



THOUGHT LEADERSHIP BRIEF

Linking the Greater Bay Area with Southeast Asia: Hong Kong Service Companies as the Bridge

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ISSUE

Can Hong Kong better connect two rising economic regions: the mainland cities of the Greater Bay Area (GBA) and Southeast Asia? Several business and professional service groups propose that Hong Kong could leverage its professional services prowess to connect the GBA with the rest of the world.¹ Some scholars and policymakers concur; for instance, Bhaskaran, Chiang, and

Low (2021) propose that Hong Kong could "...reprise its role as the gateway to mainland China for burgeoning Southeast Asian companies and vice versa", capitalizing upon expanding economic complementarities between the two regions as they grow larger and more sophisticated. Furthermore, they suggest that "Hong Kong is attractively positioned to do so because of its comparative advantages in finance, professional services, trade-related services (e.g., logistics), and real estate development"²

¹ Studies that epitomize this viewpoint include: ACCA Hong Kong, 2020. "Greater Bay Area Opportunities – Capitalising Hong Kong's Unique Edge"; KPMG, HSBC, and the Hong Kong General Chamber of Commerce, 2020. "Keys to success in the Greater Bay Area: Third annual survey on drivers of growth"; and the American Chamber of Commerce. 2020. "2021 Hong Kong Business Outlook Survey".

² Bhaskaran, Manu, Nigel Chiang, and Donald Low. 2021. "The Greater Bay Area: Implications for Hong Kong's Relations with Southeast Asia." The Hong Kong University of Science and Technology, Institute for Emerging Market Studies.



How realistic is this vision? Whether or not it materializes will depend largely upon business leaders buying into it. Business leaders in Hong Kong already have experience taking advantage of overseas opportunities from the city; thus, they should have a better sense of the feasibility (and profitability) of connecting the GBA and ASEAN more strongly. Furthermore, their willingness to invest further into such businesses should be a leading indicator of future investment and growth.

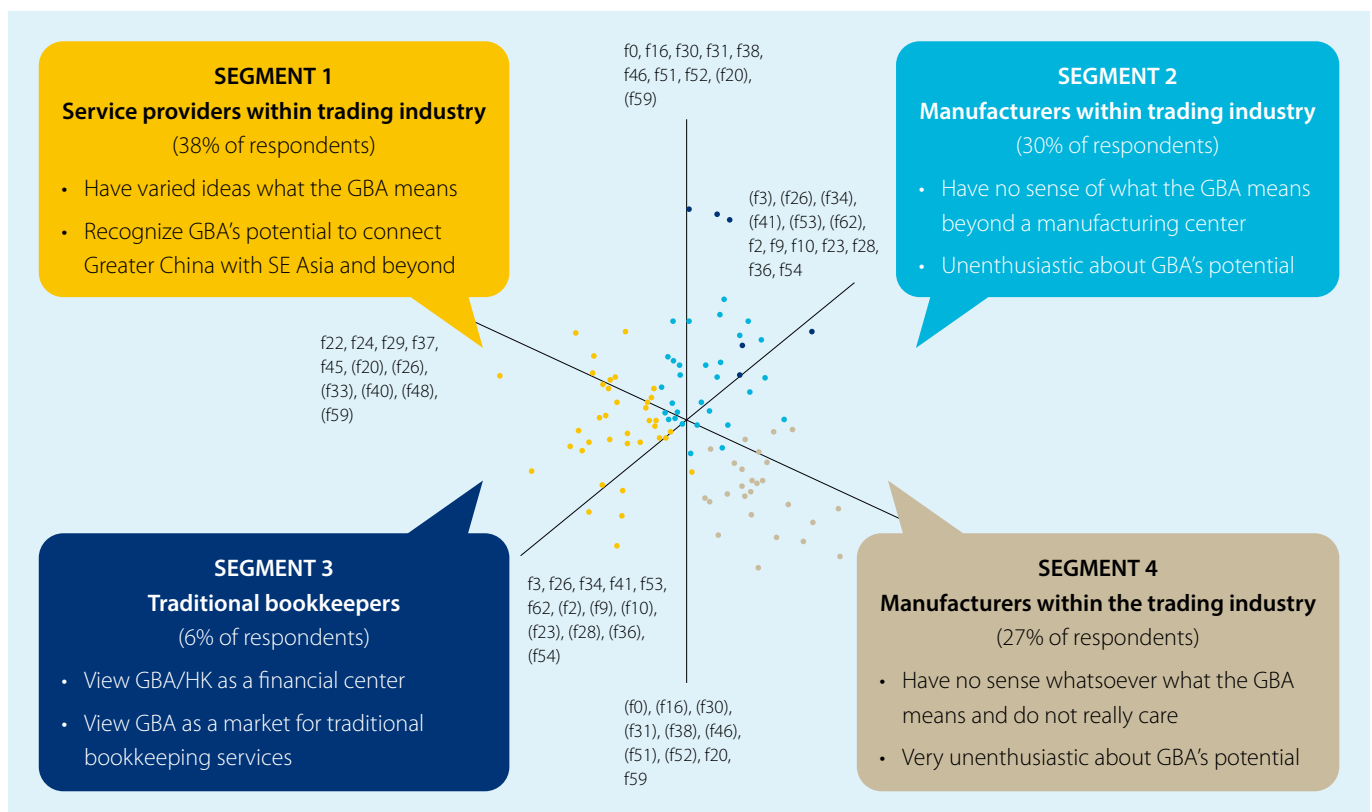
Buy-in from those leading small and medium-sized enterprises (SMEs) may be especially important for several reasons. SMEs are some of the most active players in several economic activities that connect companies located across world regions, including the import/export, wholesale, and business service sectors. SME managers also tend to focus on immediate opportunities rather than abstract notions, especially high-level initiatives proposed by the government. Consequently, a positive response from SME decision-makers would strongly signal widespread acceptance within the business community.

