Bringing entrepreneurship back in

Explaining the industrial dynamics of Hong Kong with special reference to the textile and garment industry

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Abstract: Applies Kirzner’s concept of entrepreneurship to explain the economic success of Hong Kong. The city economy possesses neither natural resources, nor sophisticated technologies, and yet it has successfully developed into one of the most prosperous economies in East Asia. This study argues that Hong Kong’s industrial dynamism relies mainly on a large number of adaptive entrepreneurs who are constantly alert to opportunities, maintain a high degree of flexibility in their production and respond rapidly to change. In the textile and garment industry, firms survived by pursuing a product imitation strategy, operating at a small scale, extensively utilizing subcontracting networks, producing customer label garments as well as performing spatial arbitrageurship. Employing these adaptive entrepreneurial strategies, Hong Kong manufacturers have learnt from foreign firms and imitated their products. By selling improved commodities at lower prices, they have competed against the original suppliers from the western advanced countries. Furthermore, to exploit new profit opportunities, Hong Kong’s entrepreneurs have shifted their production activities from one product to another, from one industry to another, from higher cost to lower cost regions, from traditional fishing and agriculture into manufacturing, and then to finance and other services. Their efforts have brought about structural transformation in the economy and enabled Hong Kong to catch up with early industrialized nations.

The puzzle

When Hong Kong was ceded to the British in 1842, it was only a “barren island with hardly a house upon it” (Chan, 1991, p.21). The colony in 1951 was described by a visiting American journalist as a “dying city” (Ho, 1992, p. 5). However, after a period of rapid post-war industrialization, by 1971, the per capita income of the economy had already reached HK $6,096, placing it second behind Japan in East Asia (Riedel, 1974, p. 11). Since the early 1970s it has been further emerging as a major financial centre in the Asia-Pacific region. Between 1987-1991, the city was still growing in real terms at an average rate of 6.5 per cent (Chau, 1993, p. 31). By 1992, GDP reached HK $742,582 million. After more than three decades of rapid growth, it has emerged as one of the richest economies in Asia (Chau, 1993, p. 1)[1]. This miraculous performance has aroused development economists to search for an explanation. In particular, regarding the success of the textile and garment industry, they asked a famous
economic question: “Why the emperor’s new clothes are not made in Colombia but are being made in Hong Kong” (Morawetz, 1981; Hicks, 1989)[2].

Most studies, such as Riedel (1974), Chen (1979; 1984) and Ho (1982) employed mainstream neoclassical theories which largely ignore entrepreneurship to answer the question[3]. This paper interprets Hong Kong’s “miracle” from an entrepreneurial perspective. Using the textile and garment industry as illustration, it argues that the dynamics of Hong Kong’s manufacturing industry is attributable to a large number of entrepreneurs who are alert to opportunities and exploit narrow profit margins. Moreover, their efforts have brought structural change and growth to the economy. Instead of drawing on Schumpeter’s theory of entrepreneurship to explain the East Asian “miracle”, as some economists did, this study utilizes Kirzner’s insights, namely entrepreneurial alertness and arbitrageurship.

Kirzner’s theory of entrepreneurship: alertness and arbitrageurship

In the mainstream neoclassical paradigm, entrepreneurship has no role to play. Challenging the neoclassical orthodoxy, the Austrian school of economists, represented by Mises (1949), Hayek (1978) and Kirzner (1973; 1982; 1985), places entrepreneurship at the centre of economic analysis. Building on Weber-Mises’ action theory, Kirzner (1973, p. 33) noted that “Mises’ homo agens … is endowed not only with the propensity to pursue goals efficiently, once ends and means are clearly identified, but also with the drive and alertness needed to identify which ends to strive for and which means are available”. For Kirzner, the entire role of entrepreneurs lies in their alertness to hitherto unnoticed opportunities. In the market, the opportunity that human agents are alert to is monetary profit. They proceed by their alertness to discover and exploit situations in which they are able to sell for high prices that which they can buy for low prices. Alertness implies that the actor possesses a superior perception of economic opportunity. It is like an “antennae that permits recognition of gaps in the market that give little outward sign” (Gilad et al., 1988, p. 483).

In Kirzner’s view, alertness to profit opportunity implies arbitrage activities[4]. Given disequilibrium in the market owing to incomplete knowledge, profit opportunities exist. Entrepreneurs, with their superior ability of reading the data, exploit these opportunities and eliminate errors. As a result of their efforts, the economy moves toward equilibrium (Kirzner 1973)[5].

