Kong. The data about GDP shown in Table 1 speak in favor of that.

Table 1. – Annual GDP and average GDP growth rate in Hong Kong from 1961 to 1980

Year	GDP (in HK \$ from 2005) HK millions of \$	GDP growth rate (%)
1961	79.354	-
1962	90.591	14.2
1963	104.824	15.7
1964	113.804	8.6
1965	130.292	14.5
1966	132.566	1.7
1967	134.804	1.7
1968	139.368	3.4
1969	155.096	11.3
1970	169.394	9.2
1971	181.516	7.2
1972	200.633	10.5
1973	225.323	12.3
1974	230.454	2.3
1975	231.404	0.4
1976	268.955	16.2
1977	300.686	11.8
1978	325.825	8.4
1979	363.777	11.6
1980	401.392	10.3

Source: http://www.statistics.gov.hk/publication/stat_report/national_income_bop/B10300032007XXXXB0201.pdf

Until 1960, Hong Kong did not have an official statistical service and the data about the previous periods would not be comparable with these from the official Statistical service (Census and Statistics Department, The Government of Hong Kong Special Administrative Region), which is why they were not taken into consideration.

According to Table 1, Hong Kong economy during the period from 1960 to 1980 was only successful twice: first between 1966 and 1968 – when the influences of Chinese cultural revolution were felt in Hong Kong, and then during the first oil crisis – when its price resulted in the increase of the cost of production and financial losses all over the world.

What were the characteristics of this period of development of Hong Kong and how did the Government of Hong Kong then consisting of British officials, influence the development of the city?

Today, Hong Kong is the best example of *laissez-faire* capitalism, where the freedom of capitalistic way of performing economic activities is dominant, as the government has a minimum influence on economic trends, and entrepreneurs make their own decisions about supply and demand. During the period of British rule and until this very day, Hong Kong was the first in the world according to the Index of Economic Freedom (constantly from 1995 to this day) followed by Singapore. Still, although many scientists think that such economic policy is the key factor of Hong Kong development (together with entrepreneurship development); there are others who argue that it also means marginalizing the role of the state in the development process, which is not true. The truth is that British governorship did everything to provide the freedom of earning a living to all interested parties. This meant low taxes, flexible labour laws, no public debts and free trade. Also, ever since 1950, a lot has been done to help people and companies. Namely, large amounts of money were invested in providing normal living conditions for the people like building council houses, infrastructure, and deforestation. This enabled:

- a) normal life for the citizens and development of production (real estate prices at that period were strictly limited so that everyone could afford accommodation and set up companies);
- b) foreign companies to invest more easily in Hong Kong as it had developed infrastructure. Together with that, public administration took an additional task upon itself to establish a good primary and secondary school systems in order to provide well educated and qualified workforce that mainly worked in production. Thus, state administration had its role and it did not let anything happen *ad hoc* - on the contrary, it had a very active role in creating business environment.

There were two phases of development of Hong Kong during the British rule: the first phase - industrialization that lasted from the 50's until the 80's of the 20th century and the second one, still ongoing phase of introduction of the "Open Door Policy" by Deng Xiaoping.

Hong Kong Industrialization started with emergence of immigrants from China to Hong Kong, after the victory of Communist Party of China. A large number of immigrants that came to Hong Kong wanted to work in accordance with the

capitalistic and not communist laws. Their will and desire to succeed in a new country initiated the industrialization process, which made a substantial shift in the business practices and development of Hong Kong. Namely, this is when the upswing of the two principal industry sectors began. It contributed to the great success of economy as a whole. These two included the textile industry and electronics industry (cassette decks production, music equipment, TV sets, video recorders, computers, chips, etc.).

During this phase, the production sector played the most important role in the development of Hong Kong economy because it provided the following: employment for a large number of people; increased export and higher export income; sufficient quantity of additional capital with the aim to transform the production from the primary industry forms (like clothes, textile, footwear, plastic or paper production) into a more sophisticated form of industry, like electronic.

