

# WATCHES

## Hong Kong Hong Kong

### Cluster Description and Evaluation

		Scale	Evaluation	Estim.	Comments, Explanations
<b>CLUSTER (Name)</b>		n/a			<b>Watches</b>
<b>BIOGR. INFO (Primary Citations:)</b>		Text			Glasmeyer, Amy K. Flexibility and Adjustment: The Hong Kong Watch Industry and Global Change. In: Growth and Change, Volume 25, Issue 2, p. 224, Spring 1994.
	Number of data points (quant. & qual.)	No.		117	
	Number of data points (quant. only)	No.		66	
	Done	1 Yes 0 No		1	
	Data entry by	Text			Claas van der Linde, Niels Ketelhohn
	Last change (date)	yy/mm/dd		00/01/11	
	Research Note	Text			Competitiveness of the Hong Kong watch cluster is compromised by necessity to import most critical parts; the picture would be much more positive if one were to describe the Hong Kong "wrist band and watch case" cluster or the HKG "watch assembly" cluster
<b>DESCRIPTIVE INFO</b>		n/a			
	Extractive / Natural Resource Industry	1 Yes 0 No		0	
	Generic Cluster (Primary Association)	1 Materials 2 Forest/Paper 3 Petroleum 4 Semiconductor 5 Multipurpose 6 Transport 7 Power 8 Office 9 Telecom 10 Defense 11 Food 12 Textiles 13 Housing 14 Health 15 Personal 16 Leisure		15	
	Generic Vertical Stage (Primary Association)	1 Primary Goods 2 Primary Serv. 3 Machinery 4 Inputs 5 Support Serv. 6 Multiple		6	Primary goods, inputs, supporting services
	Number of Vertical Stages in Cluster and Product / Service Description	1 1 Stage 2 2 Stages 3 3 Stages 4 4 Stages 5 5 Stages		3	Watches plus components such as band wrists and cases, assembly
	Number of Companies in Cluster	No.		1477	Watchmaking firms registered with the Hong Kong government in 1993; up from 1386 in 1988
	Cluster Employment	No.		17110	In 1993, down from 26444 in 1988 and 25200 in 1983 (drop in employment likely to be a result of improved productivity as exports have increased considerably)
<b>LOCATION (Nation)</b>		Text	Hong Kong		
	City	Text	Hong Kong		
<b>GEOGRAPHIC BOUNDS</b>		3 city 2 metropolitan area 1 part of state 0 state -1 across state borders -2 nation -3 across nat'l borders		<b>2</b>	
	Size of Country	sq. km		1045	
<b>REGIONAL ECO. DEV'T</b>		n/a			
	National Per Capita GDP	U.S. \$ (1993/90)		25400	
	Cluster in OECD Area	1 Yes 0 No		0	

