

Development in Hong Kong and Mainland China: Two Systems, One Result

Introduction

This short paper traces the history of Maxim's Caterers Limited as an illustrative case study of the private industry in Hong Kong's development. As Hong Kong industrialized in the 1950s and 1960s, development ultimately transformed Hong Kong once again into a major entrepôt. While not part of the manufacturing industry that served as the primary impetus for Hong Kong's economic growth, Maxim's growth as a globalizing company paralleled Hong Kong's growing international stature.

However, Hong Kong's development has come with social consequences, which the paper compares and contrasts with Chinese development and social consequences. Overall, despite the vastly different socialist and capitalist ends China and Hong Kong have respectively, their development caused similar social issues. The last section of the paper analyzes the Hong Kong – China relationship during their development and after the 1997 handover. It finds a serious shift in the balance of power from Hong Kong to China.¹

Ultimately, Beijing's power continues to grow relative to Hong Kong. Hong Kong was able to maintain its position of relatively high autonomy for a multitude of reasons – economic as a source of outside capital, diplomatic as an example for Taiwan for potential reunification, and even historical as Hong Kong has often been considered China's port to the world. All of these

¹ I should note here when I say balance of power, I do not mean it in the traditional international relations sense which focuses on an international system such that no state has a preponderance of power. Obviously Hong Kong has always been inferior to mainland China in this sense. What I mean by balance of power refers more to soft power, and how Hong Kong is losing economic and political clout relative to China.

reasons for Hong Kong's autonomy are diminishing in light of the new balance of power and there is little reason to expect Hong Kong to remain so unique in the future.

Hong Kong Caterer's: Private Industry Develops in Hong Kong

Maxim's Caterers Limited, originally named Hong Kong Caterer's, was found in 1956 by James Wu and his family in Lane Crawford Central, an upscale shopping center.² It was founded as both a nightclub and restaurant whose success reflected the rapidly growing Hong Kong economy.

Early in Maxim's existence, Hong Kong's per capita GDP raised 7.8% from 1961 to 1962, and another 9.2% the year after that.³ A large portion of this economic growth in the late 1950s and 1960s can be attributed to the previous immigration boom after the Chinese Civil War, which in turn helped supply labor for industrialization of the economy. Additionally, the aftermath of the Korean War gave Hong Kong the opportunity to expand industrialization because some Western markets, particularly the US, would not accept Chinese industry.⁴

The main idea is that while Maxim's was certainly not directly responsible for Hong Kong's development in the 1950s and 1960s, it was a beneficiary of it because as Hong Kong's middle class grew, so did the population's disposable income. This was a boon for Maxim's because it was a source for that income to be spent on.

² Maxim's Group. "Company Overview." Last accessed December 17th 2017.
<https://www.maxims.com.hk/en/about/cat_01_a.asp>

³ Youngson, A.J. *Hong Kong Economic Growth and Policy*. (Oxford: Oxford University Press, 1982). Page 8. See chart.

⁴ Youngson 1982, pages 3 and 4.

By the early 1960s though, at the peak of Hong Kong's economic growth, the city began to attract foreign companies which competed with Maxim's, causing its profits to fall. Companies like Hilton, Mandarin Oriental, and other international hotel chains entered the Hong Kong market by 1962 and posed an existential question to Maxim – could the company survive as a nightclub and restaurant?⁵

Maxim's decided to broaden their clientele and launched its first café and cake shop in 1966. It proved successful and unique enough – not facing overwhelming competition from other firms – for it to expand and 20 more Maxims' opened by 1972.⁶ This marked a new era for Maxim's in two important ways. First, Maxim's demonstrated that it was capable of going beyond the nightclub and restaurant business, expanding to different markets, a trait that proved to be beneficial in the future. Second, Maxim's transitioned from a high-end service provider to more of a mass targeted producer, speaking again to Maxim's broadening clientele.

Meanwhile in Hong Kong at large, the 1960s and early 1970s marked continued development and industrialization. Even as Maxim's grew, the service sector as a whole in Hong Kong did not, with most growth being focused in manufacturing. In 1961, about 24% of Hong Kong's labor force was in the service sector, shrinking to 20% by 1971. On the other hand, manufacturing grew from 42% to 49% of the labor force in the same time period.⁷ In short, Hong Kong was still growing rich and developing, as indicated by rising per capita GDP, but still not as a result of firms like Maxim. Maxim was still more of a beneficiary of growth rather than an engine of growth.