This is shown in the following three tables (2, 3 and 4), which provide the data about the arrangement of output industry in different sectors, a number of workers employed in those sectors and their share in the export of Hong Kong (Yu, 1997, p. 67, 69, 70).

The tables show that clothes production and textile industry had the primacy and were followed by the production of machines and plastic, while electronics industry developed only later. The arrangement of workers by sectors was also the same, which means that clothes and textile industries had the largest number of employees. Initially, textile and clothes industry made the greatest contribution to export but their share started decreasing later on, while the share of electronics industry kept increasing.

Table 2 – Industrial production in Hong Kong by sectors and selected years
(in %)

Industry (distribution in %)	1973	1978	1983
Clothes (woven clothes and footwear excluded)	22	24	21
Textile industry	29	19	16.7
Plastic products	8	7	7
Paper products, printed materials and publishing	4	4	4.5
Metal products, machines and equipment	12	17	18.4
Leather, wood and cork	3	3	2.6
Food industry	5	4	4.4
Electrical and electronic products	11	14	18.3
Chemical, rubber and non-metal products	3	4	3.6
Other	3	4	3.5
Total	100	100	100

Table 3. – The number of employees in industrial production in Hong Kong by sectors from 1950 to 1980 (in %)

Industry	1950	1960	1965	1970	1975	1980
Clothes	2.4	23.8	25.6	28.8	37.9	30.9
Electronic products		0.1	1.5	7.0	7.9	10.4
Textile industry	30.6	24.4	19.1	14.0	12.5	10.0
Printed materials and publishing	7.1	4.3	4.4	3.3	2.9	3.0
Plastic products	0.3	8.3	12.8	12.9	9.4	9.7
Metal products	17.6	8.5	6.5	6.5	6.7	7.0
Machines				1.2	1.3	1.4
Watches and clocks		1.1	1.3	1.8	2.3	5.5
Food processing	4.2	3.9	3.5	2.5	2.5	2.5
Toys		3.3	5.9	7.2	5.5	6.2
Jewelry		0.4	0.6	0.5	1.2	1.2
Home appliances		0.4	2.2	0.5	0.9	1.8
Photographic and optical equipment		0.3	0.7	0.6	0.5	0.9
Other	37.8	21.5	15.9	13.2	8.5	9.5
Total	100	100	100	100	100	100
Total employment (in 000)	51	172	287	549	679	892

Table 4. – Share of Hong Kong manufacturing industry in export by sectors in the 1950-1980 period (in %)

Industry	1950	1960	1965	1970	1975	1980
Clothes	4.4	35.2	35.5	35.1	44.6	34.1
Electronic products			4.2	8.7	12.0	19.7
Textile industry	17.6	19.3	16.6	10.3	9.4	6.7
Watches and clocks		0.6	0.6	1.7	3.5	9.6
Plastic products		9.1	13.1	12.3	8.6	9.0
Jewelry		0.7	0.6	0.9	1.5	1.1
Metal products	2.4	4.1	3.1	2.8	2.6	3.0
Printed materials		1.1	0.9	0.7	1.0	1.1
Other	75.6	29.9	25.4	27.5	16.8	15.7
Total	100	100	100	100	100	100
Total export (in millions HK\$)	3.705	2.869	5.023	12.356	22.648	64.714

During this period of Hong Kong development, the following factors had substantial importance:

- involvement of Chinese entrepreneurs in the then profitable business,
- the fact that entrepreneurs were quick to adapt to the changes in product design and technology using imitation strategy of technologically advanced companies and countries,
- entrepreneurs' insistence on quick capital turnover because that was the only way they could make enough money with the aim to start a new production cycle.

