



# Harvard Business School Alumni Club of Malaysia

N E W S L E T T E R

OCTOBER/NOVEMBER/DECEMBER 1990

VOLUME 2 NO 9

## THE 6th SMDP 1990 - AYER KEROH

The Senior Managers Development Program, the 6th organised by the Club was again held in Ayer Keroh, Melaka from the 5th to the 18th of August, 1990.

Again it was an outstanding success with 104 people attending. For the first time candidates from outside the country was invited and

participants included Singaporeans, Sri Lankans and Filipinos.

The Professors for the 1990 session included Professor Warren Macfarlan, Professor Samuel Hayes, Professor Kasturi Rangan and Professor Jay Lorsch. The next SMDP will be held in 1992.



### PRESIDENTS MESSAGE

*I would like to take this opportunity to thank members who has given their support to the various functions organised by the Club during the year. The SMDP, held in August, 1990 was an outstanding success and the luncheon and dinner talks organised by the Club has considerable support from members.*

*The 2nd meeting of HBS Regional Alumnus was held in Penang from 5th to 7th October with our club hosting the meet. This annual meeting is intended to provide a "networking" mechanism between Alumnus of the Asian region in particular, and to promote social and business contacts within the Asian region.*

*The year is coming to a close and I hope that all members would be able to attend the Annual General Meeting and high tea to be held on the 12th of December at the Shangrila Hotel and the Manager of the Year Award Dinner in January 1991.*

*My tenure as President will end in December 1991 and I have had a very interesting year. Your EXCO and I have tried to have varied activities during the year and we hope that members too have had an interesting year.*

*The 6th SMDP have taken a lot of your EXCO's time and effort and it has again been an astounding success.*

*We thank you again for your support and wishing you a Happy 1991 and a Merry Christmas.*

**Abdullah Mat Zaid**  
President



Eager Participants at the SMDP

## ANNUAL GENERAL MEETING 12th DECEMBER 1990 - HIGH TEA

The 14th Annual General Meeting (AGM) of the Club will be held on the 12th of December 1990 at the Shangrila Hotel, Kuala Lumpur at 5.30 pm.

High tea will be served and all members, including associate members are cordially invited to attend.

Please indicate your attendance to the Executive Secretary

## SEASONS GREETINGS





# "A STUDY ON WAGE TRENDS AND WAGE SYSTEMS IN MALAYSIA"

## Extracts of the Study

The study focuses on the following:

- to provide a benchmark report on the wage structure;
- to analyse the trends and behaviour of wages at various level;
- to explain the broad mechanism of wage determination;
- to evaluate the comparative position of Malaysia with other NICs; and
- to review the principles for wage reforms.

The study would provide a platform for further debate on wage reforms.

## Wage Trends and Wage Differentials

The overall trend shows that while during the 1970s there was a fairly steady growth in wages, the early 1980s period witnessed a much faster growth rate before tapering off.

During 1973 and 1979, the growth rates were 12% for nominal wage and 2.0% for real wage per annum respectively.

During the last decade, the nominal wage increased by more than 13% yearly and the real wage grew at 6.9% per annum.

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## Study: Need for innovative changes in labour market

IT is questionable whether Malaysia's labour market regulations are effectively implemented, according to a study done by Universiti of Malaya associate professor Dr Paul Chan.

A large number of the legislations have been introduced over time as more reactions to persistent problems that need resolving rather than as part of innovative changes to improve the labour market conditions," he wrote.

A long-term solution to establish competitive wage rates that would also ensure that workers were adequately rewarded is long overdue, he said in a 367-page book entitled *A Study on Wage Trends and Wage Systems in Malaysia*.

He felt that the Malaysian wage system was rigid and thus could not adapt to the rapidly-changing business and economic environment.

"Where other countries have initiated the reduction in the growth of unit labour costs or moderate wage increases or the lagging of real wage growth behind productivity growth in Malaysia,"

wages there had lagged behind inflation.

His research found that the Wages Council Act 1947 is limited in scope, mainly catering to the commerce and service sectors.

Also, the low minimum wage level set by the Act is too low to have a significant wage impact, especially among the unskilled workers.

While seemingly advocating



Enck Abdullah presenting the book 'A Study on Wage Trends and Wage Systems in Malaysia' to Datuk Lim

Alumni Club of Malaysia, whose president, Enck Abdullah Mat Zaid, presented the book to Human Resources Minister Datuk Lim Ah Lek in Kuala Lumpur yesterday.

Copies of the book will also be given to unions and employers' bodies such as the Malaysian Employers Federation.

"We will also give copies to higher learning institutes," Enck Abdullah said.

Dr Chan said in the book that Malaysia should consider the

● ASSURE workers of a minimum wage that is consistent with the socio-economic goals in reducing poverty and unemployment.