In economic development, entrepreneurship consists of the social integration of the innumerable scraps of existing information that are present in scattered form throughout society. More importantly, Kirzner (1985, p. 162) emphasised that:

The same entrepreneurial spirit that stimulates the discovery in the market of the value of information now existing throughout the market also tends to stimulate the discovery or creation of entirely new information concerning ways to anticipate or to satisfy consumer preferences. The entrepreneurial process at this second level is what drives the capitalist system toward higher and higher standards of achievement.
Extending Kirzner’s insights to the catching up process, Cheah (1992, p. 466) contended that entrepreneurs in latecomer economies “increase knowledge about the situation, reduce the general level of uncertainty over time and promote market processes which help to reduce or to eliminate the gap between leaders and followers”. For Cheah, these entrepreneurial activities include “arbitrage, speculation, risk taking, adaptive innovation, imitation as well as planning and management efforts in response to market signals”. In this sense, Kirzner’s mode of entrepreneurship broadly encompasses the functions of a gap filler or routine entrepreneurship (Leibenstein 1968, pp. 72-83), and imitative entrepreneurship (Baumol, 1988, pp. 85-94). In this study, all these activities are referred to as adaptive entrepreneurship[6]. In the following sections, the industrial dynamics of Hong Kong will be explained by the concept of adaptive entrepreneurship based on small-scale enterprise, subcontracting, product imitation and spatial arbitrage.

Hong Kong’s textile and garment industry

The textile and garment industry has been a major manufacturing industry in Hong Kong. In 1991, its gross output amounted to HK$117,248 million, approximately 36 per cent of Hong Kong’s manufacturing output (Hong Kong Government Industry Department, 1993, p. 26). In 1992, it contributed to more than 40 per cent of the economy’s exports. The spinning and weaving activities are the oldest textile industries in Hong Kong. In the late 1940s, a group of Shanghai entrepreneurs migrated to Hong Kong and started the first spinning mill in the colony. In the early 1950s, the industry witnessed dramatic growth. It accounted for some 30 per cent of both the total manufacturing establishments and employment in Hong Kong (Ho, 1992, p. 165). Subsequently, the industry expanded steadily. The number of spindles increased from 490,000 in 1960 to 833,100 in 1979, while the number of looms grew from 17,000 to 31,876 over the same period (Cheng, 1982, p. 146). However, the industry in the last decade was significantly smaller in relative terms than it was in the 1950s. In 1988, it accounted for only 7 per cent of the total number of manufacturing establishments and less than 9 per cent of the total manufacturing employment (Ho, 1992, p. 166). Its share in Hong Kong’s domestic exports declined considerably from a peak of over 19 per cent in 1960 to about 7 per cent in 1992. By 1991, it accounted for less than 10 per cent of the total gross manufacturing output (Yu, 1995, p. 119).

Garment production

Since the early 1960s the garment industry has overtaken the textile industry to become the largest foreign exchange earner and employer in the manufacturing sector. It grew in relative terms from 2.8 per cent of the total number of manufacturing establishments and 2.4 per cent of the total manufacturing employment in 1950 to 20 per cent and 34 per cent respectively in 1988. By 1991, it accounted for nearly 26 per cent of the economy’s manufacturing output. To meet ever-changing overseas demands, its rapid expansion during the 1960s and the 1970s was accompanied by a steady move towards product

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diversification and sophistication. In 1975, Hong Kong replaced Italy as the world’s leading exporter of garments in terms of both quantity and value (Cheng, 1982, p. 147; Ho, 1992, p. 170). By 1992, it contributed to 33 per cent of the total export value of Hong Kong (Yu, 1995, p. 121).

**Adaptive entrepreneurship and the dynamics of small-scale enterprise**

One form of adaptive entrepreneurship in Hong Kong’s manufacturing industry is manifested in the small-scale enterprise. Specifically, the textile and garment industry had been dominated by small and medium firms. Sit and Wong (1989, p. 29) reported that in 1985, 88 per cent of the textile factories and 84 per cent of the garment firms were small (fewer than 50 workers) or medium (fewer than 500 workers). They had contributed to the strength of the industry as providers of a variety of fashion products, and responded quickly to constant shifts in market demands (Hong Kong Government Industry Department, 1991, p. 40).

Certain production, such as woven garments, involve a series of processes that are labour-intensive. The small garment firms in Hong Kong, which did not possess any automated equipment, fitted into this kind of production and were able to provide a wide range of styles at lower costs (Economic Reporter, 1988, p. 5).