It is important to point out that Hong Kong citizens running small businesses never invested money in research and development as they thought it was too expensive and their profit rates were already low. Although a significant number of companies were set up every year, not all of them were equally successful. Such phenomenon in this society was not considered a serious problem, as one failure did not necessarily mean that the next venture would also be a fiasco. On the other hand, both domestic and foreign companies struggled with the fact that their staff left the company after a few years, having learned enough to be able to start their own business. Still, young businessmen were not criticized because of this and it was considered normal. Also, nobody was judged or condemned for stealing knowledge or technology as they had already “stolen” it from someone else. Thus, the people of Hong Kong were always ready for new impulses on the market and setting up new businesses. Another interesting evidence for this can be found in the history of Hong Kong. Namely, local companies were mostly small and medium ones and they operated in subcontracting system. Big Hong Kong and foreign companies could not easily find local businesses that were able to fully meet their demand, so they usually recruited several subcontractors that would be involved in the same business activities.

Although successful entrepreneurs in Hong Kong were Chinese (more precisely, the greatest number of them came from Shanghai), financial motivation was always more important to them than moral – which is utterly in contrast with common Chinese business practice, where more motivation is one of the crucial characteristics of management. However, it is important to point out that this urge to get rich is a result of the “type of people” that settled in Hong Kong: those were the ones that chose capitalism as the business practice that suits them.⁴

The environment provided by the British colonial rule was favorable for their interests and goals as the government did nothing to either help them or constrain them in their wish to make great profits and increase capital.

⁴ In his book *“City on the Rocks: Hong Kong’s Uncertain Future”* from 1991, p. 67, the author Kavin Rafferty says the following: “More than any other place in the world, Hong Kong is dedicated to making money, and after that to making even more money.”

Deindustrialization was the second phase in Hong Kong development during the British colonial rule and it lasted from 1979 to 1997 which is when Hong Kong was returned to China. This term is quite clear, but the question is what exactly did it mean for Hong Kong business practice?

As already mentioned Den Xiaoping's coming to power in China in 1977 marked a new era, which was a shift from communist economy to market-oriented – which meant China's opening to the outside world. This "Open Door Policy" resulted in formation of special economic zones (SEZ), which were some kind of an experiment aiming to determine whether gradual opening of certain cities to foreign investors would have any benefits for China. This was actually the experience from Hong Kong, a former Chinese city, as Deng Xiaoping knew very well what economic results Hong Kong was delivering. Of course, he was aware he could not achieve the level of market liberalization that he had in Hong Kong but he chose Guangdong and Fujian, which are close to Hong Kong, with the aim to connect these regions with the city of Hong Kong. Deng particularly encouraged Guangdong province to adopt this open door policy for foreign investments as it was below average at that time, when it comes to development.

After establishing SEZ, a key turning point happened for both China and Hong Kong. Namely, British colonial rule liberalized the real estate pricing policy and in the end of the 1970s these prices rocketed dramatically which caused the increase in the costs of space renting. At the same time, thanks to the public administration efforts, the percentage of educated population increased and the cost of labour force was not as low as it used to be. Hong Kong entrepreneurs thus earned less, and individuals started closing their companies due to worsened conditions of work. However, the opening of China helped a great deal to Hong Kong, as it became again what it used to be before the World War II: a place of doing business and transit trade between China and the rest of the world, but slightly different this time. The fundamental characteristic of this transit period was that the businessmen from Hong Kong were now moving their production from Hong Kong to China as they could find abundance of cheap workforce there and they were also familiar with Chinese culture, negotiation style and setting up business. However, they did not stop at just moving their production to China, but they were trying to find other favorable locations for their businesses, like Malaysia, Thailand and the Philippines. Table 5 shows key factors that motivated Hong Kong entrepreneurs to relocate their businesses to other countries.

