

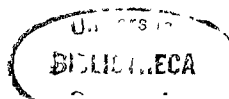
HONG KONG'S ECONOMY, 1949-1959

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PREFACE

Since the communists' occupation of mainland China in 1949, public attention has been directed throughout the world to the results of this occupation on the whole of East Asia. The fact that a relatively small Colony like Hong Kong, such a close neighbour of China, has been allowed to retain without interference its colonial status has aroused much speculation and interest. The stirring story of its economic development, under these circumstances, during the last decade seems worthy of a comprehensive study and hence the choice of subject of this thesis.

The first chapter will be an outline of the general characteristics of this Colony--its history, economic and political conditions, and its importance in the Far East. Chapter two will be devoted to the discussion of foreign trade which will deal with the forms and steps that have been taken to develop and expand foreign markets. Even today, ultimate dependence on foreign trade is still felt, but industry now plays the most important role in Hong Kong's economy. Therefore, various kinds of manufacturing industries have been built up for the past ten years. Since the Colony has no natural resources such as coal, water power and so on, it is interesting for readers to know what conditions made it possible to achieve this industrial

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progress. The nature and process of the rapid industrial development will be discussed in the chapter three.

Apart from the achievement of industrial development, of course, Hong Kong has its own serious problems. Thus chapter four will deal with the population situation of the Colony. It is not very hard to understand the difficulty of absorption of the large influx of Chinese refugees in such a very small territory. This sudden increased population has accentuated the demand for more housing accommodation and social welfare which have been made a considerable improvement in the last few years.

Finally, the conclusion will offer some suggestions for a possible solution to some of the problems arising from the facts here submitted.

CHAPTER I

INTRODUCTION

Since the occupation of mainland China in 1949 by Communists, important economic changes have taken place in the Colony of Hong Kong. Before the Second World War, the economy of Hong Kong mainly depended upon interport trade, particularly with China. Today international trade provides the Colony with one of its main sources of national income, but the interport trade has never been restored to its pre-war relative significance.

There are also significant changes in the pattern and the nature of Hong Kong's interport trade. Owing to the changes in political conditions and economic policies in China, Hong Kong's present trade with the mainland has fallen to a very low level when compared with the 1948 volume. This is due not only to restrictions imposed by United Nations on exports of strategic machines and materials to China but also, ^{or} China's foreign trade policy based on the bilateral principle. In 1948 export to China amounted to H.K. \$280.5 million, about 18% of the total export of H.K. \$1582.7 million. This fell steadily under the new conditions to H.K. \$136.0 million in 1956 and \$123.4 by 1957 which was approximately 4% of the total export for the same two years--H.K. \$3209.6 million in 1956 and H.K. \$

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3016.3 million in 1957.¹ Because of steady decline in trade with China, the Hong Kong merchants have made an effort to look for a wider market. In recent years, the traditional interport trade has therefore widened to include many other countries, in particular, Malaya, Indonesia, Thailand, Korea and U.S.A.

The importance of the export of locally manufactured goods has also gradually increased. In 1947 it was estimated that the value of these products was H.K.\$ 121 million or 10% of the total export; by 1953 it was H.K.\$ 635 million or 23% of the total;² and by 1958 it had reached H.K.\$ 1260.3 million or about 42% of the total export.³

The transition from a trading to an industrial economy is the second outstanding change in Hong Kong's economy since 1949. There are three principal causes for this rapid industrialization of the colony:

1 Hong Kong Government Publication, Dept. of Commerce and Industry, Directory of Commerce, Industry, Finance, 1958, p. 8.

2 Before 1954, exports of the relatively smaller items of manufactured goods were not included in the official statistics, e.g. rattan furniture, sugar, cosmetics and a number of other items. Thus the value of exports locally produced goods might be 5-10% higher than the above mentioned figures which were obtained from, Edward Szczepanik, The Economic Growth of Hong Kong, Oxford University Press, 1958, p. 63.

3 Hong Kong Government Publication, Dept. of Commerce and Industry, Directory of Commerce, Industry, Finance, 1959, p. 7.

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1. Hong Kong has maintained the highest degree of stability in the Far East. This was and is the result of political security, British law and order, membership in the sterling area with the existence of an open exchange market, a stable currency, and the benefits to be derived from the enjoyment of imperial preference in Commonwealth markets.

2. Many of the refugees from mainland China brought capital and technical skills, both important industrial elements. Although it cannot be said that the industrialization could not have taken place without the arrival of fleeing Chinese capitalists and industrialists, since the eventual advance of Hong Kong's light industries was a foregone conclusion as the general desire for industrialization of economically backward areas became, after World War II, very pronounced. Nevertheless the fact remains that the impetus received from Chinese industrialists from the north set the industrialization of the Colony in motion.

3. The large population has increased the demand for more industry. In June, 1949, the population was estimated at 1,860,000,⁴ by the end of 1957 it had increased

⁴ Hong Kong government report, "Hong Kong Geography, History, Population and Government", Far Eastern Economic Review, March 23, 1950.

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rapidly to 2,677,000.⁵ The value of industrialization in Hong Kong has become very evident in all sectors of the community since the majority of the people benefit from it in one way or another. New capital has been invested in manufacturing industries, real estate, construction of dormitories, warehouses, etc., while employment has been created for workers in factories, construction and transportation industries, etc. The community's earning potential has significantly increased through the exportation of locally manufactured goods. At the same time, domestic demand for an expanding variety of consumer goods and, to a lesser extent, machinery, has been met from local industry rather than from exporters abroad. In fact, a great number of industries previously unknown in the Colony like the making of woollen gloves, plastics and aluminium ware have been established during the last ten years.

This thesis is primarily concerned with the problems and the processes of industrialization, and the Colony's economic development following the Civil War in China, in order to ascertain both Hong Kong's present and future economic influence and importance in the Far East.

⁵ According to the government estimate: 2,677,000 as of population for 1957; Hong Kong government publication, Hong Kong Annual Report-1957, p. 35.

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A. General Historical Background of Hong Kong

The Crown colony of Hong Kong, which consists of a number of islands and a portion of mainland, lies within the tropics, on the south-eastern coast of the Chinese Province of Kwangtung and east of the Pearl River estuary. The total land area of the Colony is 391 square miles, divided as follows: Hong Kong island, on which is situated the capital city of Victoria, 32 square miles in area, ceded to British Crown under the Treaty of Nanking in August, 1842; the Territory of Kowloon, 3.5 square miles, added to the Crown colony under the Convention of Peking in 1860; and the New Territories, which consist of the remainder of the mountainous peninsula of Kowloon together with numerous islands, 355 square miles, leased from China on the 1st of July, 1898, for 99 years.

The reason for the establishment of a Colony in Hong Kong was and still is that it serves as a commercial centre where trade can take place between West and East. Victoria Harbour is one of the finest natural ports in the world. Hong Kong's interport trade developed here; and as a consequence of that trade both the cities of Victoria and Kowloon have been developed and modernized.

Hong Kong Island is a very small territory, possessing no natural resources and marked with much rocky and mountainous land. Because of this, reclamation of land was

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started within ten years of the Colony's foundation, and with it the quarrying and cutting of the hills, soil removed from the hills is dumped into a convenient bay, extending the building space in two directions at once. Much of Victoria is built on reclaimed land and it is now the main business centre.

The ceded territory of Kowloon originally consisted of a number of low dry foothills which have mostly now been levelled. It contains the Colony's main industries centre and dockyards. As a result of rapid growth of industries, more factories are required and are now being built in Tsuen Wan in the New Territories, northwest of Kowloon.

Quite a proportion of the New Territories is steep and hilly. This has prevented the expansion of agriculture to any significant extent. However, farmers have made maximum use of the available land; Hillsides are often covered with intricately terraced fields. Wherever cultivation is made possible by the presence of flat land and water, villages exist and crops are raised. Although modern methods of cultivation have been adopted on some farms, there are some directions in which their traditional methods can still be improved. As a result of such scarcity of land for farming, the Colony's agriculture therefore provided but little help to population pressure.

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Looking at the history of Hong Kong, it can be seen that the Colony has been a place for traders and a shelter for refugees. In 1911, a revolution took place in China, guided by Sun Yat-sen. The Manchu dynasty fell and was replaced by a Republic. Following the establishment of the Republic there was a long period of unrest in China with the result that large numbers of refugees made their way to the Colony. Their arrival coincided with a commercial boom during the First World War, and many of them made their permanent home in Hong Kong. Japanese plans for economic and political expansion in the Far East became apparent when Japan presented her Twenty-One Demands to China in 1917. China experienced an invasion from Japan in 1938 and again, Hong Kong experienced a great influx of refugees. Up to the outbreak of the Japanese War in December, 1941, the population had increased to 1,600,000.⁶

Before the Second World War, the economy of the Colony relied solely upon its interport trade. With the Japanese occupation 1942-45, Hong Kong's role as a free port ceased. By the end of the War the Colony's population had dropped back to less than 600,000⁷ since the Colony could

⁶ Hong Kong government publication, A Problem of People, Hong Kong, 1956, p. 3.

⁷ Ibid.

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not support a large population without importing goods from abroad. In addition, many people went back to China and some to Macau for safety reasons.