For small firms, efficient communication and quick response to external change can be possible. The industry had been able to produce small quantities of high quality garments on short notice (Hong Kong Government Industry Department, 1991, p. 39). They were ready to adjust their production according to changing requirements of international markets. A survey of manufacturing industry (Yu, 1995, p. 154) revealed that, in 1994, nearly 86 per cent of the textile and garment firms changed product designs in the last 12 months while 3 per cent of the firms also changed product lines. Only 8 per cent of the respondents remained with the same product lines and designs.

To maintain such competitive edges, manufacturers in the industry tended not to expand their production capacities and avoided long-term commitments. In making an investment, most of the textile and garment firms expected a payback period of less than five years (Yu, 1995, p. 154).

Ho (1992, p. 119) noted that “the economy in Hong Kong is extremely vulnerable to fluctuations in the world market. To survive, Hong Kong firms, large or small alike, must be ready to move into new lines, to vary their production plans and even to switch technologies at short notice. There is no room for inertia”. Only by grasping new opportunities and making decisions quickly can small firms in Hong Kong continue to survive. In this respect, they can be regarded as a vehicle for flexible adjustment. Referring to this feature as guerrilla capitalism, Lam and Lee (1992, p. 109) remarked that Chinese small and medium family-owned firms succeed by exploiting market opportunities using the strategy of a guerrilla force: seek out an opportunity for high profit margins in particular goods, develop a formula, exploit it by rapidly flooding the market before the established firms can respond, make profits over the short
term, and then leave the market for another before competition forces the prices down to the point where they are no longer profitable without large-scale investments in technology or infrastructure.

**Product imitation and technology adoption**

**Product imitation**

Imitation had been a short cut to the success of the textile and garment firms. These firms did not aim at creating new fashions. Instead, they focused on garments which consumers demand most. Yu's survey (1995, pp. 154-5) revealed that 88 per cent of the manufacturers imitated and supplied similar garments which had already appeared in the market while only 8 per cent of them attempted to make unique and novel products. Many of them simply copied exactly from other manufacturers.

The case of Goldlion (Far East) Co. Ltd serves to illustrate the imitative strategy. Founded by Mr Tsang Hin-Chi, Goldlion Co. had been principally engaged in the production and the marketing of men's apparel such as neckties and shirts. Tsang attributed the success of his company to the strategy of “borrowing ideas from overseas”, which is widely adopted by Hong Kong’s manufacturers. He implemented this imitative strategy through his “four quick principles”, namely:

1. quick design;
2. quick sampling;
3. quick production; and
4. quick marketing.

Specifically in the necktie market, France and Italy possess many first-class designers and supply world markets with ties of new designs and styles. Goldlion sent its staff overseas and adopted these new designs by paying licence fees. In the Hong Kong factory, the new designs were rapidly modified into Goldlion's products and then put into mass production. In this way, Goldlion could guarantee a quick supply of new styles. Hence Tsang's “four quick operations” enabled his company to catch up with world fashions.

Apart from manufacturing, Goldlion also replicated selling and marketing methods. Tsang adopted the idea of counter sales from some famous foreign brands operating in Hong Kong and established “the Goldlion counters”. The Goldlion counters were counters selling Goldlion's products within department stores. They had a standard design and layout, in accordance with the company’s specification. All the counters were managed by the company's uniformed sales staff. The company was responsible for the decoration, fitting out and management of the counters, while the department stores provided the floor area, which ranged from 200 sq. ft to 600 sq. ft for each counter. The revenue derived from such counters was shared between the company and the department stores on a predetermined basis but the department stores were guaranteed a minimum payment by the company. The company also established an extensive regional distribution network in mainland China, Taiwan, Indonesia, Singapore, Malaysia and Thailand.
Technology adoption

Hong Kong manufacturing firms are, in general, late adopters of technology. A manpower survey in the 1960s, conducted by the Hong Kong Training Council, revealed that the textile and garment industry largely employed low-skilled workers (Lin and Tuan, 1988, p. 174). In 1967, the textile industry employed more than 85,000 persons; approximately 84 per cent of the workers employed were operatives or unskilled. None of them were in the category of technologist. This situation persisted in the 1970s and the 1980s, though, over time, it showed a slight improvement in the skill level of the workforce. In the garment industry, even a higher proportion of employees were unskilled. Of the 114,189 workers engaged in garment production in 1969, none of them was in the category of technologists. Only 7 per cent of the workers were technicians and craftsmen. The rest (93 per cent) were unskilled workers. In 1985, the situation slightly improved. However, 87 per cent of the workers in the industry were still unskilled. Similarly, a survey in 1989 revealed that most textile and garment firms, large or small, still used outdated equipment and procedures. Many techniques depended on manual labour (Hong Kong Economic Survey Ltd, 1989, p. 215).

