

PEACE AND DEVELOPMENT FORUM (CHINA) 2002

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**Economic Globalisation and the interaction and cooperation
Between China and Hong Kong's SMEs**

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Good afternoon, Ladies and Gentlemen,

It is my pleasure and honour to participate in this meaningful and significant Forum and I am most grateful to the organizers to provide me with the opportunity to share my thoughts on the captioned topic with you this afternoon.

It would be appropriate at this juncture to quote from two of the 'gurus' of management theories, Bradenburger and Nalebuff, professors of business administration at Harvard and the Yale School of Management respectively, as follows:

'Business is cooperation when it comes to creating a pie and competition when it comes to dividing it up.. In other words, business is War and Peace. But it's not Tolstoy – endless cycles of war followed by peace followed by war. It's simultaneously war and peace.....Business isn't about just cooperation or competition, business is about 'co-opetition'...

For China and Hong Kong's SMEs, the message is clear. China and Hong Kong's SMEs should cooperate to create a bigger pie, and together, to compete, not with each other but as a team, in the global market.

We all know that China and Hong Kong's SMEs make up the main bulk of the economic sector, and that individually, they are not competitive at all. They lack resources, both financial and human. They lag behind in technology and know-how, do not have sufficient access to financial assistance. Many of the SMEs have to operate in a restrictive regulatory regime which does not facilitate equal opportunities for big and small enterprises.

But most, if not all, business giants, such as Sony or Microsoft, started as small businesses. If they could make it, why can't we?

In the next 10 minutes or so, I would like to highlight some of the main challenges confronting businesses in the 21st Century and discuss some of the ways China and Hong Kong's SMEs could co-operate to overcome such challenges.

Economic Globalization

Whether we like it or not, and no matter whether we are prepared or not, China's accession into the WTO has made all Chinese enterprises a world player.

Interdependence becomes the rule of the game. U.S. economic slowdown means a lessened momentum to invest in China. A stronger Euro would trim

the profit margin for exports to Europe. The Chinese economy is no longer insulated from international economic fluctuations.

Despite market integration and convergence, the global market remains differentiated. Take for instance, the Hong Kong and Shanghai Bank, ('HSBC'), the one time local bank of Hong Kong has emerged to be the number 1 bank of Europe and number 3 bank of the world. It calls itself 'the world's local bank'. Perhaps one key factor of its success, among many others, is the bank's profound understanding of the difference of different markets. "The British are not Chinese and the Israelis are not Arabic".

The lesson for China and Hong Kong's SMEs seems to be: Hong Kong is not Shanghai and Beijing is not Kunming. The difference makes room for extensive cooperation: if all players of a football team are goalkeepers, there will be no scores. Different players performing different roles which they are best at make a winning team.

The challenge is for China and Hong Kong's SMEs to formulate ways of cooperation whereby each of them play a role which they are best at.

Hong Kong is the world's freest economy. Under the One Country Two Systems principle, it will remain a capitalist economy at least for the next half century. It is China's most internationalized city. It is a developed, predominantly service economy. It boasts a world class financial services and professional services sector. It is at the heart of Asia, and embraces one of the world's best harbour and international airport.

In Hong Kong, there are more than 100,000 trading companies with cumulated experience in international trade, and an extensive international marketing network.

Despite recent economic setbacks, Hong Kong has a vibrant and dynamic population, mostly bilingual in English and Chinese, who are conversant with international business protocols and best practice.

Why shouldn't China's SMEs team up with Hong Kong's SME to formulate a joint global marketing strategy, such as selecting distribution channels, establishing brand identity, and formulating products design to cope with consumer preferences?

I also suggest Mainland SMEs to make good use of Hong Kong as a platform to access to international financial and capital market, and to deploy Hong Kong's massive professional service providers, such as lawyers and accountants, to help their compliance and convergence with international business protocols and best practice, such as corporate governance issues, resolution of disputes, drafting and negotiation of contracts, and even protection of intellectual property rights. These are but a few examples of how Hong Kong can become a service centre for mainland's SMEs.

The Technology and Innovation Challenge

Hong Kong's SMEs lags behind in technology and R & D. In the long run, this will encroach Hong Kong's competitiveness and indeed threatens the very

survival of Hong Kong's SMEs in the global marketplace.

The mainland, on the other hand, has a pool of enterprises producing excellent products but do not know how to market them. There are numerous technological start-ups with enormous potential but do not know the means of growth.

Both Hong Kong and Mainland SMEs will benefit if they join hands in marketing the products or commercializing the fruits of R & D. Hong Kong can become the assembling centre for the different parts produced in Mainland China and worldwide. Together, Hong Kong and Mainland SMEs can devise a global structure whereby sourcing and distribution of products are designed on a global basis with the prospective of moving products from manufacturing centres to final assembly points to ultimate markets as quickly and as efficiently as possible. For example, the manufacturing centres may be in Wuhan or Dongguan, the assembly points may be in Shenzhen or Hong Kong where the finished products are moved to the markets in Europe or US via Hong Kong's excellent logistic infrastructure.

The above are just some thoughts on the vast scope of 'coopetition' between Hong Kong and Mainland SMEs. I welcome comments from the floor and look forward to any feedback on the aforesaid.

Thank you.