		Scale	Evaluation	Estim.	Comments, Explanations
		<b>COMPETITIVENESS</b> 3 world's strongest cluster 2 among world's top 3 1 among world's top 10 0 known internationally -1 known nationally -2 rather weak -3 uncompetitive		2	World's no. 1 in terms of unit output; world's no 2 in terms of value of exports (behind Switzerland and before Japan); but: Advantage may be short-lived as it is based to a large extent on cost advantages which may quickly evaporate
		<b>INDICATORS OF COMPETITIVENESS</b> (Change in Competitive Position) 3 rapidly gaining 2 modestly gaining 1 gaining compet. position 0 holding compet. position -1 losing compet. position -2 modestly losing -3 rapidly losing		2	Assessment based on export growth rates
	Cluster's National Economic Importance	3 predominant (>50%) 2 dominant (<50%) 1 major (<20%) 0 significant (<10%) -1 visible (<5%) -2 insignificant (<1%) -3 invisible (<0.1%)		2	Third largest Hong Kong export industry (behind clothing/textiles and electronics).
	Annual Cluster Growth	3 rapid (>+10%) 2 fair (<+10% p.a.) 1 slightly (<+5%) 0 neutral (+/- 2%) -1 slightly (<-5%) -2 fair (<-10% p.a.) -3 rapid (>-10%)		3	Based on >15% of export growth
	Annual Export Growth	3 rapid (>+10%) 2 fair (<+10% p.a.) 1 slightly (<+5%) 0 neutral (+/- 2%) -1 slightly (<-5%) -2 fair (<-10% p.a.) -3 rapid (>-10%)		3	15%-20% between 1980 and 1988, forecast to be 25% afterwards
	World Export Share of Core Industry in Cluster	3 > 85% 2 > 70% 1 > 55% 0 45-55% -1 < 45% -2 < 30% -3 <15%		-2 estim.	Unclear; but industry is world's second largest exporter
	Local Firms Have own Foreign Marketing Organizations (vs OEM)	3 almost always 2 vast majority 1 majority 0 50% have -1 minority -2 small minority -3 almost never		-1 estim.	Many firms are moving towards own brands, 10 years ago most firms were OEM
	Local Firms Sell Primarily under own Brand (vs. Unbranded Commodities)	3 almost always own brands 2 often have own brands 1 sometimes have own brands 0 don't have own brands -1 market under foreign brands -2 often sell commodities -3 almost always commodities		1	Small firms (which comprise the vast majority of all firms) seldom have own brands; larger firms are moving towards own brands
	Local Firms Pioneer New Products or Processes (vs. Imitate)	3 usually pioneer 2 often pioneer 1 somet. pioneer 0 pioneer&imitate -1 somet. imitate -2 often imitate -3 usually imitate		0	Major developments (LED to LCD, mechanical to quartz) are copied from foreign developments, incremental improvements are pioneered
	Local Firms Compete Primarily within the Cluster's Industry (vs. Unrelated Diversification)	3 almost always 2 vast majority 1 majority 0 50% do -1 freq. related diversific. -2 freq. unrelated diversific. -3 frequently highly diversif.		3 estim.	Apparently no or very limited diversification
	Local Firms Compete Primarily on ...	3 factors oth. than diff'n/cost 2 diff'n, cost is insignificant 1 differentiation, less on cost 0 differentiation and on cost -1 cost, less on differentiation -2 low cost due to innovation -3 inherited low input costs		-2	Firms compete almost always on cost (fiercest price competition with world's lowest watch prices); some limited differentiation during recent years

		Scale	Evaluation	Estim.	Comments, Explanations
	Foreign Direct Investment by Local Firms (% who do)	3 > 85% 2 > 70% 1 > 55% 0 45-55% -1 < 45% -2 < 30% -3 < 15%		-2	Companies are slowly beginning to manufacture in mainland China
	Foreign Firms in the Cluster do more than just Marketing or Manufacturing (% who do)	3 > 85% 2 > 70% 1 > 55% 0 45-55% -1 < 45% -2 < 30% -3 < 15%		-3	Only a handful of foreign firms has located in Hong Kong to manufacture watches
<b>DIAMOND</b>				<b>1</b>	1,4
Primary reason behind competitiveness (+ order of importance)		1 FC 2 DC 3 R&S 4 FSR 5 Other			
<b>FACTOR CONDITIONS</b>		3 strong adv. 2 advantage 1 weak adv. 0 no effect -1 weak disadv. -2 disadvantage -3 decis. disadv.		<b>3</b>	
<b>General Factors</b>		3 strong adv. 2 advantage 1 weak adv. 0 no effect -1 weak disadv. -2 disadvantage -3 decis. disadv.		<b>3</b>	Low labor costs
	Geographic Location	3 strong adv. 2 advantage 1 weak adv. 0 no effect -1 weak disadv. -2 disadvantage -3 decis. disadv.		1	Historically, proximity to China has been key for Hong Kong's trade based development
	Cost of Production Inputs (Wages, etc.)	3 among world's lowest 2 very low 1 below average 0 world average -1 above average -2 very high -3 among world's highest		2	Labor costs are very low and constitute are strong comparative advantage; land costs have recently been rising, though
	General Physical Infrastructure (Roads, Ports, Airports, Telecom)	3 world's best 2 among world's best 1 above world average 0 world average -1 below world average -2 among world's worst -3 inexistant		3	Hong Kong's Infrastructure was build for intense trade.
	Government: Macro-Economic Conditions such as Exchange Rates (effect on costs, prices)	3 strongly positive 2 moderately positive 1 slightly positive 0 no effect -1 slightly negative -2 moderately negative -3 strongly negative		2	Stable exchange rates (pegged to U.S. dollar); government subsidized housing has contributed to low wage demands
<b>Specialized Factors</b>		3 strong adv. 2 advantage 1 weak adv. 0 no effect -1 weak disadv. -2 disadvantage -3 decis. disadv.		<b>0</b>	
	Cluster-Specific Human Resources (Skilled Labor)	3 among world's best 2 highly specific skills 1 some specific skills 0 general skills -1 primarily unskilled -2 among world's worst -3 impossible to obtain		0	Lack of labor skills is cited as a disadvantage; the industry is slow to upgrade