Innovation in the textile and garment production through R&D was seldom undertaken in Hong Kong and the manufacturers were rarely interested in them (Hong Kong Economic Survey Ltd, 1989, p. 217). A survey by the Hong Kong Industry Department and the Census and Statistics Department (1991, p. 86) revealed that only 12 per cent of the textile firms and 14 per cent of the garment firms carried out R&D more regularly. Moreover, the larger firms did not necessarily conduct R&D more regularly than the smaller firms. In particular, only 9 per cent of the garment firms with more than 100 workers carried out R&D regularly, compared with 13 per cent for the firms employing between 1 and 19 workers.

The textile and garment firms were aware of new manufacturing advances such as etching for printing, colour control systems for mixing dyes, optical/pressure sensors for inspection of material, but they neither developed nor used them. Often, new technology was rejected because of the perceived high costs. The industry did not have experience in innovation at the design, processing, or production stages of manufacturing (Hong Kong Economic Survey Ltd, 1989, p. 215).

The firms depended on industry trade shows, parent companies and trading partners for technology transfer. The users of the most current technology were usually subsidiaries of foreign companies or joint-ventures that received modest transfers of skills and technology from parent companies. For example, software for pattern development was used by larger companies. Small and medium-size companies were not prepared to buy these state-of-art products (Hong Kong Economic Survey Ltd, 1989, p. 217). In short, Hong Kong has been viewed by partners as a low-cost producer, not an innovator (Hong Kong Economic Survey Ltd, 1989, pp. 215-17)[9].
Subcontracting
Subcontracting was extensively practised in Hong Kong’s textile and garment industry. After receiving orders from local trading firms, or directly from overseas buyers, many manufacturers subcontracted parts of production processes to other factories. A survey of small and medium enterprises by Sit and Wong (1989, p. 181) revealed that approximately 28 per cent of the garment firms and 21 per cent of the textile firms subcontracted certain production processes to local factories. Labour shortage, insufficient capacity and rush orders were major reasons for them to use subcontracting.

Furthermore, the firms obtained contracts from not only one but several firms. Sit and Wong’s (1989, p. 181-8) survey reported that only 7.7 per cent of the textile firms and 4.3 per cent of the garment firms had only one contractor. The method of contracting revealed a high degree of flexibility. In the same survey, about 36 per cent of the small and medium manufacturing firms let the contractors decide the price. The contract had to be completed in a very short time and the manufacturers could not afford to spend time in negotiations. Many business contracts were only oral agreements. Only 35 per cent of the firms in the survey replied that their business contracts were made in the form of written documents. However, a breach of contract was rare. Quick delivery was the major concern for both parties.

The extent of subcontracting is illustrated by the case of Tak Sun Alliance Co. To enhance competitiveness, increase its production capacity and circumvent quota restrictions, the company, in the 1980s, subcontracted the production of certain ranges of garments to other independent manufacturers. Own-label garments were manufactured by the company as well as by 28 independent manufacturers overseas to the company’s specifications for sale in the USA and Europe. Own-label garments manufactured for the company by independent manufacturers represented approximately 76 per cent of the total value of own-label garments sold. No single one of these manufacturers accounted for more than 11 per cent of such external contracting. According to Ma Kai-Tak, the owner of Tak Sun Alliance Co, the policy of subcontracting with independent manufacturers allowed for greater flexibility in pricing and delivery times, reduced fixed overheads, reduced the impact of seasonal sales fluctuations and helped to alleviate stringent quota restrictions on goods produced in Hong Kong for import to the USA.

Through its subsidiaries in the USA, the company subcontracted with independent manufacturers in Latin America, the Caribbean, Asia and the USA for the supply of own-label garments for sale in the US market. Conversely, through its subsidiaries in Europe, the company subcontracted with independent manufacturers in Europe and Asia for the supply of own-label garments to the European markets.

For own-label garments sold in Hong Kong and other parts of Asia, the company subcontracted with independent manufacturers in Hong Kong and Thailand. In addition, all knitwear for sale as own-label garments was subcontracted to independent manufacturers as the company did not have
knitwear manufacturing facilities. In 1991, approximately 36 per cent, and 97 per cent in terms of value of own-label garments, distributed in the USA and Europe respectively, were sourced from independent manufacturers.