⁵ F.K. Ip, David and Lam, Richard Cheung. "A Case Study of Maxim's Group" in *Handbook of East Asian Entrepreneurship*. (New York: Routledge, 2014). Page 416.

⁶ F.K. Ip and Lam, page 416.

⁷ Youngson, 1982, page 17. See chart.

One point that should be mentioned is that during the 1960s, Hong Kong's trade deficit with China increased. In 1950, Hong Kong exports to China numbered 1.26 billion HKD, dropping to a tenth of that level to 120 million HKD in 1960, and halved again to 64 million HKD in 1970. Meanwhile, China's exports to Hong Kong steadily increased to 2.85 billion HKD by 1970.⁸ This evidence reinforces the claim that Hong Kong in 1960s felt competition from foreign firms.

The 1970s were important for Maxim's not just because it expanded domestically, but it marked the point where it increased its global reach. Osaka was hosting the 1970 World Expo and Maxim's won the contract to cater the event, reaching a global audience of over 30 million people.⁹ This decision marked a huge success for Maxim's, which outmaneuvered other firms too cautious to advertise in Osaka because of lingering anti-Japanese sentiments from World War II. The Cantonese style food and dining in *dim sum* proved popular to global audiences, which is important because Maxim did not have very significant market exposure yet outside Hong Kong. Overall, Expo 70 helped steer Maxim's on the path to become a global company.

As Maxim's became a global brand in the 1970s, Hong Kong truly started on the road to reasserting itself as a global center in the world of finance. As with how Chinese refugee migration helped start the path for Hong Kong to be a center of industry, China again helped start Hong Kong up as a center of finance. In 1969, there were 47 branches of licensed Chinese banks in Hong Kong. This would increase four-fold to 193 branches in 1981.¹⁰ Hong Kong's development was beginning to take a new turn, slowly shifting away from the emphasis on

⁸ Youngson, A.J. *China and Hong Kong: The Economic Nexus*. (Oxford: Oxford University Press, 1983). Page 15. See chart.

⁹ F.K. Ip and Lam, page 416-417.

¹⁰ Youngson, 1993, page 31.

manufacturing (although it still dominated Hong Kong's economy) towards finances and services.

Also in the 1970s, China and the US reestablished relationships, with official diplomatic recognition in 1979. This was important for Maxim's because of very practical reasons, by the early 1980s the Civil Aviation Administration of China needed their new flights destined for the US to be catered. Since there was no previous agreement with American companies, Maxim's was granted the contract with approval from China's own central government.¹¹ Maxim's was once again expanding, even with events not directly related to it – Hong Kong was not yet part of China. This event stresses the point that political or diplomatic relationships cannot be looked at in a vacuum, they have in this case significant economic effects for outside actors.

Maxim's and the service industry were not the only economic sectors in Hong Kong that were becoming increasingly globalized in the 1980s. In Hong Kong at large, the financial sector was picking up steam and becoming more important to the economy in the 1980s. This was ironically demonstrated in the stock market crash in 1987. On October 11th, the Hong Kong Stock Exchange fell by over 11% because of a world stock market crisis.¹² While on the one hand this shows some weaknesses in Hong Kong's financial center, on the other hand Hong Kong did recover and notably it indicated that it was now greatly linked to the world economy.¹³ In short, the fact that Hong Kong was badly affected by a world crisis showed it was becoming a world actor.

¹¹ F.K. Ip and Lam, pages 418-419.

¹² Ash, Robert et al. *Hong Kong in Transition: The Handover Years*. (New York: St. Martin's Press Inc., 2000). Page 46.

¹³ Ash, Robert et al., page 46.

Maxim itself would continue to grow and diversify, for example, it started a new restaurant series in 1998 and even acquired the rights to open Starbucks chain stores in 2000, both of which became successful.¹⁴ However, the focus on the history of Hong Kong's development from an industrial power to a financial power has already been captured in the first few decades of Maxim's and Hong Kong's history. The next section discusses the social consequences of this development and compares it to China.