		Scale	Evaluation	Estim.	Comments, Explanations
	Cluster- Specific Knowl.- Transfer Resources (Vocat., Univ. Training)	3 among world's best 2 highly specific 1 some specific 0 general purpose -1 poor general purpose -2 among world's worst -3 none available		1	Two vocational schools are cited as being insufficient to serve the entire industry
	Cluster-Specific Scientific Infrastruct. (Research Institutes & Univ., Testing Labs)	3 among world's best 2 highly specific 1 possibly specific 0 general purpose -1 possibly gen. purpose -2 poor general purpose -3 among world's worst		-2 estim.	Seems to be lacking
	Cluster-Specific Info (Bus. Info, Corp. Disclos., Internet Access)	3 easily available 2 available 1 above world average 0 world average -1 below world average -2 hard to access -3 does not exist		-1	"Producers rarely listen to retail market information. There is little coordination between producers and distributors".
	Government: Subsidies	3 usually 2 often 1 sometimes 0 world cluster ave. -1 seldom -2 very seldom -3 never		-3	The government has a laissez fair attitude towards the industry
	Other	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		-1	Given the potential political instability, quick returns are required. Hence, manufacturers minimize capital investments and focus on labor intensive activities, which has contributed to the focus on low cost competition.
<b>DEMAND CONDITIONS</b>		3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		<b>-1</b>	
	Local Demand Size	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		0 estim.	Greater than 95% export rate indicates that local demand is insubstantial
	Local Demand Qualities	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		-1 estim.	
	Soph. / Demanding / Knowledg. Local Customers / Distrib. Channels	3 world's most soph. 2 sophisticated 1 above world ave. 0 world average -1 below world ave. -2 unsophisticated -3 world's least soph.		-2 estim.	Apparently unsophisticated local demand (including many tourists buying cheap watches)
	Disproportionate Local Demand in Specialized Segments	3 leads world trends 2 fosters innovation 1 attracts attention 0 no impact -1 diverts attention -2 retards innovation -3 opposes world trends		1 estim.	Apparently a strong focus on low cost watches
<b>RELATED &amp; SUPPORTING INDUSTRIES</b>		3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		<b>-1</b>	

		Scale	Evaluation	Estim.	Comments, Explanations
	Suppliers	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		-1	
	Degree of Local Sourcing	3 > 85% 2 > 70% 1 > 55% 0 45-55% -1 < 45% -2 < 30% -3 < 15%		-3	Most parts are imported (HKG 1988 exports of HK\$12,374 compared to HK\$10,000 million of which 95% were watch components); movements are imported (primarily from Switzerland and Japan)
	Local Components or Materials Suppliers	3 2&assist developm. 2 int'l'y competitive 1 nat'l'y competitive 0 many present -1 some present -2 uncompetitive -3 not locally present		1	Critical parts (movements) must be imported, other selected parts such as watch-glasses, dials, button-cell-batteries are locally available; Hong Kong has internationally world leading suppliers of wrist bands and watch cases; Hong Kong jewelry industry has begun to be an important supplier leading to increasing segment focus on jewelry watches where Hong Kong has become world leading
	Local Services Suppliers	3 2&assist developm. 2 int'l'y competitive 1 nat'l'y competitive 0 many present -1 some present -2 uncompetitive -3 not locally present		0	Electroplating services
	Government: Economy is Open to Importing Supplies	3 very open, much choice 2 open, limited choice 1 possible to import 0 neutral -1 difficult to import -2 almost impos. to import -3 closed, no choice		3	"the majority of watch parts are still imported."
	Related Industries	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		1 estim.	
	Competitive Related Industries That Share Common Inputs/ Skills / Technologies	3 very advantageous 2 strong links 1 exist, but few links 0 exist -1 absent, but no harm -2 absence is harmful -3 decis. disadv.		1 estim.	Electronic components and toy industries probably share assembly skills
	<b>FIRM STRATEGY &amp; RIVALRY</b>	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		<b>3</b>	Rivalry is cutthroat but almost exclusively based on price. Nonetheless, behind low labor costs, this is the industry's primary advantage.
	Rivalry	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.		3	
	Vigorous Competition among Local Companies	3 drives innovation 2 strong, multidimensional 1 same as against foreign 0 primarily on price -1 sometimes lacking -2 collusive behavior? -3 cartel or monopoly		0	Extremely strong local competition, based almost exclusively on price, slowly moving also to differentiation
	Government: Cluster's Economy is Open to Import Competition/ Foreign Direct Investments (FDI)	3 open imports, open FDI 2 economy almost open 1 decreasing restrictions 0 considerable restrictions -1 increasing restrictions -2 economy almost closed -3 no imports, no FDI		2 estim.	Many companies invest in Hong Kong