● HAVE a built in element of motivation and incentive that is tied to productivity and performance.

● HAVE built-in features that prevent excessive wage rise that is not justified in terms of performance.

● HAVE wage rises that lag behind productivity improve

## Editorial

The HBSAC of Malaysia has always had newsletters circulated to its members. Sometimes one wonders at what a newsletter is all about. Is it for mere news commentaries on the activities of the EXCO during the year or should it not be also contributions and comments made by its members. As we were taught in Harvard there are no one answer to a problem but all solutions to a problem can be correct.

The HBS Alumnus, is itself a large pool of data and experiences, in Management and the Newsletter is a means by which this experiences can be shared. The Hong Kong HBS Alumnus' contribu-

tion from this "pool of experience" is featured in this newsletter, for the benefit of our members. Perhaps this new trend may be adopted by our members who may have ideas and comments or already have papers which they have delivered in local or international forums which we can share. Please therefore write if we do have some to spare, and in the dictum of of Peter Drucker (Fortune No 9) "the obvious is precisely what needs to be pointed out - otherwise it will be overlooked".

The editorial wish all members a very good New Year and the Seasons Greetings.

### Patron

Yang Amat Berhormat  
Dato' Seri Dr. Mahathir bin Mohamad  
S.S.D.K., S.P.M.S., S.S.A.P., D.P.

### Executive Committee 1989/90

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At the sectorial level, the wage level ranking, from the highest to the lowest, is as follows:

- (1) mining
- (2) services
- (3) public
- (4) manufacturing
- (5) construction
- (6) agriculture

The wage trends and growth of the different economic sectors vary substantially. The rate of wage growth, scale of remuneration and mode of payment have an impact on the sectorial wage level and wage differential.

The sectorial wages ranged from a low of \$381 a month for agriculture workers to a high of \$1,327 a month for mine employees.

During the 1980s, the overall increase in the wages of the mining, manufacturing and services' workers ensured that wage earners in these sectors become economically better off than the agricultural workers.

A conspicuous characteristic of the wage structure in a developing country is the wide occupational wage differential which prevails in the economy. Malaysia, likewise, has such a wage structure.

There is an uneven growth in wage rates within the main occupational groups. The growth in wages and earnings varies for each category of

workers, namely, the managerial or professional staff, the supervisory and clerical employee, and the manual workers.

Regional variation in earnings are a conspicuous characteristic of the process of structural correlation between the development status and regional earnings for any given sector, industry and occupation group. This is actually the consequence of the interplay of a host of underlying forces which influence regional wage differentials.

In general, the workers in the high-earning states like Selangor are receiving average earnings more than twice that of workers in the low-earning states like Kelantan. Those in medium-earning state like Pahang have earning capacity 1.5 times more than those in the low income-earning areas.

Despite attempts by the Government to change the imbalances in regional economic growth, the trend towards larger earnings differential is expected to be reinforced in the next decade.

Different wage levels also exist between larger corporations and smaller companies, and also between foreign multinationals and local companies.

There is a strong correlation between the size of a firm and the earnings of its employees.

The unit cost of labour in Malaysia has been increasing, though with slight fluctuations, over the first half of 1980s. The unit cost of labour in Malaysia increased by 16% in 1981-1984. The increase in Singapore was 28% during the same period.

The earnings of Malaysian workers have less purchasing power than their counterparts in the US and Japan. While workers in the US and Japan need only to work at least 884 hours to secure the same quality of life. In the Philippines and Indonesia, a worker has to respectively work about 1,537 hours and 2,419 hours in order to get the same bundle of goods.

### Wages, Productivity and Wage Distortion Growth.

Wage increase can be divided into two major components; (a) the compensation for higher productivity and (b) the compensation for price changes or inflation.

The combined growth of prices and productivity is hypothesised as "ideal growth rate" of wages and the growth difference between nominal wage and ideal wage (that is, the "distorted growth of wages".

The long-term trend in growth in nominal wages has generally been ahead of inflation, with the exception of 1974 when inflation rate was at 17%. The inflationary pressure, arising from a combination of money wage rise and property boom, caused the level of real wage to decline.

In the first half of 1980s, the nominal wage grew at an average rate of 11% per annum, up 6.1% points over the inflation rate. During the present time, the annual inflation rate in the Malaysian economy is about 2.5%.

If the growth in nominal wage is able to cope with inflation, could it compensate for productivity gains as well? There is a fairly strong relationship between the real wage and productivity trends. It also

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04-5-90

## WAGE REFORMS

# Big firms urged to take the lead

By AHIRUDIN ATTAN

ARGE companies such as Malaysia Airlines and Sime Darby should take the lead in national efforts towards wage reforms, an economist said. Dr Paul Chan, launching his page report on the country's wage trends and systems at a press conference in Kuala Lumpur yesterday, said the process of wage reform will be quicker and more effective if the big firms can show positive results in the conversion. But the Government will need to be more supportive to ensure the effort succeeds at national level. He proposed that pri-

taken now to introduce wage reforms.

