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From an industrializing city to a global city

Hong Kong economic sociology's changing agenda

Tai-lok Lui

Economic sociology in Hong Kong is largely an outcome of growing research on its vibrant economic life since the 1960s. As a British colony (prior to July 1, 1997) with a predominantly Chinese population and undergoing export-oriented industrialization at a rapid pace, Hong Kong attracted the attention of social science researchers, both local and overseas. After the 1949 Revolution, when fieldwork in China became no longer feasible, some anthropologists simply saw Hong Kong (and Taiwan as well) as a substitute for their original fieldtrip destination (Baker 2007, 4). Sociologists, however, did not approach their research site in the same manner. But in the eyes of those sociologists whose conceptual framework was informed by modernization theory, Hong Kong was a Chinese society going through industrialization and modernization (and sometimes using the expression *westernization*), offering a “laboratory” for analyzing the impacts of social change on a so-called traditional society. Meanwhile, there were also researchers with a labor studies background who considered Hong Kong’s success in exporting its man-

ufacturing products to be a result of low wages and poor labor protection. So, in the early days of the development of economic sociology-related research in Hong Kong, it was a blending of sociology, human geography, and labor studies. Researchers, despite differences in their academic disciplines and each thus starting with a different set of research questions, came to unravel the socioeconomic and cultural dynamics underlying Hong Kong’s rapidly changing economic structure, institutions, and organizations.

The industrial colony

One of the economic phenomena that caught researchers’ attention was the dynamism of what nowadays we would call the informal economy. McGee’s monograph entitled *Hawkers in Hong Kong: A Study of Planning and Policy in a Third World City* (1973) was an attempt to examine the socioeconomic conditions supporting the persistence of street trading in a developing economy, namely Hong Kong, and the implications of this phenomenon for urban planning and government policy-making. Hawkers’ business was analyzed in the light of a framework of the two circuits of the urban economy in underdeveloped countries. Mainly based upon surveys of hawkers and their customers conducted in 1969, McGee argued that the persistence of hawking was due to “a structural rigidity in the lower circuit distributive sector,” and at the same time the upper circuit units were slow to replace services delivered by (both legal and illegal) street trade (McGee 1973, 174). Indeed, street trading offered informal work opportunities to ordinary people for moonlighting (as a second job after normal work hours) and/or petty entrepreneurship. When Hong Kong’s economy was hit by the world recession trig-

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gered by the oil crisis in the 1970s, the colonial government set up designated “permitted areas” to provide unemployed workers an opportunity to earn a living by street trading. Hawking was seen as a “safety valve” for coping with the pressure created by economic downturn. At a time when social welfare provisions and labor protection were minimal under colonial rule, street trading was a kind of work strategy that many working people found practicable.

Ambiguity and flexibility are two of many main features of the informal economy. In the course of Hong Kong's industrialization, factories in domestic premises (FID), i.e., manufacturing production illegally carried out in residential buildings, made significant contributions to production and employment. Very often they were small family businesses assuming the role of subcontractor for larger manufacturing establishments and/or import-export houses. Drawing upon data of the official 1971 manufacturing census and his own survey conducted in 1975, Sit (1983) analyzed the major characteristics of such FID. He asked the question from a geographical perspective and discussed the location of FID and the implications for urban land use. In the monograph, FID was perceived as a problem in at least two respects: "(1) infringement of the lease conditions of the buildings concerned and (2) the adverse environmental effects and hazards for health and safety involved in operating a factory in non-industrial buildings, especially in mainly residential buildings." (Sit 1983, 148). In his other writings on small factories, Sit was more ready to recognize the other aspects of small industries (Sit 1982; Sit, Wong, and Kiang 1979; Sit and Wong 1989), particularly their vigor and dynamism, as well as their contributions to industrial growth and development in Hong Kong. Human geographers (see, for example, Dwyer and Lai 1967) took the lead in probing the special features of Hong Kong's industrial development driven by small manufacturing establishments.

In hindsight, we understand the importance of small factories' dynamism, flexibility, and adaptability to Hong Kong's success in its export-oriented industrialization. However, in the 1970s, when bureaucratization (in terms of organizational hierarchy and well-defined division of labor) was taken as a benchmark for measuring modernization and rationalization, some researchers were still hesitant to fully recognize what these small, family-run, unstructured subcontractors could have achieved (King and Man 1979). It took some time for them to realize that what were once perceived as hurdles to modern management (e.g., traditionalism, paternalism, informality, etc.) could well be the key ingredients of the success of contemporary Chinese business (not only in Hong Kong but in Taiwan as well).¹

Meanwhile, England and Rear (1975) offered a survey of the conditions of employment and industrial relations under colonial rule. The Employment Ordinance was passed in 1968, after the riots (which were political spillovers from Mainland China during the Cultural Revolution) in 1967. Despite more systematic efforts in improving labor conditions, the protection of employees was largely nominal.² England further developed his criticism in a Fabian pamphlet entitled

Hong Kong: Britain's Responsibility (1976). This attracted the attention of trade unions and the Labour Party in Britain and helped exert pressure on the Foreign Office as well as the colonial government in Hong Kong (Lui 2017). New measures (e.g., the number of holidays was increased) were introduced to improve employment conditions. But the competitiveness of Hong Kong's industries did not entirely rest upon sweatshop conditions. Increasingly, it was recognized that industrializing economies in East Asia had other competitive advantages as well.