Eighteen months after the liberation of Hong Kong from Japanese occupation, more than 1,000,000 people had returned from China and Macau. From the end of the war up to 1949 Hong Kong experienced a trade boom; then, just as the Colony was returning rapidly to its pre-war role as a great interport centre, changes in the political situation took place in China in 1949. The immediate impact on Hong Kong was a further influx of people, this time amounting to some 700,000 to 800,000⁸ refugees with new capital and skills. These incoming Chinese industrialists and capitalists established factories and thus a period of rapid industrialization began.

This influx of a population was of a different nature from all preceding ones. Formerly, peace after political unrest meant that quite a number of people would return to their homes on the mainland, but this time the refugees showed no intention whatsoever of leaving.

The increasing pressure of population in the Colony together with the growing importance of industrialization,

⁸ T.R. Tregear and L. Berry, "Hong Kong's Post-War Rehabilitation and Development", Far Eastern Economic Review, Sept. 11, 1958.

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has necessitated the spending of more and more by the government on social welfare, including roads, drains, schools, hospitals, clinics, etc. The two most important responsibilities of the government have always been to provide new land by reclamation and to build reservoirs, since the housing and water shortage has been a big problem in recent years. Throughout the urban area and the New Territories there has been tremendous building activity to provide accommodation. This expansion, however, has not kept pace with the increasing population.

B. Hong Kong as a Free Port

Since the earliest days of its foundation, Hong Kong has flourished as a free port for trade with South China and as a commercial centre serving the whole of the Far East. Furthermore, it acts also as the main port for trade between West and East, and hence the Colony now plays an important role in international trade.

The activity of this free port before the Second World War was chiefly the trans-shipment of goods. In other words, it was important as a distribution centre for the products of areas such as America and European countries where the movement from the point of origin to the point of destination in north China and south east Asian countries involved too long a journey to warrant direct overseas

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service. Goods consigned to Hong Kong might be landed there, sorted, graded, repacked, processed and re-exported without inspection over commodities by the government authorities, except for compliance with regulations governing the payment for specific services, such as storage and wharfage. Hong Kong still maintains its traditional position as a free port after the Second World War. Foreign trade controls in the Colony are kept to a minimum, a necessity since the port depends upon its entrepot trade for its prosperity.

There is freedom of trade in practically all forms. Firstly there is no general tariff; and for most goods Hong Kong remains as a free port so far as duties levied for revenue or protection purposes are concerned. However, five kinds of commodities imported into the Colony are subject to customs duties. These are liquor, tobacco, hydrocarbon, oils, proprietary medicines and methyl alcohol. The yield from customs duties on these goods totaled over H.K.\$ 96 million for the financial year 1957.⁹

Secondly, merchants and industrialists of all nations are welcomed to set up new businesses on equal terms and with local enterprises, since there is no formality on

⁹ Hong Kong government publication, Dept. of Commerce and Industry, Directory of Commerce, Industry, Finance, Hong Kong 1958, p. 15.

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entry and exit.¹⁰ In addition, these firms may freely remit their profits abroad.

Realizing the importance of international trade to the Colony's economy, port facilities and warehousing were developed long ago for re-export and storage of goods from all over the world. Financial institutions such as banks, shipping companies and insurance companies were established to provide facilities for all traders; the existence of such a variety of services have made a considerable contribution to the promotion of trade.

Thus, by fostering foreign trade, a free port tends to increase the Colony's shipping business and shipbuilding industry, and to create jobs for domestic labor. The free port also offers manufacturers the opportunity of making goods for export with the use of imported duty free components. For example, the garment manufacturers are benefited by buying the high quality materials and specialties from abroad such as British woollen material, Swiss silk

¹⁰ Before the communists occupied mainland China, people came to stay in Hong Kong freely irrespective of nationality. The population pressure during recent years led to the imposition of temporary restriction on entry to the Colony by Chinese refugees. Even yet entry permits may be granted to such applicants if they are sponsored by relatives in Hong Kong. There is no restriction of entry to people who are British subject, and entry permits are usually granted to most applicants other than British subjects.

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and a great number of other fashionable materials for making men's suits and women's dresses without the payment of import duty.

The role of the government is to provide a stable and secure framework for the economy as a whole within which commerce and industry can flourish with maximum efficiency and minimum interference. The government's interference with trade affairs is mainly confined to those made necessary either by the need to protect Hong Kong's own supplies of scarce commodities; or by international obligation with respect to certain commodities. Because of the imposition of embargo by the United Nations in 1951, the Hong Kong government has felt it necessary to set up controls over the import and export of goods of strategic significance and such goods may now only be imported under license for local consumption or re-exported to approved destinations. In so far as it is consistent with the Colony's obligations to the sterling area, exchange control makes no attempt to enforce surrender of foreign exchange to the government, where such an attempt might merely cause the trade to be diverted elsewhere.

C. Political Stability Pre-requisite for Economic Development

There are naturally many factors which may from time to time tend to slow up the processes of economic development.

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These include: shortage of land, lack of sufficient natural resources, inadequacies of economic development institutions, over-population and so on. In addition to the above mentioned obstacles to economic advancement, this section deals mostly with the significant results of the threatened political instability of Hong Kong. The following are ways in which political uncertainty may bring about economic stagnation or decline : decreasing the rate of investment, capital moving abroad, contraction of business activities, postponed consumption expenditure, etc.

Increased investment is the most important way to accelerate economic growth in any country. If and when the investors find that the political prospect is uncertain or that their investments are not secure, then they may postpone their investments or shift them to some other safer places. Furthermore, individuals may also put aside a part of their present income in the form of cash, gold, or foreign exchange such as U.S. dollars. Such hoarding is made to protect themselves against possible emergencies as a result of political circumstances. This type of individual savings will not be transferred into productive investment and may be considered as wasteful in an economic sense.

Because of its special location, Hong Kong has always been particularly susceptible to political and economic conditions outside its own borders. This has naturally been

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much more the case since mainland China went over to communism. Any rumour may affect the market;¹¹ for example, when an American aircraft was shot down in the Baltic, gold and dollars jumped in value owing to a rumour that United States was severing diplomatic relation with Russia. Most of the people in the Colony are concerned with the future of Hong Kong, since leased territories will revert to China in 1997. Will the ceded territories --Hong Kong Island and Kowloon-- remain in British hands? At present there can be no definite answer to this question. In view of the fact that there is such a time limit on the New Territories which were leased, some of the capitalists have been reluctant to finance long term investment. A few foreign firms have already been selling their premises to Chinese buyers and retaining the business only as a temporary tenants in order to maintain safety and liquidity of their capital.¹² On the other hand, there are signs which help to build confidence in the Colony's future, good examples are: the enlargement of Hong Kong's airport by the government; and the fact that many capitalists in the Colony as well as in south east Asian countries have spent large amounts of money financing

11 Harold Ingrams, Hong Kong, London, 1952, p. 151.

12 Gethyn Davies, "Promotion of Industrial Development in Hong Kong", Far Eastern Economic Review, July 31, 1958.

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private construction.¹³

The economic impact on Hong Kong of the uncertainty of political environment during the period of the Korean War gives a clear picture of the importance of political stability in the furthering of economic development. When the Korean War broke out in June, 1950, an immediate effect was a speculative trade boom¹⁴ which absorbed a large portion of the capital which would otherwise have gone to industrial development, but it was only a short-lived phenomenon and this trade figure began to decrease from 1951. Furthermore some capital flowed out of the Colony because there still appeared to be a threat of political uncertainty during the period from 1951 to 1953.¹⁵ However, law and order were efficiently maintained, and no major disturbance resulted. This accounts for the speeding up of the resumption process of industrialization. From 1953 onward, the Colony has shown a gradual growth in the manufacturing industries.

¹³ "The Persistent Colony", The Economist, January 19, 1957.

¹⁴ Speculative traders made extra inventory build-up in anticipation of price rise, and that sales would be much greater to Communist China as a result of their military preparation and support to North Korea.

¹⁵ Sir Arthur Morse, chairman of the bank, "The Hong Kong and Shanghai Banking Corporation Report", The Economist, March 7, 1953.

D. The Significance of Hong Kong to the World

As a modern seaport in south-east Asia, Hong Kong, because of its location and historical background, has a considerable economic and, in some respects, political importance. This would be especially true with regard to its trade relations with United Kingdom, China, the Far East, but also to a lesser degree with the rest of the world.

Firstly, the economic importance of Hong Kong to the United Kingdom may be examined. One of the pronounced advantages which should not be overlooked is that Hong Kong provides an excellent location and outlet for the promotion of export trade for the United Kingdom in the Far East. Most British businessmen treat Hong Kong as a base from which to visit neighbouring countries. When they come to Hong Kong, it is not only for the purpose of increasing trade with the Colony itself, but with the idea of extending their potential export with the whole surrounding circle including China, Macau and Indo-China, etc.

Hong Kong provides a market for British products. The United Kingdom's exports to Hong Kong reached a record total of more than H.K.\$ 660 million in 1957. This figure was slightly more than one percent of Britain's total

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exports in that year which amounted to H.K.\$ 55,328 million.¹⁶ Considering Hong Kong's area and population, this share was relatively high. The United Kingdom also has large earnings in freight from British owned ships going and coming through the Hong Kong harbour. On the other hand, the United Kingdom is also a good customer for Hong Kong products. Exports to the United Kingdom amounted to H.K.\$ 337 million which was about 11 percent of Hong Kong's total exports in 1957. The British public is quite familiar with Hong Kong made shirts, rubbershoes, electric torches, enamelware, etc., and they are able to get these at relatively low prices.