Table 5. – Key factors that motivated managers to move production from Hong Kong abroad

Motivating factors	Result (1-7 scale)
Shortage of labour in Hong Kong	5.6
High labour costs in Hong Kong	5.2
To facilitate the export to other regions	5.0
High land cost of and rent in Hong Kong	4.9
To open up new markets by directly investing there	4.3
Lack of technical and skilled labour force in Hong Kong	3.8
To circumvent tariffs and quota	3.6
Expanding existing markets	3.3
To avoid the pressure of competition from other firms	2.8
To exploit further the advantage of the managerial and marketing skills of the Hong Kong parent firm	2.6
Diversification of product	2.5
High capital costs in Hong Kong	2.0
To exploit further the advantage of the technical and production know-how of the Hong Kong parent firm	1.6
As a means of managing the financial assets of the Hong Kong firm	1.4
Lack of high levels of technology in Hong Kong	1.1
To make use of the outdated machines	0.9
Lack of management manpower in Hong Kong	0.4

Source: (Yu, 1997, p. 80)

Other economic sectors developed as a result of such rapid relocation of production to the places where it was more economical, which compensated for the lack of industry and employed the excess workforce. Due to inability to work in agriculture in Hong Kong and deindustrialization process, service sector developed, more precisely tertiary sector, which now accounts for 92% in Hong Kong's GDP. Thus, the development of banking and financial sectors, consulting companies, brokerage firms, tourism and hotels, transport and other everyday service activities enabled further development of Hong Kong. When it comes to this aspect, Hong Kong is no different from other developed countries, as the trend worldwide in the last twenty to thirty years has been to decrease the share of industry in GDP, and increase the share of tertiary sector.

Hong Kong entrepreneurs once again showed their abilities here - they responded to market changes quickly and switched to tertiary sector. Of course, this process of opening factories in new locations was not easy, and not always successful, but in most cases it was more than satisfying.

THE HERITAGE OF CHINESE LONG-LASTING CIVILIZATION: PRESERVATION OF CHINESE “OPEN-MINDEDNESS”

A new chapter in the history of Hong Kong began after its return to China. The period immediately before this return was confusing, to say the least. Although several meetings were held and a few treaties were signed between the British and Chinese during the eighties, businessmen and citizens were in panic because of the Chinese coming to power. A majority of western media was announcing a severe decline of Hong Kong. They thought that Chinese government would insist on Hong Kong's abandoning everything it had created, speculating that stock market would crash under Chinese influence which would result in people losing their jobs. This system of propaganda was partially successful in changing some things, but the major consequence was workforce leaving Hong Kong and relocation of a large number of companies to neighboring Asian and Pacific countries.

Still, the reality was completely different. Ever since 1997, Hong Kong has been developing. The evidence for that are relevant statistical data – starting from GDP, GDP growth rate, GDP *per capita*, economic freedom index, stock exchange income and standard of living in general. The principle which is still used in China today “one country, two systems”, meaning that Hong Kong, as it is, continues to exist within socialist China- proved to be true and successful in this case.

Since the takeover in 1997 and in the following fifty years, Hong Kong will be under the protected business system and Government. It is also a Special administrative region of the People's Republic of China (together with Macao). Generally, not much changed in Hong Kong after its return to China: the members of local government were now Chinese, public holidays no longer celebrated the royal British family, banknotes had Chinese symbols and not British, Yuan was used together with Hong Kong dollar, foreigners were required a visa to work, educational system slightly changed and everything else stayed the same.

The intensity of cooperation with Hong Kong increased - more money was invested in production in China, trade was intensified and the Chinese in their home country used the experience and position of Hong Kong companies to reach foreign markets. There is a lot of prejudice in the West about Chinese goods, including production technology, quality control, which is why certain countries introduced quotas in order to lower import of Chinese products which are much

cheaper than domestic goods. Thus, Chinese companies use Hong Kong companies to place goods and products in European, American, Australian and Canadian markets because the “Made in Hong Kong” label has a better reputation than the “Made in China” one. Also, many western companies that are still unsure of investing directly in China often use consulting companies or production companies from Hong Kong to place the funds through them in China, because Hong Kong companies have a better knowledge and understanding of Chinese business practice (Sang Ho, 2001, p. 227). That way Hong Kong regained the role of a ‘transit node’ for the trade and business with China.