Social Consequences of Development in Hong Kong and Parallel Consequences in China

For both Hong Kong and China, economic development brought largely positive consequences. Indeed, economic development itself, since it implies a more developed and educated labor force and therefore population, is a positive social consequence. However, with the focus of efficiency over equity, some groups and areas have been less positively affected or even marginalized from economic development. This section focuses on all these social consequences after Hong Kong's development in the 1950s to 1970s, and after China's development in the 1970s to the present.

One positive benefit of economic development for both Hong Kong and China was the increase in public health. For example, the average infant mortality rate in Hong Kong fell from 71 deaths per 1,000 births in 1952-1955 to just 14.3 deaths per 1000 births in 1976-1979.¹⁵ China also saw a similarly large drop, from 84.3 deaths per 1,000 births in 1969 to 8.5 deaths per

¹⁴ F.K. Ip and Lam, pages 419-420.

¹⁵ Youngson 1983, page 44.

1,000 births in 2016.¹⁶ Diseases like tuberculosis, once commonplace in Hong Kong, have almost completely been eradicated.¹⁷

But while Hong Kong's population living in an urban enclave may have uniformly enjoyed benefits in the public health sector, China's rural population may not have enjoyed the same benefits. For example, small rural villages like in Jiangxi province's Gao Village have noted rising inequities in healthcare, which has been more difficult to afford after it became less subsidized by the government.¹⁸ China's much bigger size and more diverse population made it harder to distribute the benefits of economic development in terms of public health.

As the Hong Kong and Chinese economy needed more skilled laborers, there was more serious efforts to educate the public. In Hong Kong, secondary education became compulsory in 1979 which saw a drastic increase in school attendance and the minimum age to work was raised from 14 to 15.¹⁹ This demonstrated the great emphasis Hong Kong placed on education, which eventually did lead to a more educated public.

Again, there were lesser benefits in China for the same reason. Education did not trickle down as easily to small isolated rural villages, even if they were for example given preferential treatment for college admissions. Despite China's increased focus on education, secondary education remains one of the unlikely and most difficult paths from moving out of rural areas to urban areas.²⁰

¹⁶ *World Bank*. Last accessed December 17th, 2017.

<<https://data.worldbank.org/indicator/SP.DYN.IMRT.IN?locations=CN&view=chart>>

¹⁷ Youngson 1983, page 42.

¹⁸ Gao, Mobo. *Gao village: Rural Life in Modern China*. (Honolulu: University of Hawaii Press, 2007).

¹⁹ Youngson 1983, page 45.

²⁰ Gao.

In other areas like woman's rights and environmental issues, the consequences have been outright negative for China, as opposed to having isolated sections of the population benefitting. For example, it was not until 2007 that the All-China Women's Federation started to use the term *sheng nü* or leftover women.²¹ This term, referring to single women in their later 20s or 30s, was at best a reincarnation of a patriarchal culture suggesting the role of women was to be led by a man. At worst, it was a newly misogynistic way to think about gender relations in a more developed and materialistic China. It should be noted though, that the term was made in part to encourage marriage and birth because of demographic pressures from the One Child Policy, not just economic development.²²

Environmental issues are also present in China and range from air quality to dam building to endangered animals. Chinese demand for endangered animals like rhinoceros and tiger for traditional Chinese medicine are putting serious pressures on the animal populations.²³ And unlike the case of *sheng nü*, this issue can be directly traced back to China's development. Without the enlarged middle class stemming from economic development, there would not be as much demand for ingredients for traditional Chinese medicine. And without the manufacturing industry that has famously propped up China's development, there would be less direct environmental damage to air and water quality.

Hong Kong has not totally escaped these social issues, although the worst of the environmental challenges are receding as Hong Kong has already peaked its manufacturing. For example, on the gender front, Hong Kong women are severely underrepresented in executive

²¹ Fincher, Leta. *Leftover Women: The Resurgence of Gender Inequality in China*. (Chicago: University of Chicago Press, 2014). Page 16.

²² Fincher, page 12.

²³ Shapiro, Judith. *China's Environmental Challenges*. (Cambridge: Polity Press, 2016). Pages 3-4.

directorship positions for business, with just 7% of positions held by women.²⁴ There is however, little evidence that there is any backsliding of women's rights because of economic development. If anything, the acceptance of more modern values in favor of Confucian values over the past few decades should bring good news for women's rights, at least from a Western perspective.