The prosperity of Hong Kong is therefore quite largely dependent on its export trade with United Kingdom, since United Kingdom is the best customer for its products. But it must also be taken into consideration that Hong Kong provides a sizeable income for British owned firms located there. There is a wide range of business establishments and agencies operated by British. The most important of the British owned banks are the Hong Kong and Shanghai Banking Corporation, Mercantile Bank Limited, and The Chartered Bank. All of these three are among the very prominent banks

16 G.B. Harrison, Report of "The United Kingdom's trade with Hong Kong", United Kingdom Trade Commissioner in Hong Kong, 1958.

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in Hong Kong while the first one is in fact the central bank. Then the two biggest shipping and insurance firms are British, namely, Jardine, Matheson & Co. Ltd., and Dodwell & Co. Ltd. There are also a large number of import and export houses, such as Imperial Chemical Industries Ltd., Charles Morgan Lendrum Ltd., and William Jacks & Co. Ltd. In short, British firms have entered into almost every kind of business in Hong Kong.

Secondly, Hong Kong serves as a useful neighbour to mainland China. From the economic point of view, China still depends on Hong Kong as one of the best markets for her products. The figure of the imports by Hong Kong from China (excluding Formosa) amounted in 1958 to H.K.\$ 1,396.9 million.¹⁷ This represents the greatest value in import by Hong Kong from any country in the world, yet Hong Kong exported only H.G.\$ 155.7 million worth of goods to China.¹⁸ Each year brings a favourable balance of payment to China. Therefore the Colony has become China's major source of sterling and American dollars.

¹⁷ Hong Kong Government Publication, Dept. of Commerce and Industry, Trade Statistics-Imports, Dec. 1958, Appendix XI.

¹⁸ Hong Kong Government Publication, Dept. of Commerce and Industry, Trade Statistics-Exports, Dec. 1958, Appendix XII.

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From the political point of view, Communist China exports large quantities of commodities, both raw materials and manufactured, at very low prices in order to demonstrate their economic progress to the people of Hong Kong. They send these products to Hong Kong despite a shortage of consumer goods and very poor living conditions in their own country. In other words, they use Hong Kong for propaganda purposes. On the other hand, they attempt to control the Colony's economic activities by a low price policy; because of the lower prices people tend to buy imported Chinese goods rather than locally manufactured goods. As a result, some of the textile industries which could not compete with the lower priced products from mainland China had to close, causing considerable unemployment in the past few years. For example, the Gin Nih Weaving Factory in Tsuen Wan suspended operation July, 1958, and Oriental Corporation at Castle Peak also discharged its 130 workers.¹⁹ This is one of the obstacles to ~~existing~~ economic development in Hong Kong.

Thirdly, Hong Kong has an influence in the Far East altogether disproportionate to its size, and by serving the Far East as a transshipment point it also renders a service

¹⁹ "Unemployment in Hong Kong", Far Eastern Economic Review, August 7, 1958.

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to the rest of the world.²⁰ It performs the function of linking the trade between the Western and Eastern countries which required long transportation. The merchants abroad know that in Hong Kong their goods will be sold or kept in storage in the event of emergencies in the importing countries of the Far East. The fact is that Hong Kong provides, on a world scale, all the services required for foreign trade, such as modern and competitive banking facilities, excellent storage establishments, shipping and insurance services. Today therefore Hong Kong plays an important role in the economy of the Far Eastern countries. Some of these countries are desperately in need of raw materials, machinery and fertilizers for their economic development. These requirements Hong Kong is able to satisfy, either from local manufacturers or from abroad. On the other hand, some products of the Far Eastern countries being exported to western countries also pass through Hong Kong.

²⁰ "Hong Kong's Service to the World", The Economist, March 16, 1950.

CHAPTER II

FOREIGN TRADE

The first part of this chapter will deal with a general picture of trade changes in ^{the} past ten year period. This is followed by a detailed study of Hong Kong's import and export trade including its importance to the Colony's economy; trade with leading countries; principal commodities traded; trade facilities and government foreign trade policies and so on. It may be noted that, since the Colony is consuming only a fraction of the goods produced or imported, the subject of domestic trade will not be discussed.

Hong Kong provides one of the most impressive shopping centres in the world both from the point of view of prices and variety of certain types of goods. Many, if not most, of its streets are streets of stores heavily stocked with merchandise. Thus, one may buy all one needs in Hong Kong. The Colony has been described as a "shop window of democracy".¹

On the streets near the waterfront are the shops of wholesalers and exporters who play a very important role in foreign trade. The activity there is of a special kind, with the goods coming in and exported to different destina-

1 "Far Eastern Back Door", The Economist, April 8, 1950.

tions throughout the world. On one day a daily paper showed that ships in harbour were loading for 68 different destinations, from Adelaide to Baltimore, from Liverpool to Honolulu.²

With the development of communications between Hong Kong and the rest of the world, the local merchants have established close contact with buyers and sellers all over the globe. Hong Kong is a part of an international market. Prices in Britain, America, China, Australia, Belgium, Brazil, Canada, Western Germany, Indonesia or a dozen other countries are quoted in Hong Kong. Merchants receive these quotations and enter into trading contracts with the nation which offers the best terms.

In contrast to other Asian countries, Hong Kong enjoyed an increasing prosperity between 1949 and 1959. Efforts in trade promotion and development have accounted for this. For example, when there was difficulty in trading with China, the versatile Hong Kong merchant looked elsewhere, in order to compensate for slackening trade with the mainland.

A. Foreign Trade Trends During 1949-59:-

The Colony was founded as a trading centre and an

² Harold Ingrams, Hong Kong, 1952, London, chapter 15, p. 146.

entrepot, but this has changed considerably during the last decade. Modifications in its external trade have been affected mainly by international economic and political conditions in other countries. Any action with regard to their overseas trade, taken by the multitude of independent nations in the Far East as well as by those in the western world, inevitably affects Hong Kong's trading position. Unfortunately, there is very little it can do to alter this particular situation.

In order to show the changes in volume and value of the Colony's foreign trade, the decade may be divided into the following periods:

1. From the second half of 1949 up to the first half of 1950.

In order to facilitate comparison, the trade values have been converted into index numbers with the 1948 value of total imports, and exports as a basis of 100. It is worth noting also that before the first period, namely during 1946 to 1948, Hong Kong's trade was largely with mainland China. At the time of reconstruction soon after the Second World War, there existed in China a general shortage of materials, Chinese merchants naturally under this circumstance bought largely from Hong Kong and consequently Hong Kong merchants made a sizeable profit from this trade. On the other hand, Chinese products also depended on Hong Kong

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as a port of re-export to the rest of the world. Therefore the value of Hong Kong's imports and exports doubled in the early post war years.³ After the communists took over mainland China in 1949, the volume of trade with China decreased greatly, due to political uncertainty, but both the volume of imports from and exports to the rest of the world continued to increase steadily.

2. From the second half of 1950 to the first half of 1951.

This period covers the so-called "Korean boom" in Hong Kong. As a result of rearmament, inventory build-up and sudden large purchases by China, there was a consequent rise in commodity prices, and trade figures increase greatly following the outbreak of hostilities in Korea in July 1950. The value of exports was H.K.\$ 3716 million in 1950, about 60 percent higher than the amount of H.K.\$ 2319 million in 1949, while that of imports was H.K.\$ 3788 million or 38 percent higher than those for 1949-H.K.\$ 2750 million. The deficit of the balance of trade was almost wiped out in 1950, since the total value of exports had increased more than the total of imports. The value index of total import and export trade rose greatly during this period, from 138 in 1949 to

3 "The Hong Kong & Shanghai Banking Corporation Annual Report", The Economist, March 12, 1952.

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205 in 1950 and to 254 in 1951. The 1951 figures showed the value index of exports and imports had gone up to 280 and 234 respectively.

3. From the second half of 1950 to 1954.

The peak of trade was reached in the middle of 1951, after which a United Nations embargo was imposed on shipments to China of strategic goods, trade figures began to decrease substantially. Although Hong Kong tried to maintain and expand the entrepot trade with countries other than China during this period, the result of such endeavour was not achieved until 1955. Thus trade in this period settled down to its lowest level during this decade.

4. From 1955 to 1956.

Both the values and the volumes of trade increased during this period. In 1955 the value of the Colony's total import and export trade increased from H.K.\$ 5852 million to H.K.\$ 6253 million, approximately 7 percent over the preceding year. However, as the total value of imports rose faster than the value of exports, the import surplus became larger, reaching nearly to the level of H.K.\$ 1200 million in 1955.⁴ Total foreign trade in 1956 increased to H.K.\$ 7776 million, about 24 percent higher in value while volume

⁴ Hong Kong Government Publication, Dept. of Commerce and Industry, Trade Statistics - Imports and Exports, 1954-57.