The above mentioned suggests that the “Chinese open-mindedness”, i.e. willingness to accept and adapt to the new has definitely contributed to a new and successful phase in the development of both the home country and former colony.

In a way, from the moment it was taken over to this day, Hong Kong has experienced two critical situations that could have affected it even more severely, but they did not because it was part of China at the time. The first one was the 1997-1998 financial crises in Asia that started a day after Hong Kong was returned to China and the second is the still ongoing world economic crisis.

1. The first crisis in Asia, which was a currency crisis, left severe consequences on Hong Kong, primarily affecting its currency and stock market. It also affected the businessmen that were investing in the Asian-Pacific region, and that were hit by the crisis the most, like Thailand, North Korea, Indonesia and partially Japan.

By major interventions on financial markets, Hong Kong managed to defend its currency from speculators attacks and large amounts of money were spent on that. China handled the crisis much better, thanks to stability of Chinese economy, and its regulation mechanisms and not particularly great openness towards IMF and WB managed to diminish the negative effects of the crisis, although Chinese government realized that certain reforms must be enacted. Chinese stability in such situation together with effectiveness of the Central Bank of Hong Kong made it possible for them to overcome the crisis and come out in far better condition than the neighboring countries. In the years to come, China helped Hong Kong to recover even more rapidly, particularly through production and export.

2. The second crisis hit the whole world, including Hong Kong and China. However, the blow again was not as hard as was expected since Chinese economy was still in swing. The number of direct foreign investments decreased, export fell by 20%, and the unemployment rate increased, but Chinese government started helping industry on time with the aim to diminish the negative effects of the crisis. Also, it was necessary to provide help for Hong Kong, one of the leading world financial centers, to stay at

that position. Thus, in this case, the integration in big Chinese economy saved Hong Kong from a much worse scenario.

The data in Table 6 show the effects of opening of Chinese economy towards Hong Kong, focusing on the GDP and GDP growth rate from 1981 to 1997 when Hong Kong was taken over by China. The table suggests that Chinese opening had a positive effect on GDP growth rate in Hong Kong. Although China is not a single reason for GDP growth (as there were investments outside China), the greatest volume of trade and capital export was achieved with China.

Table 6. – Annual GDP and average growth rate of GDP in Hong Kong from 1981 to 1997

Year	GDP - \$HK millions (in \$HK from 2005)	GDP growth rate (in %)
1981	439.078	9.4
1982	452.174	3.0
1983	478.942	5.9
1984	526.382	9.9
1985	530.147	0.7
1986	588.657	11.0
1987	667.571	13.4
1988	723.945	8.4
1989	740.032	2.2
1991	812.666	5.7
1992	862.181	6.1
1993	914.285	6.0
1994	969.265	6.0
1995	991.492	2.3
1996	1033.065	4.2
1997	1085.300	5.1

Source: http://www.statistics.gov.hk/publication/stat_report/national_income_bop/B10300032007XXXXB0201.pdf

The trend of success in doing business with China continued after Hong Kong was taken over. However, immediately after its return to China, the GDP was negative, which certainly was the result of the following: impact of Asian financial crisis and withdrawal of a large number of investors who were worried about the future of their money and companies.

From 2000 to 2010, average GDP growth rate in Hong Kong was approximately 4%, which is a great success- taking into account the recovery from Asian crisis and the new global financial crisis. Based on the presented data, we can definitely conclude that the return of Hong Kong to China has had mutual benefits. On the one hand, China has reinforced its economic and political positions with the assistance of Hong Kong in terms of knowledge, connections and finances. On the other hand, Hong Kong now has a new, globally powerful economy that gives it strength and momentum to move forward and make progress. Although they were separate entities for a long time, today the new “David and Goliath” work well as a unity and it seems as though they had never even been separated.