For certain production processes requiring facilities which the company did not own, such as label making, embroidery, washing and orders, or beyond the capacity of the company's own facilities which might occur during peak seasons, they were subcontracted out to independent manufacturers. In general, urgent orders, garments which were subject to strict customer requirements and fancy fashion wear were subcontracted in Hong Kong, while large volume orders for garments with simpler designs were subcontracted overseas. All the orders processed by the subcontractors were monitored by the company's senior staff (adopted from Yu, 1995, Appendix II, Case 4).

International subcontracting and customer-label garment supplier.

Many firms receive orders from foreign manufacturing or trading firms. In this international subcontracting, local manufacturers produce garments which bear the labels of the foreign firms. In other words, local firms produce customer-label garments (CLG). As customer-label garment suppliers, manufacturers produce whatever their customers demand and product designs are largely specified by foreign buyers. Under such arrangements, local firms do not need to establish their own labels, nor do they need to take care of marketing and promotion activities. Though some firms may have their own label, they do not promote them because rapid exploitation of profit margins is their concern. Furthermore, Yu's survey (1995, p. 166) indicated that the customer-label garment business contributed more to their economic success than the own-label garment business. However, firms may switch their strategies, depending on the changing environment. For example, Tsui Hang Hing Garment Factory Ltd had traditionally relied on the customer-label garment business. Although the company in the late 1980s was able to produce some good quality garments, it refused to promote its own label. According to Cheung Hang-Seng, the owner of the company, promoting own-label garments involved huge investment and high risk and therefore was not worthwhile. However, in 1991, the company changed its marketing strategy and promoted two of its labels, namely “Lava” and “VV” in mainland China. These products accounted for 15 per cent of the company's total production in 1994. Cheung gave two reasons for this change. First, people in mainland China generally considered “Hong Kong made” products as superior to their locally made goods. Second, with a huge market in China, the average cost of promoting a label there was much lower. Since 1991, his products have been sold in Beijing, Shanghai, Huhan and other major cities in China (adopted from Yu, 1995, Appendix II, Case 1).

Overall, we observe that subcontracting is an important entrepreneurial strategy in Hong Kong's textile and garment industry. Engaging in subcontracting and customer-label garment business, the textile and garment firms could maintain a high degree of flexibility, reduce costs, tackle seasonal impacts and receive the supply of parts or services which they are unable to produce.
Spatial arbitrageurship

The availability of abundant low-wage labour in the 1950s and 1960s was undoubtedly a major factor contributing to the dramatic growth of the textile and garment manufacturing in Hong Kong. However, many other developing economies with equally low labour costs as Hong Kong in the past did not develop as successfully as Hong Kong. In particular, Owen (1971, p. 150) noted that “the much favoured explanation of Hong Kong’s success – an abundance of cheap labour – is incomplete since this explanation fails to explain why other Asian countries with abundant supplies of labour fail to achieve Hong Kong’s rate of economic growth”. Furthermore, while low wages existed in the early period of Hong Kong’s industrialization, in recent years, this advantage has disappeared. In addition, Hong Kong today has extremely high rentals in the property market, having probably the second highest rate in Asia after Tokyo. Therefore, compared to other South-East Asian countries, Hong Kong at present does not possess a strong advantage. Conversely, China has an ample supply of cheap labour and land. Significant wage and rental differentials between Hong Kong and mainland China have attracted Hong Kong’s textile and garment manufacturers to relocate their production to mainland China. Led by Hong Kong companies, which now account for nearly 70 per cent of total foreign investment in China, the first wave of foreign investment was directed toward low-capital and labour-intensive projects, primarily in garment assembly for export.

Relocating production to mainland China was also a means to circumvent quota restriction. For example, in knitwear manufacturing, the process of panel-knitting was usually undertaken on the mainland. However, the linking and looping of panels into sweaters were carried out in Hong Kong, despite the fact that this latter stage was not particularly skilful or capital-intensive. As a result, the import of semi-manufactured garments (mostly knitted panels) from China to Hong Kong increased rapidly and this partly explained the rapid rise in the share of Chinese garments in Hong Kong’s retained imports (Sung, 1991, p. 110).

Latecomers’ learning and catching up

As mentioned, most local Chinese firms are small. They survived by being alert to opportunities, flexible and adaptable to the changing environment. Some enterprises have grown in size. Some have conducted joint ventures with foreign firms. Hong Kong producers have already discovered that they are able to obtain “know-how” from multinational corporations that have taken advantage of Asia’s low production costs (Engardio and Gross, 1992, p. 67). As multinationals from developed countries invested in the colony, local firms learnt foreign technologies and imitated their products.