		Scale	Evaluation	Estim.	Comments, Explanations
		Cooperation	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.	1	
		Local Industry Association (in Core Industry)	3 builds capacity 2 is trying to upgrade 1 gets execs together 0 exists -1 no impact/no assoc. -2 lobbies for subsidies -3 discour. competition	2	Industry trade association has set up a Patent Depository for logging designs in order to overcome the problem of HK firms copying foreign designs
		Local Investment Context	3 strongly encourages any investments 2 encour. inv. in intangible/risky forms 1 encourages inv. in physical assets 0 neutral (world average) -1 discour. inv. in intangible/risky forms -2 discourages inv. in physical assets -3 strongly discourages any investm.	-2	
		Government: Tax and Regulatory Environment	3 encourages risk inv. 2 encour. long-term inv. 1 encour. short-term inv. 0 neutral -1 discour. long-term inv. -2 discour. short-term inv. -3 discour. any investing	1	Minimal tax rates facilitated high rates of business earnings reinvestment
		Economic Stability	3 lowers hurdle rates 2 encourages invest. 1 above average 0 OECD average -1 below average -2 increases hurdle rates -3 discourages invest.	-1	Uncertainty about Hong Kong future contributed to low capital investment rates
		Government: Intellectual Property Protection	3 encourages investm. 2 is usually enforced 1 sometimes enforced 0 possibly enforced -1 seldom enforced -2 is not enforced -3 no protection	-1	Hong Kong watch manufacturers are frequently accused by foreign competitors of patent infringement, showing that patent laws are seldom enforced
		<b>OTHER ADVANTAGES</b>	3 strong adv. 2 advantage 1 weak adv. 0 neutral -1 weak disadv. -2 disadvantage -3 decis. disadv.	<b>0</b>	
		<b>EVOLUTION</b>	n/a		
		Evolutionary stage of cluster	3 among world's top 3 2 highly developed 1 critical mass present 0 partly developed cluster -1 critical mass lacking -2 rudimentary -3 unclear if even a cluster	3	Besides Switzerland and Japan the world's most highly developed watch cluster
		<b>BIRTH</b>	n/a		
		Primary reason behind cluster birth (+ sequence of events)	1 FC 2 DC 3 RSI 4 FSR 5 Other	1	1,5
		Birth of Cluster (Year)	Year	1952	Early 1950s
	1	Birth due to Unique Factor Conditions	3 sole factor 2 main factor 1 major factor 0 contrib. factor -1 minor factor -2 minusc. factor -3 no factor	2	Abundant availability of low cost labor as a result of influx of immigrants fleeing China's political upheavals; immigrants were often "China's brightest"

			Scale	Evaluation	Estim.	Comments, Explanations
	5	Birth due to Other Reasons (Chance, Isol. Innov./Entrepreneurism)	3 sole factor 2 main factor 1 major factor 0 contrib. factor -1 minor factor -2 minusc. factor -3 no factor		1	Early export orientation due to lack of domestic demand as a result of local poverty