FERMENTATION OF NEW KIND OF MANAGEMENT

After the description of the British impact on the development of Hong Kong’s economy, this part of the paper will show that in this town, because of the 150 years’ colonization influence, there was a change in the original type of management (Chinese type), and that this was a reason why new type of management emerged – the Hong Kong’s type.

Chinese people make 93% of the population in Hong Kong. It means that, although in Hong Kong live many different nationalities, Chinese people are without doubt a dominant nationality. Judging by that, we could claim that Chinese business culture, as well as Chinese management practice, is dominant too. However, is that the case here? Next explanations will show what the current situation in this field is.

Of course, in Hong Kong we cannot overlook nationality, cultural norms and values that the Chinese people brought with them from different parts of China and that they nursed through one and a half century of British colonial Government. We can prove that by providing some facts: in Hong Kong people respect Confucianism, Taoism as well as Buddhism; people make business connections with mutual obligations – called *guanxi*; also all the beliefs and values that the people from mainland China have, are the same in Hong Kong. What was different in the old times, and today those differences are slowly starting to decline, was the economic and social model of development that was reflecting on their behavior. Today, for example in Hong Kong the wish for material wealth and personal achievement is much bigger than in mainland China. We can illustrate that with following everyday examples: in Hong Kong, when two friends meet each other during the Spring Festival (Chinese New Year), they greet each other with *Kung He Fat Choy* “wish you rich”; many of them worship God of Fortune; wealthy people put number 8 on their license plates because it means that they are rich. (Yu, 1997, p. 50)

In order to analyze similarities and differences between the business culture and management practice in China and Hong Kong, and as well to see the impact of Anglo-Saxon business culture on Hong Kong, the study from Ralston, Gustafson, Cheung and Terpstra (1993.) that was published in the *Journal of International Business Studies*, will be used in this paper. The aim of their research was to show what are the differences and similarities between management practice in the USA, Hong Kong and PRC that are coming mainly from their different cultural background.⁵

The authors of this study wanted to see through their research and statistical data is there a correlation within business culture in the USA and China from one side, and Hong Kong from the other side – is the process of divergence, convergence or crossvergence within business cultures happening in Hong Kong? *Divergence* for them is the process in which one business culture stays immune from the impact of other business cultures and keeps its identity, regardless of social and economic impacts that are coming from the other cultures. *Convergence*, on the other hand is a completely opposite process, and it means that one nation is adopting business experience and culture from different nations within one country. *Crossvergence* is the process between this two, and it allows the third alternative. Because we have two different business cultures and practices, through their interaction we can have new (third) way of business practice.

The authors first studied background of those three countries at that time. The USA had a liberal capitalism as economic model, it had a specific legal and justice system, in this country there was a high degree of individualism among the people, and also high degree of technical development. China, on the other hand, was a country in which ruled collectivistic Eastern culture, that was mixed with socialist market oriented economy and legal practice, and at the time this article was written (1993) had a low level of technical development (completely different situation with tech nowadays). Hong Kong was the mixture of those two previous systems, because at that time there was still British Government there, so we had a British system of law, economy and education with a high level of tech development, but on the other hand the Chinese people were the majority in this city, so there was a tremendous impact of Chinese culture and tradition on every day living. So, at that time we could say (and in some ways we still can), that the business system was coming from the West and cultural values were coming from the East.

⁵ Remark: This study is used as a relevant one, because although it has USA instead of UK, their business practices are very similar. We can show that by using Hofstede cultural dimension (more about them on next pages), that they are very similar countries: USA – PDI:40, IDV:91, MAS:62, UAI:46, LTO:29, UK - PDI:35, IDV:89, MAS:66, UAI:35, LTO:25.

Their study is exceptionally long, and here will be showed some part of it and authors' conclusions.

Ralston and al. study had a sample of total 326 managers, in order to see what their managerial and business values are, but on the other side also their cultural values: 62 of them coming from the USA, 182 from China and 82 from Hong Kong. Considering the fact that both the USA and China are geographically large countries and that there are differences between management practice in different parts of those two countries, the researchers decided to collect data from managers in the USA that are coming from northeast part of the country, and managers from Shanghai in China. Researchers at this study wanted to see what characteristics are usual for Western and Chinese business practice, and they chose to test it in all three countries, getting the results which will be shown in the next part of this paper.