Economic development could be viewed as a mixed bag because of these social consequences. But on balance, the consequences tend to be positive. Moreover, the fact that Hong Kong seems to have better reaped the benefits of development compared to China is positive news for a number of factors. First of all, Hong Kong developed first and it shows that China, with a far larger population, may have similar benefits just over a longer period of time.

Secondly, it seems that the benefits of economic development tend to be more easily dispersed to urban areas. While this meant Hong Kong could easily reap the benefits as a totally urban island, mainland China too is urbanizing at an impressive pace and is expected to be 60% urbanized by 2018.²⁵ If China continues to urbanize through policies such as *hukou* or housing registration reform, there is little reason not to expect it to more easily distribute the social benefits of economic development.

However there does remain at least one barrier for China. The sheer size and diversity of China makes it an unprecedented case in terms of development. With a population nearly 200 times the size of Hong Kong, China will be charting new frontiers in development. For this

²⁴ Wassener, Bettina. "Women Still Face Barriers in Hong Kong." *The New York Times*. February, 2011. <<http://www.nytimes.com/2011/02/22/world/asia/22iht-women22.html>>

²⁵ No author. "China's Urbanization Rate to Hit 60% in 2018." *Reuters*. December 26th, 2013. <<https://www.reuters.com/article/china-urbanization/chinas-urbanization-rate-to-hit-60-pct-by-2018-report-idUSL3N0K607G20131227>>

reason alone, it would be unreasonable to expect China to develop as uniformly as Hong Kong. And it is also for this reason, that as both mainland China and Hong Kong develop, Hong Kong's power will keep diminishing proportional to China.

Hong Kong and China Today: Shifting Balance of Power

Today, the balance of power between Hong Kong and China has clearly shifted in China's favor. In 1997, Hong Kong's economy was about 18% of mainland China's economy, now it represents about 3%.²⁶ But Hong Kong's history since development obviously goes back to before it was returned to China. This section argues that even though there has been a shift from Hong Kong fueling Chinese growth to China being less dependent on China, the two can still have a symbiotic relationship.

In the early years of Hong Kong's development in the 1950s, the supply of labor was heavily reliant on Guangdong. Hong Kong was able to absorb the surplus manpower Guangdong had while it was also able to provide employment opportunities for a somewhat skilled work force.²⁷ The integration between Guangzhou and Hong Kong also benefited Guangzhou because of Hong Kong's status as a British territory, which granted those Guangzhou businesspeople in Hong Kong access to other British markets.²⁸

Even with this partnership, there was always tension between Guangzhou and Hong Kong, with major Chinese taxes on Hong Kong goods for example. Additionally, the overall tone of the relationship doomed it to failure or at least a rocky relationship in the long run –

²⁶ Lee, Timothy. "Hong Kong Used to be 18% of China's GDP. Now It's 3%." *Vox*. September 28th 2014. <<https://www.vox.com/2014/9/28/6857567/hong-kong-used-to-be-18-percent-of-chinas-gdp-now-its-3-percent>>

²⁷ Yin-Wang Kwok, Reginald and So, Alvin. *The Hong Kong – Guangdong Link: Partnership in Flux*. (Armonk: M.E. Sharpe, 1995). Page 37.

²⁸ Yin-Wang Kwok and So, page 40.

Guangzhou was firmly part of the Communist Party's socialist vision while Hong Kong was one of the last vestiges of British imperialism and a symbol of rampant corruption and capitalism to the party.²⁹

But develop Hong Kong did, tensions notwithstanding, and it would go on to industrialize with its manufacturing industry as described in the earlier sections. What is important to realize here is that Hong Kong was the one with more clout in the international arena with respect to the quality of its economy. Hong Kong was the one developing, and all the mainland did was provide labor.

When it was China's turn to develop in the later 1970s, it eventually began with special economic zones (SEZs), which were designed to attract foreign capital in order for China to start an exporting base. The extent to which China relied on Hong Kong to successfully design the SEZs is showcased by the fact that China chose the locations specifically because of their proximity to Hong Kong, especially Shenzhen SEZ.³⁰

Hong Kong was far and away the main financier and investor of businesses in Shenzhen SEZ, with over 90% of foreign investment coming from Hong Kong in 1987.³¹ The reasons for this include familiarity with language, closer people to people relations, and physical proximity all of which allowed investors to more easily trust mainland businesses.³² Additionally, there was a sense of patriotism or shared identity between the Hong Kong and Guangzhou population.