He said wage reforms in Malaysia should be based on elements of flexi-wage, a system practiced in most advanced countries and, more recently, in Singapore. In a nutshell, the Malaysian flexi-wage system should:

- Assure workers of a minimum wage which is consistent with the socio-economic goals in reducing poverty and unemployment.
- Have built-in features to prevent excessive wage rise which are not related to performance.
- Have built-in elements of disincentive and incentive related

system is rigid and has failed to adapt to the changes in business and economic environment.

"Where other countries have initiated the reduction in the growth of unit labour costs or moderate wage increases or the lagging of real wage growth behind productivity gains, the experience of Malaysia has been one of inertia," he said.

Negative implications from the existing wage system are already showing on the economy, notably the erosion of the country's international competitiveness, the high unemployment and the difficulties of creating new job opportunities, and the reduction in

may lose out in terms of international competitiveness in the long run.

At present, he added, Malaysia, Thailand, Indonesia and most developing countries are providing "more or less" similar incentives to attract foreign investors.

"Since their domestic markets are larger, we will have to strive on productivity and a competitive wage system to attract investors and compete with other products in overseas markets," he said.

The study on wage trends was commissioned by the Harva Business Alumni Club and sponsored by Malaysia Airlines. Chan undertook the study while at Universiti Malaya's economic



implies that the growth in wages could more than compensate for both the inflation and productivity factors.

The growth distortion of wages was more pronounced in the 1970s, fluctuating between -8.0% and +7.2% point difference.

However, these distortions in nominal wage growth have significantly declined in the 1980s.

Overall, there has been a higher incidence of nominal wage growth exceeding the growth in prices and productivity since the 1970s. But, unlike the 1970s, the growth of nominal wage in the first half of 1980s was matched by price changes and productivity gains on trend basis.

### Institutional Influences in the Labour Market

The impact of institutional factors is extremely crucial in wage setting in Malaysia. Its pervasive role is obvious. In general, the institutional mechanisms revolve around the role and power structure of the Government, the employers and the trade unions.

### Weaknesses of the Existing Wage System

The central weaknesses of the present wage system is its inadaptability, and thus its inappropriateness, to a rapidly features are inhibiting factors:

- (a) The general trend of wage growth in Malaysia is not just a question of being rapid, but that it has not been well related to market conditions;
- (b) All collective wage agreements are usually fixed for a period of three (3) years and are binding on both parties to the contract during that time. Because of the protracted delays in all wage negotiations, the phasing-in of wage agreements is often out of

synchronisation with economic reality;

- (c) Until recently, because of recession, annual increments as a component of remuneration system are often pre-determined and are given automatically to almost all the workers, regardless of the level of productivity;
- (d) The salary scales or ranges are varied and the general wage differential between the maximum wage level and minimum wage level are wide;
- (e) The prevalence of credentialism has led to a situation where educated workers get a premium for the certificates, irrespective of the quality of their effort or their output;
- (f) Rewards to labour place far much more emphasis on the seniority of experience rather than productivity and performance;
- (g) The non-wage benefits component has grown rapidly, far exceeding the growth in wages;
- (h) Remuneration to workers is not related to Company's performance; and
- (i) The motivation and incentive component of the salary structure is not well formulated nor given sufficient priority.

### Effects of Inflexible Wage System

- (a) The rapid growth in wages resulted in the loss of international competitiveness;
- (b) It contributes to the difficulties in reducing unemployment or creating employment; and
- (c) Firms are forced to reduce employment.

### Designing Wage Systems for Malaysia

The following general principles are useful guidelines.

- (a) The wage structure should have a high degree of built-in flexibility;
- (b) Wage rates should reflect the value and responsibility of various job functions;
- (c) The salary ranges should be short;
- (d) Basic wage increase should be moderate;
- (e) Annual wage adjustments should be performance and productivity related at the company and individual worker's level;
- (f) Annual wage adjustments should be linked to the overall economic and business conditions;
- (g) The bonus incentive component should be a larger part of the total wage;
- (h) The seniority-based increment should be small;
- (i) All wage adjustments should lag behind productivity growth;
- (j) Wage increase should not always be given on a permanent basis; and
- (k) All wage negotiations should be reviewed annually. Collective agreements should be reviewed every three (3) years.

The above are broad guiding principles to follow. In practice, the actual wage system to be used would vary. This is inevitable given the large number of economic sectors and the complexity of the present wage and earning systems used in the country.



In practice, all wage systems can be restructured to incorporate three(3) vital features:

- (a) An income stability component;
- (b) A service increment be given in recognition of length of service, loyalty and experience; and
- (c) A reward component which is the variable part of the salary.