It is accepted that Japanese producers were not only able to copy other nations’ products, but were able to change and perfect them in such a way that the replicated goods became typical Japanese models (Majumdar, 1982, p. 115). Ernst and O’Connor (1989, pp. 67-88) argued that the Asian newly industrialized economies (NIEs) at first supplied finished products to foreign firms. Later, they marketed the products under their own labels. Local suppliers started out with simple products and gradually worked their way up to more
sophisticated items. In the textile and garment industry, moving away from customer-label products toward own-label products is a form of catching up. This is illustrated by Tak Sun Alliance Co.

Tak Sun Alliance Co.
The company was traditionally involved in customer-label garments which were made only against confirmed orders. Though the manufacture of customer-label garments had its own advantages, its founder Ma Kai-Tak was well aware that in confining itself to this, the company was unduly exposed to the marketing ability of others. Ma wanted to reduce this exposure. Previous involvement in customer-label garment making provided Ma with sufficient technical knowledge in brand development. In 1977, the company created its own-label garments, “Cherry”, and distributed them in the USA. The resulting sales encouraged the company to distribute its own-label garments in The Netherlands. In 1991, approximately 90 per cent of the company’s products sold in the USA and 71 per cent of those sold in Europe were own-label garments. The own-label garments business contributed to nearly 70 per cent of the company’s total turnover. Moving away from customer-label garments to own-label garments reflected the improvement in the firm’s capability. Ma’s case also illustrates how firms in the Asian NIEs attempt to catch up with world fashions. In fact, Hong Kong garment manufacturers have moved up-market into fashion garments (Tan 1992, p. 143). They are now in the upper 30 per cent of the price range for garments on sale in the USA. Garments designed by Diane Freis, Judy Mann, Jenny Lewis, Ragence Lam, Eddie Lau and William Tang command a premium in world fashion markets. It was believed that local designs were as good as Japan’s and much better than the USA’s (Rafferty, 1991, pp. 179-80).

Diversification, structural change and economic growth
It has been observed that economic growth is accompanied by continual structural changes, beginning by moving away from agriculture to manufacturing and later from manufacturing to services[11]. What has surprised economists is the rapidity and magnitude of such shifts associated with the economic growth in Hong Kong (Chen, 1979, p. 28). This ceases to be a surprise if we understand how entrepreneurs in Hong Kong operate (Chau, 1993, p. 27). As a result of the arbitrage activities of the entrepreneurs, some production processes have been relocated to mainland China or other low-cost regions. Also, some resources have been shifted from the manufacturing sector to the real estate, service and financial sectors. Each profitable move made by the entrepreneurs denotes an increase in the value of resources. This is the essence of economic growth. The transformation is now discussed.

From manufacturing to trading: the case of Victory Garment Co.
Entrepreneurs are constantly alert to changing opportunities. Accordingly some manufacturing establishments have evolved into trading firms. For example, Victory Garment Factory, in 40 years of development, moved from one strategy to another (from private-label garments to customer-label garments),
from one region to another (from Hong Kong to Guangdong), and from one product to another (underwear, shirts, dresses). Its development path fully illustrates the adaptability and flexibility of Hong Kong's manufacturers. Currently, the company's office in Hong Kong has no actual manufacturing activities. It merely performs the functions of a headquarters, involved in sourcing, receiving orders, merchandising, etc. In the future, the company plans to expand its business by establishing retailing chains in Hong Kong. This method was successfully developed by another garment firm, Giordano (Far Eastern Economic Review, 1993, pp. 72-6; Barnathan 1994, pp. 38-9). In short, Victory Garment Co. is now a trading firm more than a manufacturing firm. The boundary between a secondary industry and a tertiary industry is increasingly blurred. The transformation of the company mirrors the structural change of the Hong Kong economy.

Diversification into the tertiary sector: the case of Tak Sun Alliance Co.
Garment production is a very labour-intensive business. As labour costs in Hong Kong are rising, profit margins from garment manufacturing are reducing. Aware of this, Ma Kai-Tak, the founder and the managing director of Tak Sun Alliance Co., diversified his investments into less labour-intensive businesses, namely trading, real estate, food and beverages, which are some of Hong Kong's major tertiary activities in the 1990s.

Through its subsidiary, the company engaged in trading a wide range of materials and apparel, including textiles, knitwear and finished garments. These materials and apparel were sourced from Hong Kong, China and South-East Asia for sale to Europe and South Africa. In 1991, trading accounted for approximately 3 per cent of the company's turnover. The company intended to expand its retail networks by setting up a more extensive retail chain and department store counters in major shopping areas. Ma considered Hong Kong as a stepping stone for expansion in other affluent Asian countries.