²⁹ Yin-Wang Kwok and So, page 41-42.

³⁰ Vogel, Erza. "Special Economic Zones: Experiment in New Systems" in *One Step Ahead: Guangdong Under Reform*. (Cambridge: Harvard University Press, 1989).

³¹ Vogel, page 145.

³² Vogel, page 145.

With a shared Chinese heritage, it would not be unreasonable to assume that many in Hong Kong wanted China to succeed.

And succeed China did. By 1997, Hong Kong was returned to China from the British Empire and ever since then Hong Kong has been becoming more and more of a Chinese city. While Hong Kong is still valuable as a financial center and for diplomatic purposes to entice Taiwan to reunite, there is no doubt that balance of power has shifted to the mainland.

For example, the number of Hong Kong residents working in mainland China has increased from 50,000 people in 1988 to 229,000 in 2005.³³ Not only do those numbers reflect a growing Chinese economy relative to Hong Kong, but the quality of those numbers tells the same story – most of the jobs in 1988 were manufacturing, now the majority of the Hong Kong population working in China is in retail, wholesale, and other services.³⁴

Meanwhile, Hong Kong's use as a political tool to entice Taiwan into reunification is also diminishing for two contradictory but plausible reasons. On one hand, the Taiwanese public apparently shows no interest in reunification with the mainland as evidenced by their election of DPP candidates and the rejection of the KMT, which is traditionally seen as the more conservative, pro-reunification party.

On the other hand, Taiwan is facing the same issue that Hong Kong is – reduced influence relative to China because an increasingly economically powerful China. There is evidence to suggest economic integration between Taiwan and China is part of China's plan to

³³ Chiu, Stephen and Lui, Tai-Lok. *Hong Kong: Becoming a Chinese Global City*. (New York: Routledge, 2009). Page 154.

³⁴ Chiu and Liu, page 154.

make Taiwan more dependent on it, leading to eventual reunification.³⁵ While obviously both of these ideas cannot be correct or at least cannot happen simultaneously – Taiwan cannot both want to be separate from mainland China but also want to integrate economically – as long as one extreme happens, Hong Kong loses more relevance.

Conclusion

As it stands now, Hong Kong is becoming more and more of just another Chinese city. Is this such an unacceptable phenomenon? Perhaps it is for the Hong Kong public, particularly the youth, which in a Hong Kong University opinion poll had barely 3% identify as "Chinese" or "broadly Chinese."³⁶ Such an abysmally low score is remarkable, considering even the Taiwanese public – which for all intents and purposes is acting in a "Two Countries, Two Systems" paradigm – has a higher Chinese identification.

But I see no such problem with the growing China factor in Hong Kong. Identity can be fluid and there is no evidence that becoming more "Chinese" will somehow negatively impact Hong Kong. There is not just a small amount of irony in the fact that China's rise was in large part fueled by Hong Kong, and perhaps an even greater amount of irony that by going back in history, the only reason Hong Kong was separated from China was because of Chinese weakness in the face of British imperial aggression. That weakness no longer remains.

What Hong Kong has to consider in its future is not if it will be more and more integrated with China – this is an inevitable fact – but how China will manage the integration process. It

³⁵ Chen, Erza. "The Economic Integration of Taiwan and China and its Implications for Cross-Strait Relations. *Harvard University*: Published online. July 2003. <<https://programs.wcfia.harvard.edu/files/fellows/files/chen.pdf>>

³⁶ Wu, Venus. "Hong Kong Youth's Turn Their Back on Chinese Identity." *Reuters*. June 20th, 2017. <<https://www.reuters.com/article/us-hongkong-anniversary/hong-kong-youths-turn-their-backs-on-chinese-identity-survey-idUSKBN19B1IE>>

will be in China's interest to maintain a business-friendly environment in Hong Kong by allowing Hong Kong to keep its own court system and rule of law. Businesses can still succeed today in Hong Kong – Maxim's for example still thrives as a global catering and restaurateur firm, the biggest in Hong Kong – but that does not mean Hong Kong has to be focused solely on business and certain parts of the mainland focused on exports.