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rose only by 12 percent. It is worth noting here that the volume index fluctuated much less widely than the value index. The following Graphs I and II illustrate the changes of the value and the volume of imports and exports.

5. From 1957 to 1959.

Exports in 1957 dropped to H.K.\$ 3,016.3 million; imports still increased steadily up to H.K.\$ 5,149.5 million.⁵ For the year, 1958, both the values of exports and imports decreased to H.K.\$ 2,999 million and H.K.\$ 4,595 million respectively.⁶ The downward trend of trade after 1957 was partly associated with the world economy in the recession phase of the business cycle, as demand from the export markets was weak. However, trade showed a considerable improvement during the year 1959, especially exports trade which rose to H.K.\$ 3,277.5 million. Table I indicates the foreign trade figures in absolute amount as well as in index value for the period 1946-59.

As far as a balance of visible trade is concerned, as has been shown in Table I, Hong Kong had during the whole period 1949-59 (a trade deficit.) Fortunately, invisible earnings such as shipping and insurance profits, and

5 Ibid.

6 "Hong Kong's Trade in 1958", Far Eastern Economic Review, January 29, 1959.

Source: Hong Kong Government Publication, Dept. of Commerce and Industry, Directory of Commerce, Industry, Finance, 1959, p. 8.



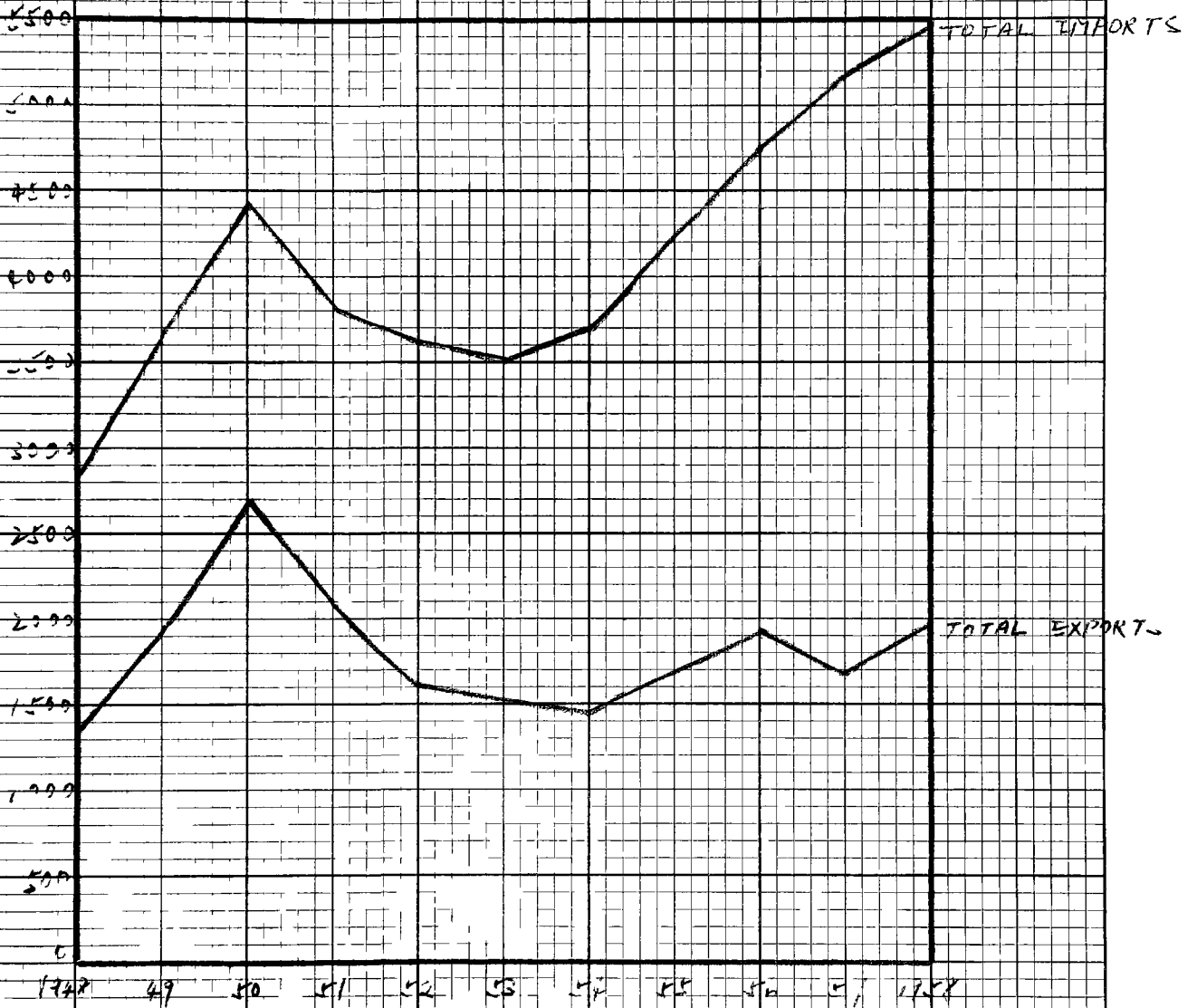
VALUE OF HONG KONG'S IMPORTS AND EXPORTS (In Million Hong Kong Dollars)

GRAPH I

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GRAPH II

VOLUME OF HONG KONG'S IMPORTS AND EXPORTS
(In Thousand Long Tons)



Source: Hong Kong Government Publication, Dept. of Commerce, and Industry, Directory of Commerce, Industry, Finance, 1959, P.9.

TABLE I
 Hong Kong, Foreign Trade, 1946-59
 (1948=100)

Year	Import		Export		Total		Balance of Trade	
	H.K.\$ M.	Index	H.K.\$ M.	Index	H.K.\$ M.	Index	H.K.\$ M.	Index
1946	933	45	766	48	1,699	46	-168	34
1947	1,550	75	1,217	77	2,767	76	-333	67
1948	2,078	100	1,583	100	3,660	100	-495	100
1949	2,750	132	2,319	146	5,069	138	-431	87
1950	3,788	182	3,716	235	7,503	205	-72	14
1951	4,870	234	4,433	280	9,303	254	-437	88
1952	3,779	182	2,899	183	6,678	182	-880	178
1953	3,873	186	2,734	173	6,606	180	-1,139	230
1954	3,435	165	2,417	153	5,852	160	-1,018	206
1955	3,719	179	2,534	160	6,253	171	-1,185	239
1956	4,566	220	3,210	203	7,776	213	-1,356	274
1957	5,150	248	3,016	190	8,166	223	-2,134	431
1958	4,594	221	2,999	189	7,593	207	-1,595	322
1959	4,949	238	3,278	207	8,227	225	-1,671	337

Sources: Hong Kong Government Publication, Dept. of Commerce and Industry, Hong Kong Trade Returns, 1946-53; Hong Kong Trade Statistics 1954-59. The index calculations were made by the present writer.

expenditure by tourists, and in addition the inflow of capital from abroad were large enough to finance the substantial import surplus of the Colony. According to Professor E. Szczepanik's analysis, the tentative value of invisible earnings and of the inflow of capital from abroad during the period 1947-55 was about 40 percent of the national income each year.⁷ There were only two exceptions to this. One occurred between 1948-49 owing to an inflow of refugee capital from mainland China, which sent the ratio up to 65 percent. The other one in 1952, owing to a depression aggravated by the embargo which produced an outflow of capital and a decline in invisible earnings, decreased the ratio to 6.5 percent. This was the only period in which Hong Kong had a net deficit in the overall balance of payments, amounting to approximately H.K.\$ 300 million. Otherwise, the surplus has been augmented each year.

B. Foreign Trade by Countries:

Previous section has dealt with the general trend ~~tion~~ of Hong Kong's foreign trade for the last decade. With this as a background a more detailed study of available information is now made to determine its commerce

⁷ E. Szczepanik, "The Economic Growth of Hong Kong", Oxford University Press, 1958, Chapter II, p. 142.

between leading trading partners.

1. Trade between the United Kingdom and Hong Kong.

The United Kingdom was the first country to trade with Hong Kong, following the cession of Hong Kong to the British Crown by the Treaty of Nanking in 1842. At that time, Hong Kong acted principally as a port of export between the United Kingdom and China, as China was a major customer of United Kingdom's products. One of the special features of trade between the United Kingdom and Hong Kong is that the total value of imports from the United Kingdom is always higher than the value of exports to the United Kingdom from Hong Kong. For example, before the communist occupation of China the total value of imports for 1948 from the United Kingdom was H.K.\$ 300.9 million, while exports to United Kingdom amounted to only H.K.\$ 75.1 million. It was inevitable with an entrepot such as Hong Kong, living largely by re-exporting other countries's products to neighbouring countries, that imports from a country such as the United Kingdom must far exceed Hong Kong's exports to that country. Ten years later, in 1958, the total value of imports from the United Kingdom was H.K.\$ 530.9 million and exports to the United Kingdom had increased to H.K.\$ 393.2 million.⁸

⁸ Hong Kong Government Publication, Dept. of Commerce and Industry, Hong Kong Trade Statistics-Imports and Exports, 1958.