Ho (1992, p. 169) argued that most garment manufacturers in Hong Kong nowadays become property developers, transforming their factory sites into commercial complexes, or investing in real estate. Tak Sun Alliance Co. was no exception. Apart from the property occupied by the company, it had also held property investments which generated rental income. The portfolio of property investments comprised commercial properties located in Kowloon, with aggregate floor area of approximately 1,600 sq. ft. For the year ended 31 March 1991, the property investments generated approximately HK$344,000 of rental income for the company. Meanwhile, Ma intended to develop industrial and commercial properties in the high potential growth area in the Shenzhen Special Economic Zone in China.

The company had been involved in the food and beverage industry since 1985 and had invested in Ginza Development Company and Carrianna Chiu Chow Restaurant. Each of these companies owned directly or indirectly one of the well-known Carrianna Restaurants in Hong Kong. The restaurants were located in prime areas of Wanchai and Tsim Sha Tsui and specialized in
Chiu Chow cuisine. In 1991, the two restaurants contributed to approximately 5 per cent of the company’s total profits. Ma planned to open more Chiu Chow restaurants in Hong Kong, China and the South-East Asian countries where Chiu Chow cuisine was popular.

As a result of the shifts in entrepreneurial activities towards the tertiary sector, Hong Kong was transformed from a low-wage, industrializing economy to a high-wage, sophisticated service economy (Australian Department of Foreign Affairs, 1992, p. 34). Earlier in the 1960s, there was a substantial increase in the contribution of the manufacturing sector to the total product (Chen, 1984, p. 8). For the two decades, 1961-71 and 1971-81, approximately half of the population were engaged in the secondary sector, contributing more than 37 per cent of the economy’s GDP. Ho (1992, p. 32) argued that this was due mainly to the expansion of the export-oriented manufacturing industries such as textiles, garments, plastics and consumer electronics during the decades. This study emphasized that such rapid transformation was largely attributed to adaptive entrepreneurship which emerged out of the unique environment of Hong Kong. Riedel (1974, p. 22) rightly remarked that “Hong Kong entrepreneurs are left free to do what they can do best ... [this] constitutes ... the Hong Kong model of industrialization”.

However, starting from the early 1970s, the pace of manufacturing growth has contracted in relative terms. Its share of the total GDP declined from about 31 per cent in 1970 to less than 21 per cent in 1982 (Ho, 1992, p. 35). As a result, the share of the secondary sector of total GDP declined from about 37 per cent in 1966-70 to less than 20 per cent in 1990. Employment in the secondary sector also decreased from 49 per cent of the total labour force in 1961 to 35.7 per cent in 1991. The last decade (1981-91) witnessed a 28 per cent decrease in employment in this sector (Yu, 1995, p. 223). This trend clearly indicates that a process of “de-industrialization” or “hollowing out” occurred (Ho and Kuen, 1993, p. 336). Ho (1992, pp. 36-7) believed that it was the normal result of sustained economic growth in a fully employed economy. Here, I provide an entrepreneurial explanation. However, when entrepreneurs saw opportunities in the service sector which rendered them higher returns, they moved to this sector accordingly. Conversely, some entrepreneurs relocated their production out of the economy to reduce the demand for the territory’s relatively scarce resources (Tan, 1992, p. 38). Consequently, the ratio of manufacturing to service employment changed from 1.1 to 0.35 between 1981 and 1991, and the ratio of re-exports (largely ex-China) to domestic exports increased from 0.5 to over 2 (Redding, 1994, p. 74). De-industrialization is an inevitable consequence of entrepreneurial action in economic development.

Taken as a whole, with adaptive entrepreneurship as a propeller, Hong Kong’s economy was transformed in the 1950s and the 1960s from traditional fishing and agriculture to manufacturing, and then in the 1970s and 1980s to the finance and service sectors. It has evolved from a traditional entrepôt into an international trade and financial centre (Chau, 1993, p. 16). In the manufacturing sector, Hong Kong has been integrated into a new subregional
division of labour, with Japan serving as the epicentre (Chee, 1991, p. 424). The income gaps between Hong Kong (latecomer) and the western developed nations (leaders) have been narrowed. Heitger (1993, p. 75) commented that for the decade 1960-70, relative per capita income in Hong Kong was about 24 per cent of the per capita income of the USA. By the 1970s, Hong Kong was able to double per capita income and catch up with the USA. By 1992, the World Bank (1993, pp. 119-20) placed Hong Kong in the high income group, along with the USA and other OECD nations. By 1995, Hong Kong’s per capita income reached US$21,670. Among the OECD countries, only Japan (US$21,090) and Germany (US$20,165) showed comparable performance (Asiaweek, 1995, pp. 53-4)[12]. Hong Kong joined Japan and the other Asian NIEs, Singapore, Taiwan and South Korea, as the most prosperous economies in Asia.