### Conclusion

The rigidity of the Malaysian wage system is reflected in the inability of the wage system to adapt to the rapidly changing business and

economic environment.

The experiences of the developed nations and the newly industrialised countries provide useful and constructive lessons for the country's consideration. While the models of their flexible wage systems do differ in details, the fundamental principles are relevant and applicable.

Their usefulness lies in their flexibility, adaptability and reasonableness.

Firstly, these wage schemes assure workers of a minimum wage which is consistent with the socio-economic

goals in reducing poverty and unemployment.

these wage models have built-in features which prevent excessive wage rise which is not justifiable in terms of performance.

Thirdly, there is a high built-in element of motivation and incentive which is related to productivity and performance.

Fourthly, since wage rise is deliberately made to lag behind productivity improvement, there is no burden on the capacity of long-term growth.

## High Tech Industries - Promises and Pitfalls

by Prof Robert Hayes

1. Prof Hayes in his lecture gave the Auto Industry in USA as example.
2. The development of the Auto Industry in USA was influenced by the improvements in technology, first utilised by the Japanese in the Automobile Industry, which created the impetus for the development into High tech for the US Auto Industry.
3. The Market Stages of development in the US Auto Industry are:-

### Stage 1 (Early Period) -

The low cost utility machine.

### Stage 2 (Development Period)-

Improvements of the automobile into a quality and precision machine as influenced by the Japanese.

### Stage 3 (High Flexibility) -

In the 80s the Auto Industry developed a High Flexibility and Fragmenting market, eg. In the 80s the US Consumer can choose 35 engine vari-

ations and 600 models of Automobile - The market in USA needed this to compete with the "Japanese onslaught."

### Stage 4 (High Speed to change)-

This stage is where the manufacturing unit has to adopt to market changes fast to maintain competitive edge.

4. The "Technology Factors" that contributed to the developments into High technology in industries include:-
  - (i) technology has become global and accessible to all - there was a breakdown of patents
  - (ii) technology became unique,
  - (iii) speed in technological changes is required
  - (iv) the 'cheap labour' and 'manual dexterity' stage is no more a prerequisite to industry in view of technological changes and requirements for precision and computerised techniques
  - (v) production technology needs to be done in association with others

- (vi) increasing use of automation and computer aided designs etc.

The implications of the changing trends in Industry to higher tech implies that the keys to success are:-

- a) Technology expertise required
- b) Processing expertise required
- c) Flexibility in technology and market required.

The Managerial Challenge in the 90s is therefore to expand its objective from ORGANISATIONAL EFFECTIVENESS to ORGANISATIONAL LEARNING.

In the above context, Managers has to sacrifice the "top down" system or "Regimented System" of effective management to a more "guerilla style" of management where flexibility, speed, adaptability to changes and learning is the prerequisite to maintaining the competitive edge in the manufacturing proven.



# 1990 ACTIVITY REVIEW

During the tenure of the present EXCO, the following activities were undertaken:-

## (i) Visit Malaysia Year project

In response to the VMY project the club under the Chairmanship of YB Dato Ng Cheng Kwai initiated the "members write" drive to encourage their classmates to visit Malaysia. The Ministry of Culture and Tourism provided brochures and planners which were sent to 2112 former classmates all over the world.

## (ii) Symposium for Research No 3 - Dr Paul Chan

The report "A study of Wage Trends and Wage System in Malaysia", funded by donation from Tan Sri Aziz bin Abdul Rahman of MAS, from his Manager of the year cash prize was published and copies given to the Ministry of Labour, MIM, MEP, MIPM, MTUC, CUEPACS, MAPA, and the librarian of all institution of higher learning.

*Prof Ezra F. Vogel giving his talk on "Will China be Superpower by 2010"*

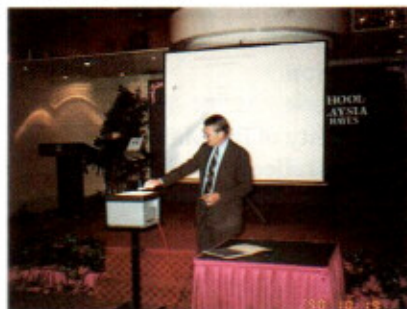
(iii) Luncheon talks/Dinner talks  
The club continued to attract well known speakers to its series of luncheon and dinner talks and this year saw the club organising the following:-

- "How to implement a winning strategy" - Dr Benjamin Tregoe
- "Beyond entrepreneurship; survival and continuity" - Mr Ho Kwan Ping
- "China a superpower by 2010?" - Dr Erza Vogel
- "Hitech Manufacturing-promises and pitfalls" - Prof. Robert H. Hayes.