The difference between the import and export values of Hong Kong's trade with the United Kingdom has become smaller in recent years for the following reasons:-

a. As a result of the United Nations embargo on trade with China, the importers have had to reduce their purchases for reexport to China from abroad. The main affect of the embargo has been on shipments to China of strategic goods, including all the items useful in the production of arms, such as natural rubber and latex, synthetic rubber, petroleum oils and mixtures of oils, certain classes of iron and steel, transport equipment, and machinery. The value of exports of these items from Hong Kong to China amounted to H.K.\$ 470 million in 1950 and H.K.\$ 676 million in the first half of 1951. In 1955, the fifth year of the United Nations embargo, China's imports of these items from Hong Kong amounted to only H.K.\$ 3.7 million.⁹ This substantial decrease of exports to China was bound to bring about a decrease in imports from outside countries especially the United Kingdom.

b. In June, 1957, the British embargo on the export of strategic goods to China became identical with restrictions applicable to the U.S.S.R. This further and substan-

⁹ E. Szczepanik and Ng Kwok Leung, "The Embargo Problem", Hong Kong Exporter and Far Eastern Importer, 1957-57.

tial relaxation of the embargo on trade with China by the British government is bound to have a favourable effect on direct trade between the United Kingdom and China, thus lessening Hong Kong's importance as a transshipment port.

c. On the other hand, ~~either~~ the growing industries in Hong Kong, exports of local manufactured goods to the United Kingdom have increased year after year. Domestically produced goods constituted about 55 percent of the Hong Kong's total export to the United Kingdom in 1956.¹⁰ The principal items were grey cloth, shirts, underwear, rubber footwear, table linen, towels and gloves. The value of exports of Hong Kong manufactured goods to the United Kingdom could be further increased if local factories improved the quality of their products.

The United Kingdom is one of the biggest customers for Hong Kong products; it is to be hoped that the trade between Hong Kong and the United Kingdom will increase even in the near future. It is difficult to say whether this hope will materialize; since 1955, there has been organized pressure from a sector of the Lancashire cotton textile industry to limit cotton textile imports into the United Kingdom from abroad, especially from India, Pakistan and

¹⁰ "Hong Kong Trade in 1956 and Outlook for 1957", Far Eastern Economic Review, March 14, 1957.

Hong Kong. After a long negotiation between the Hong Kong Textiles Negotiation Committee and the United Kingdom Cotton Industry, no solution could be reached. Through government intervention an agreement was finally reached on January 5, 1959, whereby a ceiling figure for Hong Kong cotton by the yard exported to the United Kingdom was fixed. Under this agreement the Hong Kong Textiles Negotiation Committee gave the United Kingdom Cotton Board a voluntary undertaking to limit exports to 115 million square yards.¹¹ It was further agreed that if the ceiling figure is not reached in any one year, the difference in amount may be carried over for use in the first six months of the succeeding year.

2. Trade between mainland China and Hong Kong.

The most outstanding feature of Hong Kong's trade in the post-war years has been the appearance of a diminished dependence on China. Before the war, China supplied 40 to 50 percent¹² (by value) of Hong Kong's imports and took a similar proportion of its exported goods. In 1947, China's contribution to Hong Kong's imports and exports dropped to H.K.\$ 376 million and H.K.\$ 265 million respectively, approximately 24 percent and 21 percent of the total imports

¹¹ "Textile Agreement with United Kingdom", Far Eastern Economic Review, February 26, 1959.

¹² "Less Dependence on China", The Economist, January 14, 1950.

and exports of the Colony.¹³ The trend of trade with China from 1946-59 is shown in the following Table II. Following the Communist occupation of mainland China in 1949, exports to China have decreased considerably for the following three main reasons:-

a. One of the key points in the economic policy of the new Chinese government has been to cut down imports in all kinds of consumer goods from abroad in order to build up an independent socialist society.

b. Another reason for the decline in the value of exports to China is due to the imposition of an embargo by the United Nations which came into force in June, 1951. While Hong Kong's exports to China were valued at about H.K.\$ 1,151 million from January to the end of June, from July to the end of that year they amounted to only H.K.\$ 452 million.

c. Fundamentally, Peking's policy depends upon the U.S.S.R. for most of the imported supplies and equipment for major industrial projects that Moscow is helping China to build. Purchases from Japan, Western Europe, the United Kingdom and other non-communist countries are limited to items which the U.S.S.R. and her satellites cannot adequately provide. Thus there is a considerable decline in the

13 Ibid.

TABLE II

Trade with China, 1946-59
(H.K.\$ Million)

Year	Exports to China	Total Ex- ports from Hong Kong	Imports from China	Total Im- ports of Hong Kong	Exports to China as a % of total value of HK's ex- ports	Imports from China as a % of total value of HK's imports
1946	301	766	327	933	39.3	35.1
1947	265	1,217	376	1,550	21.8	24.3
1948	280	1,583	431	2,077	17.7	20.7
1949	285	2,319	593	2,750	25.2	21.5
1950	1,460	3,716	860	3,788	39.3	22.7
1951	1,604	4,433	863	4,870	36.2	17.6
1952	520	2,899	830	3,779	18.3	21.9
1953	540	2,734	857	3,873	19.7	22.1
1954	391	2,417	692	3,435	16.2	20.2
1955	182	2,534	897	3,719	7.2	24.1
1956	136	3,210	1,038	4,566	4.2	22.7
1957	123	3,016	1,131	5,150	4.0	21.9
1958	156	2,999	1,397	4,594	5.2	30.4
1959	114	3,278	1,034	4,949	3.5	20.9

Sources: Hong Kong Government Publication, Dept. of Commerce and Industry, Hong Kong Trade Returns, 1946-53; Hong Kong Trade Statistics, 1954-59 (Figures for Taiwan are excluded for the years 1950-59).

demand for capital goods by China from other countries. In 1953, the export of capital goods to China amounted to H.K.\$ 82 million, about 65 percent of the total value of capital goods exports from Hong Kong.¹⁴ The decline in the importance of the Chinese market for capital goods continued in 1954 and 1955 when the total value of these goods sent from Hong Kong to China fell to about H.K.\$ 16 million and H.K.\$ 4 million respectively, whereas, in 1955, the total value of entrepot trade in capital goods was slightly above the 1954 level, approximately H.K.\$ 60 million.¹⁵ All these changes had a very great affect on the volume of Hong Kong's entrepot trade to China.

Now Hong Kong serves only as a broker for the marketing of China's new export items. Under the present pattern of trade, the business transacted between north China and Europe and Canada, is on the basis of direct shipment from China ports, and cargo ships of many nationalities make regular calls at the principal north China ports. Thus, re-export of Chinese goods to the rest of the world has no longer contributed a great proportion to Hong Kong's international trade as a whole. Peking has already curt-

14 E. Szczepanik, "Entrepot Trade in Capital Goods in Hong Kong", Far Eastern Economic Review, July 14, 1955.

15 Ibid.

ailed exports to Hong Kong market of those items which South East Asia and other countries are now buying directly from China. Accordingly traders in Hong Kong are being offered more new export items, such as foodstuffs, which the U.S.S.R. does not need, which the United States and Europe will not buy, and which South East Asia has not yet bought directly from China.

In China's exports to Hong Kong, Peking's main aim is to accumulate foreign exchange. The value of imports from China has greatly increased in recent years.¹⁶ It amounted to H.K.\$ 430.6 million in 1948, but it had increased to H.K.\$ 1396.9 million by 1958.¹⁷ Hong Kong has now been suffering greatly as a result of the dumping of cheap China's products, not only on the Colony's market but throughout South East Asia. Increasingly large quantities of rice, food stuffs, paper, glass products, wire, nails, cotton textiles, and other light industrial products have reached Hong Kong from Canton and other Chinese ports. Many retail shops have opened to handle the sale of cheap

¹⁶ The fact of decline in entrepot trade with China does not mean that the value of imports must be decreased, because those imported commodities mostly have been used for local consumption, not for re-export during these recent years.

¹⁷ Hong Kong government publication, Dept. of Commerce and Industry, Hong Kong Trade Statistics - Imports, 1958.

Chinese goods. As a result of this dumping, some of the producers of leather shoes, cotton yarn and other goods have already been forced out of business. To compete with their export prices would seem impossible because of the low wages paid to labourers on the mainland China. On the other hand, exports to China have decreased year after year since 1949. But the period 1950-51 was completely exceptional because of China's feverish buying prior to and during the Korean War, so that the total value of exports to China amounted to H.K.\$ 1,603.8 million in 1951. With the exception of this period, the balance of trade has always been in favour of China since 1949.

3. Trade between Malaya and Hong Kong.

Malaya has proved to be one of the best customers of the Colony, since exports to this market have always been among the top three on the list of Hong Kong's trading partners. Malaya is of considerable importance to both Hong Kong's own products and re-export items originally made in other countries, taking locally exports to the value of H.K.\$ 212.57 million in 1959, consisting of clothing, refined sugar and enamelled iron and steel household utensils. Re-export items including fruits and vegetables, plants and seeds for medicine and perfumery, paper and so on, valued up to H.K.\$ 167.54 million for the same year imports from Malaya have fallen to below the level of H.K.\$ 150 million

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since 1957, amounted to H.K.\$ 101.7 million in 1957, H.K.\$ 102.8 million in 1958 and H.K.\$ 123.06 million in 1959.¹⁸

4. Trade with the U.S.A.

The United States has remained Hong Kong's fourth large supplier of goods since 1951, following China (excluding Formosa), Japan and the United Kingdom. Total shipments from the U.S.A. to Hong Kong in 1958 were H.K.\$ 439.5 million a decrease of H.K.\$ 99.5 million from the previous year. Before 1959, Hong Kong always imported more American goods than the U.S. bought from the Colony, so that the balance of trade was in favour of the U.S. Invisible earnings in Hong Kong of United States dollars from tourist industry, sales of services, and also substantial orders of parcel post shipments not recorded in the trade statistics have been ample to finance the U.S. dollar deficit.