ASSESSMENT

To investigate SME decision-makers' perceptions of the GBA, the opportunities they see there, and their intentions to invest further into GBA-related businesses, Zectr conducted a telephone survey of 101 executives from small and medium-sized enterprises (SMEs) in Hong Kong during May 2021. The sample was stratified to be split evenly between respondents whose companies had business development, manufacturing, or other operations in mainland GBA cities and respondents whose companies had no such presence.³

Unlike previous surveys of business leaders in Hong Kong, we used machine learning algorithms to segment respondents and their companies into distinct groups. When grouping respondents together, we took into account whether they operated in the same industries, performed the same tasks within these industries, shared similar perceptions of the GBA, and identified the same opportunities there. Figure 1 shows these four algorithmically grouped segments:

Figure 1. Algorithmic Segmentation of Survey Respondents



³ Potential respondents were screened out if they were under 25 years old or had no input on their companies' strategic decision-making; nearly all respondents were either the Chairman or CEO, a functional head, a senior manager, or a regional or practice head. Nearly 90% of respondents had over ten years' worth of experience in their respective industries, and nearly 70% had worked in their companies for ten or more years. Respondents' companies were typically small; 62.4% had fewer than 10 employees, and 25.6% had 10-49 employees. Over half of respondents' companies focused on trading or manufacturing, with other common foci being audit, architecture, consulting, and design.



The four segments were distinguished primarily by their industries of focus and their functional roles within these industries. Segment 1 included mainly professional service firms (e.g., consultancies, advertising agencies, design firms), many of them serving clients within the trading industry. Segments 2 and 4 also included firms working in the trading industry, but mainly producing goods for end clients, sometimes as OEMs or ODMs. Segment 3 included mainly auditors and bookkeepers.

These four segments were distinguished not only by their industries and functional roles, but also by their attitudes towards the GBA, the opportunities they saw there, and their intentions to invest (or not invest) further into such opportunities. Perhaps unsurprisingly, Segments 2 and 4 (mainly being manufacturers) viewed the GBA mainly as a production base for their goods. While Segment 2 was lukewarm towards working with GBA-based companies, seeing some opportunity to partner with them to deliver superior product bundles, Segment 4 was quite negative; two-thirds responded that there was little they could do for GBA-based partners or clients. Most Segment 2 and 4 respondents had little or no intention of investing further to growing their GBA businesses. Segment 3 (mainly being auditors and bookkeepers) saw opportunities to provide their services to GBA clients but identified competition from local companies as a barrier to entry.

Segment 1 (mainly professional service firms) perceived the GBA very differently way from the other segments. Nearly half viewed the GBA mainly as a gateway into mainland China. Furthermore, more

than a third viewed the GBA's role within the Chinese economy mainly as a gateway into Southeast Asia, presumably including Hong Kong as a part of the GBA; a similar proportion saw the GBA as a gateway into mainland China for Southeast Asian firms. Many respondents in this segment had some intent to invest more into their GBA businesses, although few had strong intent.

Overall, segmenting survey responses from Hong Kong-based SME leaders reveals a hidden pattern: those leading professional service firms perceive the GBA very differently from other SME leaders. Not only do they perceive the GBA as a gateway into the mainland China market, but they also see it as an opportunity to connect mainland China with Southeast Asia. These findings validate the hypothesis that Hong Kong companies could further strengthen the connection between these regions.

There is a crucial caveat to these findings, however. While this segment of respondents certainly see opportunities to further connect the GBA and Southeast Asia, they nevertheless have little experience working in either region. While survey respondents were highly experienced, with 71% of the segment having worked ten or more years in their respective industries, only 2 of 38 respondents in this segment had worked in mainland GBA cities for six months or more. Furthermore, not one single respondent in the segment had worked in Southeast Asia. This finding highlights a key difference between the staff of large professional service firms, which tend to have a globalized workforce to match their global reach, and even the most senior staff working at SMEs.





RECOMMENDATION

Considering that smaller Hong Kong-based professional service firms see opportunities to connect GBA companies with Southeast Asian markets and vice versa, specific policies should be designed and implemented to encourage SMEs to take advantage of these opportunities. Survey responses indicate that policy stability and financial support remain areas for improvement. Beyond these well-known needs, policymakers should also seek to connect appropriate SMEs with opportunities in the GBA and Southeast Asia that they are uniquely suited for: medium-sized opportunities that require expertise in international standards or regulations. Such opportunities may be too small for global behemoths but nevertheless are large enough to generate reasonable profits; they may also be beyond the reach of mainland-based competitors that are only beginning to build international experience. Hong Kong has built an extensive network of trade promotion offices across the mainland and Southeast Asia, and perhaps this network can play a larger and more active role in sourcing opportunities for these SMEs.

Another opportunity is to leverage the many mainlanders and Southeast Asians studying at HKUST and other Hong Kong-based universities. Such students not only have connections to their regions of origin but also have gained some understanding how Hong Kong works. Consequently, they represent ideal candidates to help Hong Kong companies expand into both regions. Although SMEs may not be able to compete against larger and better-known professional service firms when recruiting from elite MBA programs, they may recruit more successfully from lower-ranked MBA programs or the rapidly expanding MSc programs in international business at HKUST and other local universities. Even undergraduates may be able to help; while they have little prior work experience, they know the languages and cultures of their home regions and may be able to leverage their family connections. Well-designed policy initiatives may help match the right candidates with the right SMEs.



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This Thought Leadership Brief is part of a series of IEMS publications on the the Greater Bay Area, which also include:



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by David Skilling and Donald Low

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by Manu Bhaskaran, Nigel Chiang and Donald Low

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