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*Luncheon Talk by Mr Ho Kwan Ping "Beyond Entrepreneurship; survival and continuity"*



*Prof Robert Hayes making a point at his dinner talk. "Hi tech Industries - Promises and Pitfalls"*



*Prof Robert H. Hayes, Dinner Talk "Hi Tech Industries - Promises and Pitfall"*

## NEWS

On April 13th, 1990, the Club presented a 367- page report entitled "A Study on Wage Trends and Wage Systems in Malaysia" to the Minister of Human Resources, the Honourable Datuk Lim Ah Lek.

It is hoped that the study would be useful especially in future policy

decisions concerning the wage system of the country.

The study was financed by the prize money donated by Tan Sri Dato Abdul Aziz bin Abdul Rahman, the Managing Director of MAS, who was awarded the "Manager of the Year" in 1986. This award comprised a plaque, a certificate and \$10,000.

Because of the experiences of the

nation in the mid-80s and the uncertainties of the global economic challenges and the competition from developed countries, the Club felt that there was a need to study the nation's labour productivity and the wage system and to come up with recommendation on the wage system in line with productivity.

The study was made by Dr Paul Chan Tuck Hoong and he was assisted by Mr Pun Kai Loon.



*Tan Sri Dato Abdul Aziz bin Abdul Rahman*



*Presentation of "The Study on Wage Trends and Wage System in Malaysia" to the Minister - April 13th 1990*



#### (iv) One Day Seminar

A one day seminar on "Corporate Finance and Corporate Structure" was held at the Park Royal Hotel in Kuala Lumpur in conjunction with the SMDP. Prof Sam Hayes and Prof J Lorsh who presented the cases at the SMDP gave this special seminar at the same time.



Prof Sam Hayes expressing a point "One day Seminar".

#### (v) Gold Medal Award and Dinner

The Annual Gold Medal Award for the best business student was won by Miss Oh Bee Cheng, a nominee from University of Malaya.

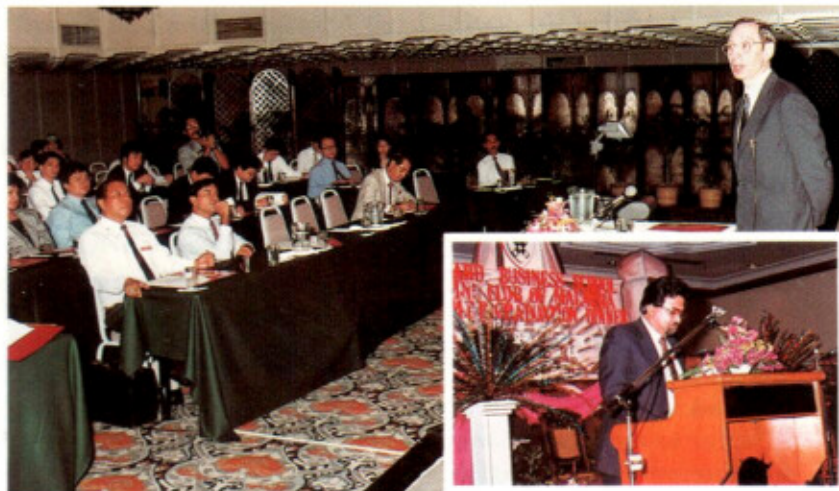
The award was made at a dinner held at the Park Royal Kuala Lumpur and Dr Erza Vogel gave the prizes after delivering his address.

#### (vi) The HBS Trust Fund - Scholarship

During the year your exco initiated the first HBS Trust Fund scholarship award. The scholarship was awarded to Ms. Lee Soon Sin to further her studies in Business. The award is an annual presentation to graduates having a 2nd class upper honours degree in business for furtherance of their studies leading to a Masters or a Doctorate.

#### (vii) Lectures to small Businessman

A lecture series for small businessman was organised in



Prof Sam Hayes at the One Day Seminar on Corporate Finance and Corporate Structure.



Gold Medal Award Winner Ms Oh Bee Cheng giving her acceptance speech.



YAB Chief Minister of Melaka arriving to officiate at the Graduation Dinner SMDP 1990



The exco Reception Committee at SMDP Graduate Dinner with Prof. Macfarlan



Ms Lee Soon Sin flanked by Prof Macfarlan and Prof K. Rangan at the SMDP dinner and presentation of Scholarship award dinner.

Dato Hussein delivering his speech on behalf of SMDP 'Graduates' at the 'Grad Dinner'



YB Dato Ng Cheng Kuai presenting a memento to Prof J Lorsh at the One Day Seminar on Corporate Finance and Corporate Structure.

conjunction with FMM and a total of 3 lectures in Market Management, Financial Management, Operational Management and Quality Control was organised during the year.