In spite of the unfavourable balance of trade, exports to the U.S. have gradually increased during recent years; but great improvements have occurred since 1958. Total value of exports to the U.S. for that year amounted to H.K.\$ 326.3 million.¹⁹ By 1959, it increased to even a

¹⁸ Hong Kong government publication, Dept. of Commerce and Industry, Hong Kong Trade Statistics - Imports and Exports, 1957-59.

¹⁹ Ibid.

greater ^{value} than the total value of import from them. Because the U.S. is too big a market to be "flooded" by many kinds of Hong Kong products, prospects of further increase in exports to the U.S. are good. Further more, Hong Kong manufacturers have a unique advantage, since there is a large and growing demand in the United States for products with an oriental design.²⁰ There is still ample room for further expansion in exports of silk piece goods, drawn lace work, rattan furniture, carved-chests, and furniture. By displaying imagination as well as initiative, and by developing and maintaining high standards of quality and workmanship, Hong Kong manufacturers can profit from this interest in the United States in new styling and new commodities.

5. Trade between Canada and Hong Kong.

Trade between Canada, the Far East and South East Asia is expanding and Hong Kong is sharing in this growth. Both the figures of imports and exports for Hong Kong trade with Canada have increased during the past few years. The following Table III for the years 1955, 1956, 1957 demonstrates this fact.

²⁰ G.O. Long, "Report of Trade with the United States", 1958 Deputy Chief, economic section, U.S.A. Consulate General at Hong Kong.

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TABLE III

Trade with Canada 1955-1959

(Canadian Dollars Million)

	1955	1956	1957	1958	1959
Canadian Imports from Hong Kong	5.88	5.70	7.22	8.50	12.30
Canadian Exports to Hong Kong	7.25	7.03	7.50	7.20	10.80

Source: The figures from 1955 to 1957 are obtained from Dominion Bureau of Statistics, Ottawa, Canada, and the figures for 1958 and 1959 are obtained from Department of Commerce and Industry, Hong Kong.

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These figures clearly indicate that Hong Kong traders have been successful in seeking out broader markets in Canada for locally produced goods and entrepot lines.²¹ Exports of Hong Kong manufactured products in 1957 were H.K.\$ 10.9 million or more than double in value compared with the 1953 figures of H.K.\$ 4.1 million. This is because the quality of Hong Kong's products has greatly improved in order to satisfy the demands for the high standard articles by Canadian consumers. In addition, the range and type of goods have increased in order to meet the variety of tastes of different consumers.

The above statistics show that Canada is interested in a two way trade, and is taking advantage of the products of Hong Kong's factories, such as rubber footwear, gloves, and clothing, and is offering in return a wide range of raw materials and semi-processed goods. Recently, rubber footwear manufacturers have had to face Canadian protests over the quantities of Hong Kong made rubber footwear exports, which endanger Canadian products. The Canadian rubber shoe industry claimed that its share of an annual market worth some Canadian \$ 35 million was disappearing in the face of

²¹ Those goods which are not produced in Hong Kong but rather imported from the rest of the world, especially from South East Asia and Far East countries, for re-export to Canada.

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the Colony's competition.²²

Despite this protest, the forecast of the future of Canada's trade with Hong Kong is that trade could steadily grow if the products are improved further and no trade restrictions are imposed by the Canadian government.

6. Trade between Japan and Hong Kong.

Trade with Japan constitutes a relatively large proportion of Hong Kong's total foreign trade. It is Hong Kong's second largest supplier, with shipments totalling H.K.\$ 597 million in 1958 as compared with H.K.\$ 166.4 million in 1957. The amount of imports from Japan has been mainly dependent on demands from South East Asian countries, particularly from Indonesia and Thailand for Japanese cotton yarn, rayon products, cement, paper, marine products, and machinery. For the year 1956, total imports from Japan amounted to H.K.\$ 810.6 million because most countries in South East Asia had not yet established proper trade relations with Japan. Thus their demands for the above mentioned goods were satisfied by transshipment through Hong Hong. But direct trade between Japan and South East Asian countries has now been developed. On the other hand, exports to Japan also greatly decreased in 1958, totalling

22 "Successful Year for Rubber Footwear Despite Protests", Far Eastern Economic Review, March 26, 1956.

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only H.K.\$ 120.1 million as compared with H.K.\$ 228.3 million for the previous year.

In addition to the countries mentioned, there are quite a large number of other countries trading with Hong Kong. The figures for the value of imports from and exports to leading countries are shown in the following Tables.

C. Imports and exports by Commodities:

After discussing Hong Kong's foreign trade with principal countries, it is necessary to give some information about the nature of traded commodities. The following is a summary of the main items of goods imported, and exported in recent years.

It is also worth while to note that not all imported goods are used for local consumption. Part of them are used for re-export, especially China-produced goods such as vegetable oils. As some types of imports are either subject to control on re-export or, in some cases, are of the type in which mainland China itself has shown increasing interest for direct trade with its trade partners, Hong Kong importers of these particular goods have had a difficult time in the Colony since the Communists' occupation of China. So far as the local market is concerned, some importers have done a useful trade in the types of goods required for local processing, manufacturing, industrial expansion and building

TABLE IV

Value of Imports from Leading Countries, 1948, 1954-59
(H.K.\$ Million)

	1948	1954	1955	1956	1957	1958	1959
China (excluding Formosa)	430.6	691.8	897.6	1,038.3	1,131.1	1,396.9	1,034.2
Japan	79.1	464.5	526.0	810.6	763.4	597.0	769.6
United Kingdom	300.9	396.4	441.0	513.3	667.3	530.9	573.7
U.S.A.	387.5	281.1	324.9	423.8	539.0	439.6	516.7
Thailand	96.2	131.2	185.9	185.4	191.8	160.3	196.9
Germany, Western	4.5	155.6	128.4	119.0	159.3	135.2	136.4
Switzerland	40.8	104.6	100.0	131.7	193.0	131.0	112.0
Australia	56.5	63.0	81.5	100.3	113.0	112.8	133.2
Malaya	84.7	161.6	151.4	152.3	101.7	102.8	123.1
Indonesia	41.2	35.2	28.9	58.9	126.2	94.7	102.8
Netherlands	21.7	84.4	64.2	77.9	86.2	76.0	106.1
India	47.5	53.4	83.8	51.0	89.1	65.8	47.9
East Africa, British	2.0	36.6	44.8	55.6	67.4	65.7	72.3
Belgium	35.1	139.5	97.7	109.3	117.6	60.1	73.9
Italy	34.0	31.8	36.6	40.5	63.5	55.3	58.2
Cambodia	--*	--*	--*	--*	53.3	50.0	59.3
Formosa (Taiwan)	--	46.8	40.3	50.5	71.7	49.8	102.3
South Africa	12.7	31.3	26.3	32.0	55.6	48.2	59.1
Canada	36.3	55.1	46.2	46.3	51.4	43.0	64.6
Macau	89.1	62.3	53.7	40.2	42.9	39.9	43.8
Pakistan	--*	67.8	53.9	98.0	92.0	33.4	145.8
Other Countries	277.1	341.4	305.8	431.3	373.0	305.3	417.5
Total	2077.5	3435.4	3718.9	4566.2	5149.5	4593.7	4949.4

* Included under Other Countries.

Sources: Hong Kong Government Publication, Dept. of Commerce and Industry, Directory of Commerce, Industry and Finance, 1959; Hong Kong Trade Statistics - Imports, 1959. (In descending order for 1958)

TABLE V

Value of Exports to Leading Countries, 1948, 1954-59
(H.K.\$ Million)

	1948	1954	1955	1956	1957	1958	1959
United Kingdom	75.1	162.2	251.1	298.4	336.7	393.2	462.2
Malaya	204.7	330.5	375.4	372.8	372.7	382.2	380.1
U.S.A.	152.5	70.0	87.9	116.6	198.2	326.4	591.0
Thailand	140.2	130.2	179.1	319.6	188.2	217.0	146.8
Indonesia	68.7	224.6	193.4	501.4	312.5	210.8	75.2
China (Excluding Formosa)	280.5	390.8	181.6	136.0	123.4	155.8	114.3
Japan	49.1	114.6	146.3	318.0	228.3	120.2	231.1
Europe other than UK & Germany	73.3	58.5	78.3	89.3	87.0	105.5	--*
Australia & New Zealand	20.3	55.9	68.6	70.2	83.3	95.9	103.4
Germany, Western	4.9	22.1	33.5	36.6	42.0	64.6	83.5
South & Central America	11.3	40.4	40.9	54.9	65.6	64.5	--*
Other Brit. African Territories	13.6	97.6	107.2	111.7	73.8	62.6	--*
Formosa (Taiwan)	--§	79.9	37.4	47.5	60.6	61.7	58.5
Macau	136.4	63.8	57.4	57.7	66.4	57.8	64.9
Philippines	136.4	52.7	53.1	47.0	72.8	55.7	49.1
Korea, South	58.3	170.1	192.2	125.2	71.4	52.8	44.1
Canada	7.5	20.4	28.9	29.3	41.1	51.2	73.6
Nigeria	-(*)	-(*)	-(*)	-(*)	30.9	42.3	45.4
Vietnam, North	--*	--*	--*	--*	30.5	36.1	16.0
U.S. Oceania	--*	23.4	30.6	31.9	31.3	31.2	31.9
Burma	12.1	41.3	25.2	31.6	49.6	30.0	36.5
South Africa	7.1	24.7	23.9	29.5	43.6	30.0	25.3
Other Countries	130.8	243.4	342.3	384.4	406.9	341.3	644.6
Total	1582.7	2417.0	2534.0	3209.6	3016.3	2988.8	3277.5

(*) Included under Other British African Territories; * Included under Other Countries; § Included under China.