One of the four little dragons

The rise of Japan and high economic performance by the so-called four little dragons (Hong Kong, Singapore, South Korea, and Taiwan) changed the perspective and agenda of sociological research on economic life in Hong Kong. First, there was the more general question concerning if capitalism could grow in China (or more precisely, Chinese societies). This was what some had called the "Weberian question": Could the spirit of capitalism take root in Chinese societies? This discussion took place at a time when economic growth in Hong Kong, Singapore, and Taiwan was phenomenal and China had just stepped out of the Cultural Revolution and began its economic reform. Wong (1986) and Redding (1990) provided their answers to the question, and showed how Chinese entrepreneurship could well be an important driving force for economic development in East Asia.

Second, contemporary Chinese business was capable of breaking into the league of the world's top corporations. Rich Chinese business leaders were no longer merely successful intermediaries in global Chinese trading networks. Rather, their footprints were transnational. Wong (1988) analyzed Shanghainese entrepreneurs who emigrated to Hong Kong before and after the 1949 Revolution and explained how familism not only facilitated entrepreneurship but also promoted investment in the second generation's human capital and managerial skills for running the family business rationally and effectively. He examined the various stages of the developmental cycle of the Chinese family firm and explained both the potentials and challenges encountered by Chinese business (Wong 1985). It was also observed that there were necessarily tensions in Chinese business organization and practice. On the one hand, there was a strong desire to start one's own business, and thus competent managers and senior staff were likely to leave the companies they worked for at some stage of their career. On the other, these managers' departure was not necessarily a break in the cooperative relationship; rather, they con-

tinued to collaborate with their former employer via a subcontracting partnership built upon long-established mutual trust (Wong 1988). Trust came to constitute an important component of the success of contemporary Chinese business.

The success stories of the four little dragons also alerted many researchers to the significance of the effects of the changing world economy on developing economies. The rising economies in East Asia indicated how developing economies might well be able to struggle out of dependency and rise to more strategic positions in the hierarchy of the world economy. Henderson (1989) looked at the electronics industry and analyzed how Hong Kong became a regional core under the new international division of labor. So (1985) drew on the insights of world system theory and reinterpreted the experience of Hong Kong's economic success. The introduction of a political economy approach to an analysis of Hong Kong's rising status in global production in the 1980s opened up new research questions (e.g., the changing context of the world economy and the role of the state) for further unraveling the connections between the macro context, institutional setting, and organizational dynamics in shaping the course of industrial development.

Economic restructuring

Lui (1994) conducted his survey of factory management and intensive interviews with women outworkers in the mid-1980s. It was a time when Hong Kong's manufacturing was short of labor and it was still too early for most of the manufacturers to think seriously about relocating their production across the border to the Pearl River Delta in south China. His research focused on industrial outwork as a form of flexible and informal work arrangement in modern manufacturing production, and his discussion pointed to the significance of a flexible production system (including subcontracting, part-time work, and internal contracting) to the success of Hong Kong's industries in responding to a volatile world market for its exports and growing competition from other developing economies. This research on industrial outwork reconnected the research interests of the 1970s in the informal economy (in addition to references cited in the earlier section, see also Sit and Ng 1980) with a newer agenda of the 1980s on the macro backdrop of Hong Kong manufacturing's positioning in a changing world economy (i.e., its role in the new international division of labor). This also allowed for a dialogue between Hong Kong's local studies and a growing literature in economic sociology on embeddedness, flexible production, and interorganizational networks. But by the

late 1980s it was evident that Hong Kong manufacturers had started to adopt the strategy of relocation and not to look for means to enhance production sophistication (either through technological upgrading or organizational restructuring). The massive relocation of manufacturing production from the late 1980s onwards changed the ecology of Hong Kong industries.

Sit (1991; Sit and Yang 1997) saw this growing trend of relocation by Hong Kong manufacturers in search of a production base with lower labor and production costs. This opened a whole new chapter for Hong Kong manufacturing – a new regional division of labor was in the process of formation, with Hong Kong assuming the role of “front shop” and the Pearl River Delta the “back factory.” Such a new division of labor enabled Hong Kong to shift towards a service economy with a focus on producer services (Tao and Wong 2002). While some greeted such changes with an optimistic note (Enright, Scott, and Dodwell 1997), others warned against complacency and indicated the need for continued upgrading (Berger and Lester 1997). Chiu, Ho, and Lui (1997) looked at such changes from a comparative perspective. By comparing Hong Kong and Singapore, they analyzed how both cities, starting from a similar background of being British colonial cities with a focus on trade and commerce, took rather different pathways in their processes of industrialization. Here the authors engaged with debates in the 1990s about differences among the four little dragons.