Measures that were used to describe Western management practice were:

- *Machiavellianism* – is a measure of a degree to which person places self-interest above the interest of the group, and its higher value indicates that those societies are the one in which individual interests prevail;
- *Dogmatism* – the degree to which a person is not flexible or open to new ideas and the lower degree of it means that the person is more open to new things;
- *Locus of control* - individual feeling of selfcontrol;
- *Intolerance of ambiguity* – ability of people to make decisions in uncertain environment.⁶

Measures that were used to describe Chinese management practice were:

- *Confucian work dynamism* – is a measure for society's search for virtue, and it represents a way that a society respects social hierarchy;
- *Human-heartedness* – individual level of social consciousness and awareness, and it represents the level that people can have compassion towards others;
- *Integration* – it reflects the need of people for social stability, and in a way it tells us if the society is tolerant or not;
- *Moral discipline* – is speaking about the way that persons are controlling themselves when they are dealing with other people, and it shows their ability to be moderate and prudent.⁷

⁶ The reference values were: *Machiavellianism* – from 40-160 (higher score means that people are preferring greater use of social power), *Dogmatism* – from 10-70 (higher score means that many people in society are rigid and dogmatic), *Locus of control* – from 0-23 (higher score means that there are more people with less ability to be self-independent), *Intolerance of ambiguity* – from 5-40 (higher score means that most of the people are having the need for security).

⁷ The reference values had a scale from 1 until 9, and the higher scores meant that there is larger connection with traditional Chinese values.

This research showed that there are significant differences between those three countries, regarding all four Western dimensions, and three from four Chinese dimensions were different among them. Only moral discipline was not significant, because there was no big difference among the selected countries regarding that measure.

Also, it was observed that there are big differences among American and Chinese managers, and Hong Kong was in the middle – it was the example of joining those two practices. It meant that Chinese managers in Hong Kong had adopted some of the Western traditions (such as individualism and individual goals), but still they haven't forgot their Chinese tradition and values. The existence of free market economy and capitalism, led to the change of concept of materialism, but the spiritual aspect of culture –one that reflected hierarchy, status in society and also Confucianism, was intact. So they concluded that Hong Kong has a specific type of management that is immanent to this city, with characteristics that are coming both from West and East.

In order to even better explain the impact of the UK on Hong Kong's way of doing business, in this paper the Hofstede model of cultural dimensions will be used. This model uses five cultural dimensions that are explaining differences among cultures and they are: power distance index (PDI), individualism (IDV), masculinity (MAS), uncertainty avoidance index (UAI) and long term orientation (LTO). The values of these indexes are presented in Table 7:

Tabel 7. – Hofstede cultural dimensions for Hong Kong, China and United Kingdom

Hong Kong	China	United Kingdom
PDI= 68	PDI= 80	PDI=35
IDV=25	IDV=20	IDV=89
MAS= 57	MAS= 66	MAS=66
UAI=29	UAI= 40	UAI= 35
LTO= 96	LTO= 118	LTO =25

As we can see, the power distance index in Hong Kong is relatively high, but it is not among the highest in Asia. It means that in Hong Kong we do have a respect for all kinds of social, economic and political power, but still this index is not as high as in China. The UK has completely opposite index, and in this

For both groups of measures (Western and Chinese) a statistical method called multivariate analyses of covariance was used, and dependent variables were all the above mentioned 4 Western and 4 Chinese values.

country we have lower PDI, which means that there is more flexibility regarding using and accepting power. The average value for this index is 55, so it means the Hong Kong is right in the middle between China and the UK.

Individualism in Hong Kong is very low, which means that this city has a society that is collectivistic, same as China. In this kind of societies, close and extended family and friends are very important, they tend to do job in the groups and the opinion of the society matters a lot.