Sources: Hong Kong Government Publication, Dept. of Commerce and Industry, Directory of Commerce, Industry and Finance, 1959; Hong Kong Trade Statistics - Exports, 1959. (In descending order for 1958)

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construction.

The items of imported goods are as follows:

1. Textiles.

It is interesting to notice that, despite the very large output from Hong Kong cotton and other textile factories, the Colony has remained a net importer of this category of goods since 1954. An explanation is found in the very heavy entrepot trade in the cheap quality products of various Far Eastern countries, together with the higher priced luxury articles of the Western world which have found a ready retail market in the tourist trade and local consumption and remained unrecorded in the Colony's trade figures.

Cotton: Japan has retained a relatively great role in the piece goods market (cloth goods by the yard), but China has become an increasingly large supplier of undyed goods, prints, winceyettes and towels, the latter being normally of a better quality than the local products and at a slightly more favourable price. The United Kingdom has supplied high quality poplins, drills and cotton embroidery cloths. So far as yarns are concerned, India is the chief supplier.

Synthetic Yarns and Fabrics: Italy is one of the biggest suppliers of rayons a part of which is re-exported, mainly to South Korea, with smaller quantities going to

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Indonesia, Formosa and Thailand. In fabrics, the U.S.A. supplies mainly nylon dress materials for Hong Kong's consumption and re-export.

Wool Piece Goods: The United Kingdom has retained its position as the largest suppliers of woolens and worsteds.

2. Metals.

This category included ferrous metals, galvanized sheets, copper wire, brass sheets, zinc sheets, aluminium plates, and so on. They are used by Hong Kong manufacturers as well as exported to other countries such as Thailand, New Zealand and British East Africa. The total value of both imported and Hong Kong manufactured metallic products exported to Thailand amounted to H.K.\$ 8.8 million in 1955.²³

3. Foodstuffs.

This category included fruits and vegetables, meat, and so on. The principal supplying country is mainland China.

4. Others.

There are still quite a number of miscellaneous commodities imported, such as dyestuffs, sulphate of ammonia, pharmaceuticals, electrical goods, and so on. The following Table VI indicates the value of principal imports.

²³ Hong Kong General Chamber of Commerce, "Hong Kong's Trade and Industry in 1955", Far Eastern Economic Review, April 26, 1956.

TABLE VI

Value of Principal Imports 1948, 1951, 1954, 1957-59
(H.K.\$ Million)

	1948	1951	1954	1957	1958	1959 Amount	% of Total Imports
Textile yarn, fabrics, made-up articles and related products	353.3	590.3	555.2	941.5	732.8	891.8	18.0
Cereals and cereal preparations	145.1	220.4	146.7	278.7	335.3	315.6	6.4
Textile fibres and waste	52.6	312.5	259.0	309.1	251.8	267.5	5.1
Fruits & Vegetables	84.7	223.3	197.7	233.4	235.2	248.4	5.0
Live animals, chiefly for food	33.9	55.4	154.3	178.8	231.8	223.6	4.5
Base metals	100.4	279.9	89.7	331.7	199.9	205.2	4.2
Min. fuels, lubricants and rel. mat.	118.9	156.7	127.6	212.8	194.2	193.1	4.0
Non-electrical machinery	55.1	118.7	74.7	177.8	170.8	177.0	3.5
Silver, plat., gems and jewellery	11.1	27.2	42.3	106.7	109.2	164.5	3.3
Elec. mach., apparatus & appliances	30.8	86.6	48.2	99.5	105.7	151.7	3.0
Scien. inst., photographic & opt. gds	50.0	160.2	121.6	238.2	160.2	138.2	2.7
Animal & vegetable crude materials	57.3	174.3	145.1	181.2	152.0	120.7	2.6
Paper, paperboard & manuf. thereof	97.3	171.3	97.7	130.5	108.3	114.1	2.4
Dairy products, eggs and honey	38.8	96.7	86.7	100.8	102.4	109.2	2.2
Fish & fish preparations	45.5	79.3	60.1	93.8	115.9	101.5	2.1
Non-metallic mineral manufactures	4.5	11.1	54.3	94.6	93.4	98.3	2.0
Transport equipment	34.6	70.3	46.3	114.8	77.8	97.7	1.9
Medicinal & pharm. products	57.1	197.0	85.3	83.6	96.7	89.8	1.8
Meat and meat preparations	5.7	26.8	32.4	66.8	55.6	84.4	1.7
Tobacco and tobacco manufactures	51.5	83.4	51.5	74.1	74.4	80.0	1.6
Others	649.3	1728.9	959.0	1101.6	990.3	1077.1	22.0
Total	2077.5	4870.3	3435.4	5149.5	4593.7	4949.4	100

Sources: Hong Kong Government Publication, Dept. of Commerce and Industry,
Directory of Commerce, Industry and Finance, 1958; Hong Kong Trade
Statistics - Imports, 1958-59.

The main items of exported goods are as follows:

1. China-produced.

China is the largest supplier of goods to the Colony. Hong Kong's traditional commercial role has been as an entrepot for the produce of China. In addition to foodstuffs, there are textile fabrics, embroidery made-up articles such as lady's blouses and table cloths, vegetable oils (citronella, aniseed, peppermint and sesamum), oil seeds and nuts, vegetable products (tea, seagrass, bamboo, mats and matting, straw braids), animal products (hides, feathers and down, silk, bristles), and so on.

2. Hong Kong's manufactured goods, such as textiles, rubber footwear, and so on. Table VII indicates the value of these locally manufactured and produced goods exported. Domestic exports have continued to rise, whereas re-exports have fluctuated in annual value though there has been a decided decline since 1956.

The figures for the value of re-exported and exported goods are given in the Tables VIII and IX.

D. Transportation and Communication:

Hong Kong possesses a well developed communications system with all major countries. This communication system has, to a large extent, been responsible for its rapid development as one of the prosperous business centres of

TABLE VII

Exports of Hong Kong Produce & Manufactures, 1954-59
(H.K.\$ Million)

	1954	1955	1956	1957	1958	1959
Clothing	236.8	296.9	358.0	387.4	437.0	793.3
Textile yarn, fabrics, made-up articles and related products	294.5	304.2	296.0	367.3	351.3	413.9
Footwear	61.0	81.6	83.2	71.9	97.7	109.0
Manufactures of metals	65.9	66.2	84.4	75.0	75.8	120.1
Plumbing, heating & lighting fittings	54.6	62.6	66.6	55.4	43.5	60.9
Miscellaneous manufactured articles	58.8	75.7	91.2	109.6	123.0	262.9
Furnitures & fixtures	21.3	27.1	31.5	35.4	33.2	43.0
Fruits and vegetables	20.3	23.1	24.8	24.3	26.0	33.3
Travel goods, handbags & similar articles	11.0	13.8	17.3	18.1	16.4	15.8
Elec. machinery, apparatus & appliances	12.9	16.5	14.7	15.3	16.0	35.2
Dyeing, tanning & colouring materials	12.2	12.4	14.9	16.0	14.8	16.5
Non-metallic mineral manufactures	5.0	6.7	8.3	6.3	7.7	16.2
Base metals	1.4	8.4	14.6	10.8	5.7	15.4
Others	7.8	7.7	9.2	9.2	12.2	246.6
Total	863.5	1002.9	1114.7	1202.0	1260.3	2282.1

Sources: Dept. of Commerce and Industry, Annual Departmental Reports,
1954.59.