#### (viii) Sixth SMDP

The year's main activity is the Senior Manager Development Program (SMDP) organised every 2 years. The sixth SMDP was held in Ayer Keroh Melaka from the 5th to the 18th of



August. A total of 104 participants, including participants from Sri Lanka, Singapore and Philippines, attended the course. This premier education program was once again a great success and members support in sending their employees are much appreciated.

**(ix) The Asia Pacific Alumnus Regional Meet and Alumni Network.**

In order to establish a forum for Alumnus Networking, the EXCO undertook to organise the 2nd Regional Alumni meet in Penang from the 5th to 7th of October 1990. It was attended by 37 participants from Hong Kong, Thailand, Singapore, Japan and Malaysia. Dato Sri Rafidah Aziz, the Minister of Trade and Industry, officiated at the opening dinner. This proposed annual affair is intended to act as the main focal point between alumnus in the region and next meeting is hoped to be held in Bali Indonesia in 1991.

**(x) Club Trust Fund**

The HBS Alumni Club of Malaysia Foundation established in 1984 has \$458,730/-. During the year, a further \$100,000 was donated by the club to the Foundation from proceeds of the SMDP. The Foundation has initiated the scholarship for post graduate studies and it is hoped that the Foundation will be activated further to promote education in Business for the benefit of deserving Malaysian.

*The Hong Kong HBS Association representative making his closing statements - Regional Meet.*



- (xi) Manager of the Year Award**  
The EXCO has identified a Manager of the year for 1990 but due to pressing time constraint the dinner and award presentation will be held in 1991.

**(xii) Golf Meet**

The Golf meet as usual attracted a large field of 30 members, at the Rahman Putra Golf Club in the 18th of February 1990. The club also organised an SMDP Golf in Melaka and the Regional meet - Golf in Penang.



*"Invitation by the Harvard Club of Malaysia (the other club) to dinner at Bankers Club".*

**CONCLUSION OF THE - 2ND HBS ALUMNI CLUB REGIONAL MEET - 5 - 7TH OCTOBER 1990 - PENANG**

The event was held as a follow up to initiate NETWORKING amongst HBS Alumnus. The regional meets would act as the focal point for the Asia Pacific HBS Alumnus to discuss and exchange ideas.

The meet in Penang was attended by 37 participants from Hong Kong, Thailand, Singapore, Japan and Malaysia

The following proposals were made:-

- (i) That the meeting be made into an annual affair
- (ii) That the meeting be used as a forum to discuss "topical subjects and issues"

- (iii) That the meeting be regarded as an "opportunity forum" for business contacts and inter regional cooperations.

- (iv) That a plan towards the formation of a "Regional Council" be looked into to achieve and activate the NETWORKING amongst HBS Alumnus

As a forum for NETWORKING, the Regional meet in future hopes to attract more members to attend and the Penang Meet also proposed that the 3rd Meet in 1991 be held in Indonesia. To make the 3rd meet, more purposeful a suitable theme will be finalised by the HBS Alumni Club of Singapore.



*Participants at the Alumnus Regional Meet 1990 Penang.*



*Group photo - Alumnus Regional Meet 1990*



HONG KONG will in 1997 be handed over to the Peoples Republic of China. This presentation by the HBSA Association of Hong Kong is "meant to be an educational tool that business people in Hong Kong (and elsewhere) can use when discussing the territory..... to provide a balanced analysis of Hong Kong and its Future".

## What Happens in 1997?

### HONG KONG: VISION FOR 2000 AND BEYOND

1997

End of British rule



HARVARD BUSINESS SCHOOL ASSOCIATION OF HONG KONG

Post 1997

Special administrative region of PRC

- Continuation of current social and economic systems for 50 years
- Independent finances and freely convertible HK\$
- Own executive legislative and judicial powers

After 1997 Hong Kong will become a Special Administrative Region of China under the concept of "ONE COUNTRY; TWO SYSTEMS".

As a special administrative Region of China the Future of Hong Kong would depend in part on the development of China itself.

## THE CHINA SITUATION

Prior to June 4th 1989, China envisaged intense economic growth and economic liberalization. "The economic growth was not accompanied by any political liberalization and this led to growing tensions within the systems as follows:-

### GROWING TENSIONS

- Lack of political liberalization
- Corruption
- Nepotism
- Overheating economy
- Inflation at 18% in 1989
- Uneven growth
- Material shortages

Culminating in ...

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The STUDENTS DEMO of June 4th

The POST JUNE 4th situation has 4 possible scenarios as follows:-

It is expected that the development of CHINA

China is unique. Changes would come by "evolution within the communist party structure... consistent with its history and with its unique

### CHINA POST JUNE 4th: POSSIBLE SCENARIOS

- 1 Civil War / Regionalism
- 2 Return to isolation
- 3 Continuation of economic reform - no political reform
- 4 Economic and political reform

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during the 90s would be a combination of option 3 and option 4, the later in the long term, after a possible success in economic

scale of management task."