On the other hand, the UK has a very high index of individualism, actually among the highest in the world, which tells us that in this society individual needs and goals are most important.

Uncertainty avoidance index is very low for all three subjects. That means that they tend to be more flexible towards the uncertainty in their future and environment. They accept changes as they come and go, and they are not afraid of them.

Long term orientation is an index that is same for China and Hong Kong, and it derives from Confucian beliefs and values. In its doctrine, time is considered as a relative thing, so people should not be running after things, and they need to let things happen. On the other hand, the UK has a short term orientation, which means that people are oriented towards short term goals and towards present time.

Hofstede cultural dimensions are telling us that there is strong cultural connection between Hong Kong and China, which was already showed in Ralston study. Unfortunately, this study cannot give us answers as Ralston study could before, about the changing of management practice, because it only measures cultural dimensions. But having in mind that Hofstede research can show us that Hong Kong and China are not completely the same, we could conclude that due to different economic, social and political development there are some changes within Hong Kong that are making a new kind of hybrid management. This new type eventually led to high performance in the economy and led to many successes of Hong Kong on international business level.

CONCLUSION

Hong Kong for sure is a good example of combining two opposite economic and managerial practices that gave fantastic economic results. The success of this economy model which is shown in this paper, illustrates in what way British colonial Government with its guidance, management and law practice contributed to development of Hong Kong. On the other hand, the process of Hong Kong's transition to Chinese government was also successfully done and finalized. This paper proved that by joining forces of Chinese tradition and entrepreneurship together with British liberal capitalism, Hong Kong's economy achieved great results. Because of that, this city enjoys a lot of business benefits and still stays

among most attractive cities in the world, especially for financial and high tech companies. Also, it can be said that the growth of Hong Kong was, in a sense, a classroom development study for China, because development and success inspired Chinese Government to establish “The Open Door Policy “.

The combination of Eastern business practice, with Western business practice, led to formation of completely specific way of doing business that is unique in Hong Kong. That kind of doing business slowly starts to spread across the mainland China, and the future research in this field will show if this kind of doing business will change national and business culture in it. Considering that national, as well as business culture are pretty stable, e.g. they are very consistent, it will be very interesting to see in the next period, if and in what scale business culture in China changed, and is it becoming more like Hong Kong or not.

Never the less, without any doubt we can say that the development of Hong Kong is very instructive, and its specific way of doing business was among the most important things that led to success of its growth model. Because of that we can conclude that crucial changes (e.g. new foreign government) in the history of one town or a state do not necessarily have to be negative, and sometimes (such as the case is here) they can be even very positive.

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SPAJANJE TRADICIJE POSLOVANJA ISTOKA I ZAPADA NA PRIMERU HONG KONGA

Apstrakt: Ekonomska istorija razvoja Hong Konga pokazuje da je spajanje dve naizgled nespojive tradicije u poslovanju – britanske i kineske (zapadne i istočne), dovela do toga, da imamo primer jednog od najuspešnijih ekonomskih razvoja u istoriji sveta uopšte. Rad će se u prvom delu baviti ekonomskim razvojem Honga Konga od ulaska Velike Britanije na teritoriju Honga Konga, a u drugom delu će se baviti njegovim razvojem od prelaska u ruke Kine do današnjeg dana. Takođe tom prilikom će se sagledati na koji je način britanska kolonijalna uprava uticala na uobičajeni kineski sistem poslovanja i kako je teklo usklađivanje kineske sa britanskom praksom poslovanja. Poslednji deo rada je posvećen dokazivanju pretpostavke da je usled mešanja ova dva sistema poslovanja i dve poslovne kulture, došlo do stvaranja nove poslovne kulture, koja ima karakteristike kako kineske tako i britanske poslovne kulture.

Ključne reči: Hong Kong, Istočna i Zapadna tradicija, ekonomija, menadžment praksa, poslovna kultura.

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