More importantly, based on Chiu's earlier study of state formation (Chiu 1996), it was suggested that the role played by the state in Hong Kong and Singapore was very different. It was not about the Hong Kong government practicing positive non-intervention or otherwise (for a critique, see Schiffer 1991); rather, it was a question about it being selectively interventionist (e.g., it was always responsive to crisis in the financial sector). However, in the area of manufacturing, the colonial state kept its distance from actively providing supportive policy to industries. Chiu and Lui (1995) characterized Hong Kong as unorganized industrialism, as its manufacturers were not assisted by the government in the pursuit of technological upgrading, nor did they find the well-developed banking sector particularly helpful in offering credit for longer-term investment. Most of the small, local, export-oriented manufacturers were left on their own to face challenges arising from growing competition and fluctuations in global demand. Despite repeated signals calling for technological upgrading and the move toward higher value-added processes, Hong Kong manufacturers fell back into their organizational inertia and continued to conduct labor-intensive production (also see Yeung 2000).³ So, even when Mainland

China opened its door and allowed Hong Kong manufacturers to develop a new production base across the border, the manufacturers expanded their scale of production without capitalizing on such an opportunity to upgrade their technology. Nor had many of them seriously pursued original brand production. When the Guangdong province subsequently enforced industrial upgrading, Hong Kong investors were caught in a difficult situation and many of them had to continue to relocate to countries that would help them to keep their production costs low (e.g., Cambodia, Myanmar, etc.). When Shenzhen emerged as a new center of innovation in China in the past decade, Hong Kong manufacturers' role in the process was marginal.

The colonial state's *laissez-faire* stance did not only limit the manufacturing industry's incentive to upgrade their technology, it also constrained the growth of some risk and money management markets. Puzzled by why life insurance was less popular in Hong Kong compared to Taiwan despite Hong Kong's much higher GDP per capita and meager social welfare, Chan (2012) compared the development of life insurance markets in Hong Kong and Taiwan. She found that the relative underdevelopment of the life insurance industry in Hong Kong was mainly due to the colonial state's indifference to local insurers, who were unable to compete with well-established foreign insurers. While local insurers dominated the market in Taiwan thanks to protectionism, foreign insurers dominated Hong Kong thanks to the *laissez-faire* policy. Although all insurers in both societies faced the same cultural resistance to accepting life insurance as risk management, the foreign insurers in both places were less willing to design products accommodating local preferences. The domination of foreign players in Hong Kong consequently resulted in a much smaller market because the products they offered were less localized.

Nonetheless, manufacturers' failure in seeking organizational and technological upgrading and the colonial government's lack of support for local financial players had not stopped Hong Kong from becoming an international financial center and a global city. Its present status as an international financial center was an outcome of a long historical process (Meyer 2000). And geopolitics had its role in shaping Hong Kong's financial services (Schenk 2001). Chiu and Lui (2009) probed further and examined Hong Kong's position in the light of the existing literature on global cities. Growing income inequalities were noted. More

importantly, warnings were issued about the impacts of the rise of China on its future development. Growing regional integration did quietly reorientate Hong Kong towards a reliance on China for demand for its services (ranging from IPOs of Chinese corporations in Hong Kong's equity market to inbound tourism).

There are a lot of questions about Hong Kong's changing functions as an international financial center and a global city. Lai (2012) interviewed financial and regulatory actors in Hong Kong, Shanghai, and Beijing, and argued that these cities were interconnected, with each of them performing a different function. How Hong Kong continued to develop as a financial center and a global city would be determined by the services it could deliver to China and the wider regional and international networks.

Concluding remarks

Economic sociology in Hong Kong evolved as the economy and its activities went through different phases and different paths of development. It does not really have an established paradigm. Nor is there a leading approach or framework that directs researchers' attention to certain theoretical and empirical issues. Researchers tried to respond to the changing economic environment by making sense of what was happening in the economy, its institutions and organizations, and among the people involved. Every now and then, they turn a new page and open a new chapter.

Endnotes

- 1 Given the short length of this article, we are unable to discuss the relevance of Taiwan sociologists' research to the development of economic sociology in Hong Kong. Academic exchanges between Taiwan (mainly from Tunghai University and led by Kao Cheng-shu) and Hong Kong sociologists set the research agenda in the 1990s. Kao led a team of researchers from Tunghai University to conduct numerous case studies and covered companies in both Taiwan and Hong Kong.
- 2 Researchers informed of Marxist theory examined labor discipline and management of small factories from the perspective of labor control and dependent development (see Djao 1978).
- 3 The process of deindustrialization had wider social repercussions. Labor market adjustment was one of the challenges. Echoing the literature of labor studies in the 1970s, Chiu and Levin (1993) examined workers' conditions under industrial restructuring.

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