The possible political/economic structure is expected to be:-

reforms.

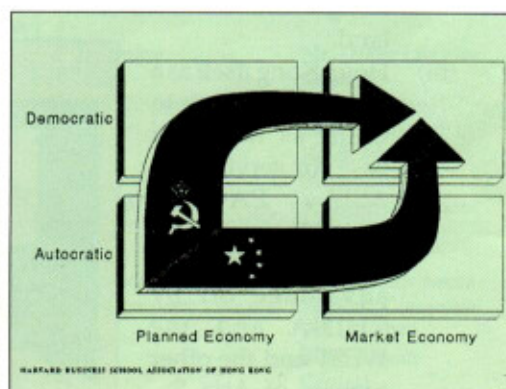
Options 3 & 4 are summarised as follows:

### ECONOMIC REFORM, NO POLITICAL REFORM

3

- One party rule
- Increased foreign trade and investment incentives
- Continuing social disaffection
- Duration of this scenario cannot be lengthy due to inevitable transition from ageing leadership

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Option 3 would be the continuation of the strategy of PRC during the 1980's, although it will finally undergo some "adjustment process". Option 4 is expected to follow with some political changes in the long term.

CHINA is not expected to follow EAST-EUROPE since

### ECONOMIC AND POLITICAL REFORM

4

- Short-term political destabilization
- Strong foreign technology and financial infusion
- Long-term rise in standard of living and market economy

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# HONG KONG in Relations to CHINA Developments

Hong Kong within the scenario 3 & 4 of CHINA "will continue to play the pivotal role between CHINA and the West which it has always played".

The analogy of the VENTURI tube, which has the effect of accelerating any material passing through it, could be the role anticipated to be played by Hong Kong.

Hong Kong therefore after 1997, and within the developments in CHINA would continue to develop as it has before.

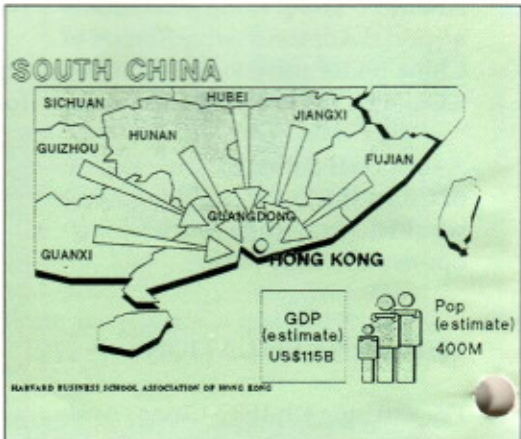
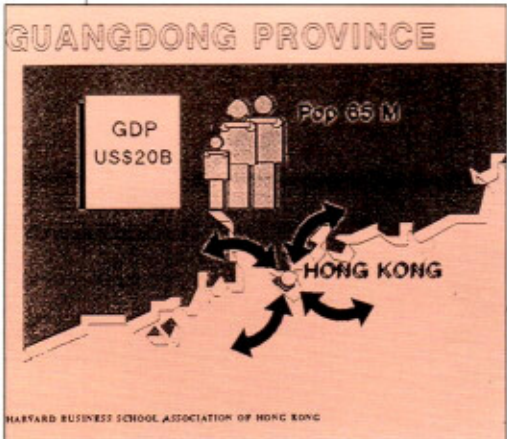
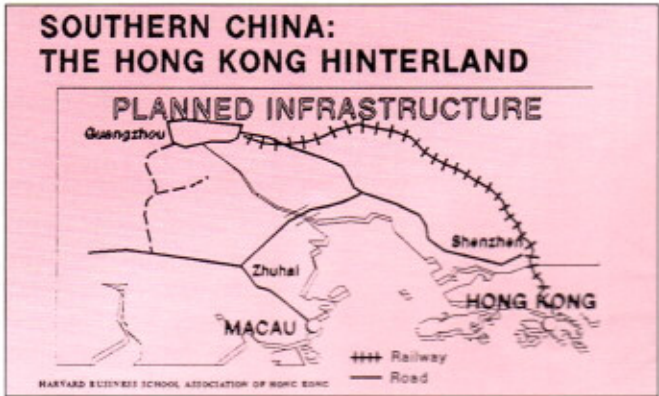
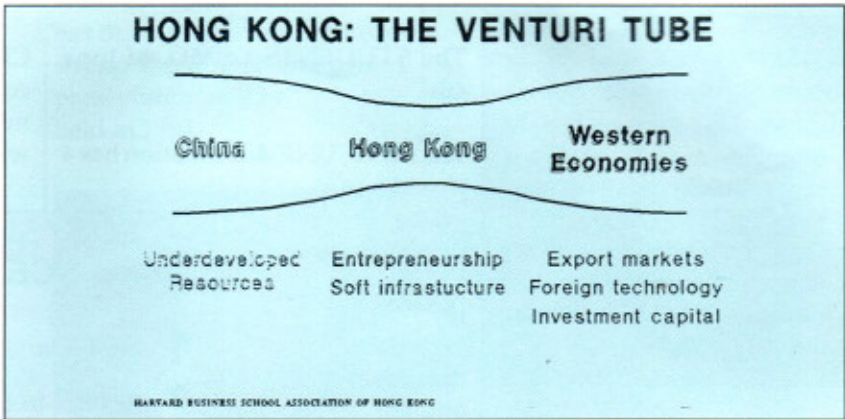
## Other FACTORS in Hong Kongs Favour after 1997.