Rather, Hong Kong and the mainland should continue to support each other economically, as Maxim's for example continues to expand in the mainland. This is not to offer false hope for Hong Kong's political system, which is most certainly in danger because of China's rising power. But rather it is a calculated move meant to protect Hong Kong's autonomy – ultimately Hong Kong can either try to integrate further with China and hope for the best that China will modernize and eventually liberalize politically, or continue to antagonize China by loudly protesting for increased political rights.³⁷ This paper believes that the history between Hong Kong and the mainland shows that integration and riding the China wave is more likely to sustain its political system than swimming against the current.

³⁷ Griffith, James. "Joshua Wong and Two Other Umbrella Movement Leaders Jailed in Hong Kong." *CNN*. August 17th, 2017. <<http://www.cnn.com/2017/08/17/asia/hong-kong-umbrella-joshua-wong/index.html>>

Bibliography

- Ash, Robert et al. *Hong Kong in Transition: The Handover Years*. (New York: St. Martin's Press Inc., 2000).
- Berger, Suzanne and Lester, Richard. *Made in Hong Kong*. (Oxford: Oxford University Press, 1997).
- Chen, Erza. "The Economic Integration of Taiwan and China and its Implications for Cross-Strait Relations. *Harvard University*: Published online. July 2003.
<<https://programs.wcfia.harvard.edu/files/fellows/files/chen.pdf>>
- "China's Urbanization Rate to Hit 60% in 2018." *Reuters*. December 26th, 2013.
<<https://www.reuters.com/article/china-urbanization/chinas-urbanization-rate-to-hit-60-pct-by-2018-report-idUSL3N0K607G20131227>>
- Chiu, Stephen and Lui, Tai-Lok. *Hong Kong: Becoming a Chinese Global City*. (New York: Routledge, 2009).
- Cohen, Warren and Li, Zhao. *Hong Kong Under Chinese Rule: The Economic and Political Implications of Reversion*. (Cambridge: Cambridge University Press, 1997).
- Fincher, Leta. *Leftover Women: The Resurgence of Gender Inequality in China*. (Chicago: University of Chicago Press, 2014). Page 16.
- Fu-Lai Yu, Tony and Yan, Ho Don. *Handbook of East Asian Entrepreneurship*. (New York: Routledge, 2014).
- Gao, Mobo. *Gao village: Rural Life in Modern China*. (Honolulu: University of Hawaii Press, 2007).
- Griffith, James. "Joshua Wong and Two Other Umbrella Movement Leaders Jailed in Hong Kong." *CNN*. August 17th, 2017. <<http://www.cnn.com/2017/08/17/asia/hong-kong-umbrella-joshua-wong/index.html>>
- Lee, Timothy. "Hong Kong Used to be 18% of China's GDP. Now It's 3%." *Vox*. September 28th 2014. <<https://www.vox.com/2014/9/28/6857567/hong-kong-used-to-be-18-percent-of-chinas-gdp-now-its-3-percent>>
- Shapiro, Judith. *China's Environmental Challenges*. (Cambridge: Polity Press, 2016).
- So, Alvin. "'One Country, Two Systems' and Hong Kong-China National Integration: A Crisis-Transformation Perspective." *Journal of Contemporary Asia*: Volume 41, Number 1. 2011. Pages 99-116.
- Vogel, Erza. "Special Economic Zones: Experiment in New Systems" in *One Step Ahead: Guangdong Under Reform*. (Cambridge: Harvard University Press, 1989).
- Wassener, Bettina. "Women Still Face Barriers in Hong Kong." *The New York Times*. February, 2011. <<http://www.nytimes.com/2011/02/22/world/asia/22iht-women22.html>>

Wu, Venus. "Hong Kong Youth's Turn Their Back on Chinese Identity." *Reuters*. June 20th, 2017. <<https://www.reuters.com/article/us-hongkong-anniversary/hong-kong-youths-turn-their-backs-on-chinese-identity-survey-idUSKBN19B1IE>>

Yin-Wang Kwok, Reginald and So, Alvin. *The Hong Kong – Guangdong Link: Partnership in Flux*. (Armonk: M.E. Sharpe, 1995).

Youngson, A.J. *China and Hong Kong: The Economic Nexus*. (Oxford: Oxford University Press, 1983).

Youngson, A.J. *Hong Kong Economic Growth and Policy*. (Oxford: Oxford University Press, 1982).