**Conclusion**

This paper applies Kirzner’s concept of entrepreneurship to explain the economic success of Hong Kong. The city economy possesses neither natural resources, nor sophisticated technologies and yet it has successfully developed into one of the most prosperous economies in East Asia. This study argued that Hong Kong’s industrial dynamism relied mainly on a large number of adaptive entrepreneurs who are constantly alert to opportunities, maintain a high degree of flexibility in their production and respond rapidly to change. In the textile and garment industry, firms survived by pursuing a product imitation strategy, operating on a small scale, extensively utilizing subcontracting networks, and producing customer-label garments as well as performing spatial arbitrageurship. Using these adaptive entrepreneurial strategies, Hong Kong manufacturers have learnt from foreign firms and imitated their products. By selling improved commodities at lower prices, they have competed against the original suppliers from the western advanced countries. Furthermore, to exploit new profit opportunities, Hong Kong’s entrepreneurs have shifted their production activities from one product to another, from one industry to another, from higher cost to lower cost regions, from traditional fishing and agriculture into manufacturing, and then to finance and other services. Their efforts have brought about structural transformation in the economy and enabled Hong Kong to catch up with early industrialized nations.

**Notes**

1. The economic success of Hong Kong has been well documented. For example, see Riedel, 1974; Rabushka, 1979; Woronoff, 1980; Rafferty, 1991; Cheah and Yu, 1995.
2. It was widely known that the members of the Royal Family of the UK, especially the Duke of Kent, liked to order some clothes from Hong Kong’s tailors when they visited the colony. But such purchases had been criticized by some British Members of Parliament as not being patriotic. See also Note 11.
4. White (1976, p. 4) argued that Kirzner has not distinguished arbitrageurship from entrepreneurship.
5. Such an argument has raised a number of criticisms, both from within and outside the Austrian camps. Specifically, White (1976) commented that Kirzner failed to recognize the highly important part played by entrepreneurial imagination. Though Kirzner (1982) accepted the elements of creativeness in his multi-period market model, in a personal correspondence with the author (13 January 1994), he maintained that his notion of entrepreneurship, which is essentially non-innovative, is only a subset of entrepreneurship.

6. Professor Paul A. McGavin refers to Schumpeter's and Kirzner's mode of entrepreneurship as transformative and adaptive entrepreneurship respectively; see also Cheah and Yu (1995).

7. Kwok (1978, pp. 141-2) reported that 88 per cent of the small textile firms were run by owner-managers and 78 per cent of these firms replied that owner-managers were the principal decision makers. Approximately 24 per cent of the small textile firms relied on verbal communication only, while 38 per cent relied largely on verbal communication.

8. In a survey by Kwok (1978, p. 145), small textile manufacturers were asked to explain why they had not expanded in the last three years. Approximately 33 per cent of the firms mentioned that expansion might bring more problems and 24 per cent were satisfied with present size. About 9 per cent of the firms replied that if they expanded, they would lose present advantages.

9. The significance of imitation in catching up will be further discussed in another section of this paper.

10. Morawetz (1981) rejected the idea that the Asian economic miracle is due to cheap labour. In his view, the higher productivity in East Asia is due to differences in management skill originating from some cultural and social factors. In particular, he noted: "US garment buyers commonly point out that you can get anything you want in Hong Kong, Korea or Taiwan - any garment, in any material (cotton, wool, synthetics, fur, leather), at competitive prices, acceptable quality and delivered on time. In Columbia, by contrast, the range of garments and fabrics is limited, prices are in general higher, and quality and delivery times are less dependable.... Success breeds success, failure breeds failure" (Morawetz, 1981, p. 199).

11. In particular, Clark (1940) and Fisher (1945) argued that, as countries experience economic growth, the numbers of workers employed in those areas of production closest to natural resources will decline relative to the numbers employed in the secondary sector, especially manufacturing, which will subsequently decline relative to the numbers employed in tertiary production.

12. The process of catching-up involves more than just technological improvement or attendant higher income. There are other factors that may affect the gaps between the leaders and the followers and their ranks on the international income ladder. These factors are related to social capability (Abramovitz, 1988). Accordingly, a country's potential for rapid growth is strong when it is technologically backward but is socially advanced. Some determinants of social capability are: educational level, communication networks, customs and institutions, to name a few.

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