- (i) The Southern China developments as HINTERLAND to China and thus Hong Kong.
- (ii) The developments of GUANGDONG PROVINCE which would provide Hong Kong with additional Hinterland.
- (iii) Hong Kong itself as a strategic gateway to China as well as a base for serving the ASIA PACIFIC region is expected to be continually taken advantage off by CHINA and the WEST and the other regions of Asia Pacific to allow it to play its existing role.
- (iv) Hong Kong would still have certain advantages as gateway to Asia due to its historical relationship and continued presence of International community after 1997.

Hong Kong compared to Singapore tips the scale in Hong Kong's favour since "Singapore is a sub regional hub of Asia while Hong Kong is more central to ASIA - PACIFIC.

Singapore and Hong Kong are complementary to each other and not competitors.

Cont. on pg 12



HONG KONG AND SINGAPORE		
<b>Qualities</b>	<ul style="list-style-type: none"> <li>Financial services hub</li> <li>Entrepot hub</li> <li>Transportation and communication hub</li> <li>Business hub for multinationals</li> </ul>	
<b>Complementary</b>		
Economic Structure	<b>SINGAPORE</b>	<b>HONG KONG</b>
Financial Services	<ul style="list-style-type: none"> <li>Planned</li> <li>Foreign exchange</li> <li>Financial futures</li> </ul>	<ul style="list-style-type: none"> <li>Market forces</li> <li>Funds management</li> <li>Loan syndication</li> </ul>
Entrepot	<ul style="list-style-type: none"> <li>Exports</li> <li>R&amp;D manpower</li> <li>Training</li> </ul>	<ul style="list-style-type: none"> <li>Exports</li> <li>Marketing sourcing and procurement</li> </ul>
Business Centre	<ul style="list-style-type: none"> <li>Thailand</li> <li>Indonesia</li> <li>Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>Taiwan</li> <li>South Korea</li> <li>Japan</li> <li>China</li> <li>Philippines</li> </ul>
Transportation and Communication		

HARVARD BUSINESS SCHOOL ASSOCIATION OF HONG KONG



## REGIONAL NETWORKING AND ADDRESSES.

Attached herewith are the addresses of HBS Alumnus from Thailand, Hong Kong, Japan and Singapore who attended the Penang Regional meet. Members may want to write to them or contact them during trips overseas.

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## MISPERCEPTION AND REALITY (conclusion)

### MISPERCEPTION

" Hong Kong will be economically pillaged leaving nothing but a barren rock in 1997"

### REALITY

US\$23B investment planned Financial commitments extend beyond 1997.

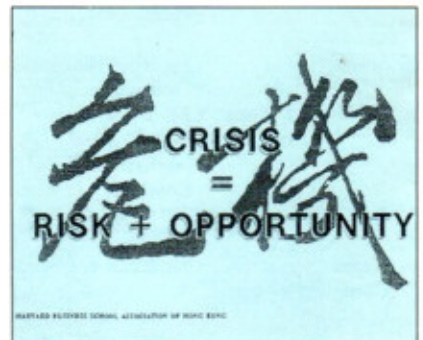
Basic law finalized



### PROBLEMS FACING HONG KONG

- **Braindrain/high staff turnover**
  - 5.8 million workaholics with entrepreneurial track record
  - Liberalization of immigration policies
  - Expansion of education
- **High operating costs**
  - Self-correction as higher costs cool demand
- **Capital outflow**
  - Partly related to capital flight - but....
  - Also necessary for reinvestment of earnings
  - Asia's multinationals investing from Hong Kong

**HONG KONG DOES FACE PROBLEMS THE PROBLEMS, HOWEVER, ARE RECOGNIZED AND NOT IN SURMOUNTABLE HONG KONG'S PUBLIC AND PRIVATE SECTORS HAVE A TRACK RECORD OF SUCCESSFULLY RESOLVING PROBLEMS TO FOSTER ECONOMIC GROWTH**



To conclude where there are crisis there are "risks" and "opportunity".