TABLE VIII

Value of principal re-export Items, 1956-59
(H.K.\$ Million)

	1956	1957	1958	1959
Textile yarn, fabrics, made-up art. & rel. prod.	539.0	384.9	315.1	164.2
Animal & vegetable crude materials	143.4	114.5	116.2	92.6
Fruits and vegetables	92.9	94.8	97.3	100.6
Clothing	41.3	51.4	88.1	16.9
Medical & pharmaceutical products	52.6	81.9	85.1	54.0
Cereals & cereal preparations	54.4	44.8	79.0	14.7
Base metals	106.7	95.9	56.9	48.6
Manufactures of metals	51.0	47.9	54.2	14.2
Sugar & sugar preparations	47.0	54.5	45.5	7.2
Fish & fish preparations	24.4	31.0	43.5	21.5
Scien. instr.; photographic & opt. gds; watches & clks	42.6	39.1	41.6	26.6
Transport equipment	32.7	36.4	39.8	14.0
Non-electrical machinery	50.0	34.0	39.4	27.5
Silver, platinum, gems & jewellery	33.4	30.5	38.0	35.6
Dyeing, tanning and colouring materials	36.7	33.2	32.8	35.0
Textile fibres and waste	101.2	69.2	30.6	43.4
Explosives & miscellaneous chemical materials	18.6	21.8	31.1	22.9
Paper, paperboard & manufactures thereof	71.4	51.6	37.8	22.0
Miscellaneous manufactured articles	73.6	73.8	85.2	31.9
Others	482.0	423.1	371.3	202.0
Total	2094.9	1814.3	1728.5	995.4

Sources: Dept. of Commerce and Industry, Annual Departmental Reports, 1956-59.

TABLE IX

Value of principal Exports, 1948, 1951, 1954, 1957-59
(H.K.\$ Million)

	1948	1951	1954	1957	1958	1959	
						Amount	% of Total Exports
Clothing	55.4	206.9	264.8	438.8	525.1	810.2	24.8
Textile yarn, fabrics, made-up art.	326.4	775.7	496.0	752.2	666.4	578.1	17.7
Manufactures of metals	81.8	182.3	87.0	122.9	130.0	134.3	4.1
Fruits & vegetables	94.7	175.5	129.6	119.1	123.3	133.9	4.0
Footwear	18.2	37.1	61.2	73.5	100.1	111.3	3.3
Animal & vegetable crude materials	75.0	206.8	140.5	114.6	116.3	106.0	3.2
Ores & metal scrap	24.6	17.8	14.5	89.9	41.4	91.5	2.8
Medicinal & pharm. products	20.5	228.6	110.2	81.9	81.9	85.1	2.5
Base metals	57.5	249.5	12.2	106.7	62.6	64.0	2.0
Plumbing, heating & lighting fitt.	26.0	54.6	59.9	65.7	53.8	62.7	1.9
Dyeing & tanning materials	41.8	180.1	150.8	49.2	47.6	51.5	1.6
Textile fibres & waste	69.1	78.8	35.3	69.2	30.6	49.8	1.5
Sugar & sugar preparations	17.2	91.9	40.4	54.5	45.5	34.2	1.1
Cereal & cereal preparations	15.4	7.3	19.7	44.8	79.0	34.1	1.0
Paper & paperboard	60.9	155.0	53.0	51.6	37.8	28.3	0.8
Non-metallic mineral manufactures	1.3	7.1	25.9	40.0	36.5	26.1	0.7
Animal & vegetable oils	118.1	142.9	19.2	41.6	23.8	16.1	0.4
Others	478.8	1535.1	696.8	700.1	787.1	860.3	26.6
Total	1582.7	4433.0	2417.0	3016.3	2988.8	3277.5	100

Sources: Hong Kong Government Publication, Dept. of Commerce and Industry, Directory of Commerce, Industry and Finance, 1958; Hong Kong Trade Statistics - Exports, 1958-59.

the world.

As far as local transportation facilities are concerned, on land there are many kinds of motor vehicles such as bus services, tramways, taxis, and a great number of transportation and delivery companies operating lorry services on both sides of the harbour for the movement of goods. The Colony is also well provided with modern passenger ferries for marine transportation, since the twin cities of Victoria and Kowloon are divided by the harbour.

Transportation and communication links between Hong Kong and the rest of the world are facilitated by the following means.

1. Civil aviation:

The airport is located about four miles from the centre of Kowloon and is closer to the shopping and business centres than most other airports. The new run-way, opened in September, 1958, is regarded as one of the most modern in the world and is capable of receiving the largest types of jet and turbo-prop aircraft now flying. The air traffic has shown a considerable increase since 1955. During 1958, there were 9,553 civil aviation transport flights to and from Hong Kong in comparison of 3,503 in 1955, and a total of 285,239 passengers arrived and departed from the Colony which represents an increase of 208,448 over the 1955 figure of 76,791. 792,061 kilos of freight were imported by air

and 2,646,725 kilos were exported for the year 1958.²⁴

2. The railway:

A railway runs from the harbour in Kowloon to the Chinese border (the town of Lo Wu) and thence on to Canton, Hankow and Peking. Passenger traffic has varied considerably in each year, since the Communists took over the administration of Canton late in 1949, people cannot come and go across the border as freely as before and largely depend on the frequent changes of policies of both the government of Hong Kong and of China.

3. Water Transportation:

This is the principal kind of transportation for foreign trade in Hong Kong, since the Colony possesses a wonderful natural harbour. The port is equipped with modern navigational aids, such as electric fog signals, ship shore signals and lighthouses. Some of these lighthouses have a visibility up to 21 miles and have installed radio telephone in order to enable them to give information on all vessels sighted approaching the harbour. Appropriately spaced radar reflectors mark the main approach to Hong Kong, thus enabling ships to enter to the Colony at all times. During 1958 there were 8,522 ocean ships coming and departing through

²⁴ Hong Kong government publication, Dept. of Commerce and Industry, Directory of Commerce, Industry and Finance, 1956 & 59.

the harbour.²⁵ In addition, there are approximately 50,000 river steamers, junks and launches entering and clearing at the port every year.

4. Other communication:

This includes postal services, long distances telephone services, telegram services, all of which are well developed. The Hong Kong Post Office enjoys a reputation for efficient and speedy despatch and delivery of millions of letters and parcels all over the world. Hong Kong is linked by long distance telephone with 60 countries.

E. Trade and Port Facilities:

Although in the course of the years the emphasis has partly shifted from purely entrepot and other commercial activities to the development of local industries, the Colony still depends greatly upon the efficient organization and management of all kinds of trade and port facilities in order to expand exports of its own industrial products. Thus the energies of the community have been directed to developing to the highest degree of necessary facilities that will accelerate the rate of economic growth on a whole. These facilities include:

²⁵ Printed and published by Wah Kin Yat Po, Hong Kong Year Book, 1959, Hong Kong.

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1. Financial institutions - Banking and insurance.

There are 82 licensed banks of 11 nations operating in the Colony, but only 42 of them are authorized to deal with foreign exchange. As the economy of the Colony is largely based on the import of raw materials, and the export of manufactured goods, many of these banks tend to specialize in the finance of international trade and provide comprehensive world-wide banking facilities to the public. The average rate of interest on commercial loans negotiated by banks dealing in foreign exchange is between six and eight percent per annum. Banking is one of Hong Kong's principal sources of invisible income. In consequence of the growing importance and prosperity of commerce and industry in Hong Kong, banking facilities are now developing at an accelerated rate.

Like the banks, the insurance companies have contributed considerably to the prosperity of Hong Kong. There are 165 insurance companies serving the public in the Colony. A number of these have their head offices in Hong Kong, and also branches or agencies throughout the world; but most of the insurance companies are of British origin and operate either through a branch office or an agency in the hands of the commercial firms. Although marine insurance is of prime concern in Hong Kong, all other kinds of insurance are also provided in the local companies.

2. Storage:

Warehouse accommodation is plentiful and normally accommodates easily the large flow of cargoes to and from the Colony. There are four large warehouse companies which are installed with modern fire prevention equipment. Special spaces have been given to storage of valuable cargo, chemicals and dangerous goods. Cold storage facilities are also available for any goods requiring temperature ranging from 0°F to 60°F. The companies also provide mobile equipment and conveyors to ensure rapid movement of cargo. In addition there are approximately 100 other warehouses, many of them modernly equipped and highly efficient, providing ample storage space for the port. The total storage capacity of the Colony is estimated to be over one million ~~measurement~~ tons.²⁶

3. Wharf Service:

Excellent wharves have been built out into the harbour, so that safe berths are available to vessels with draughts up to 36 feet at all states of the tide. The longest wharves can take ships up to 750 feet. Wharf service charges are the subject of individual negotiation and vary from company to company. There is excellent facility for moorings for ships, the government maintains 52 moorings

²⁶ Reported by Dept. of Commerce and Industry, 1958.

for hire, 25 of which are specially designed for use during typhoons.

4. Ship Repair and Survey Facilities:

The shipyards and marine engineering establishments in the Colony maintain a satisfactory level of both repair and maintenance work on ships calling at the port. Hong Kong is noted for expeditious ship repairing. The government maintains qualified ship surveyors to undertake survey duties.

F. Government Policy and Foreign Trade:

Hong Kong's prosperity as a trading centre in the Far East is the result, from the time of its inception as a Colony, of liberal government policies towards foreign trade. Its trade controls are exceedingly simple and only for health, safety, security and currency stability purposes. Trade controls are administered by the Director of Commerce and Industry.

Commodity controls are maintained only over those which are of strategic significance. Import licences are required for such goods coming into Hong Kong either for local consumption or for re-export to approved destinations. Goods of this type imported for re-export must be stored in government designated warehouses while awaiting re-export and are subject to inspection. Import licences are also

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required for goods from the following countries: U.S.S.R., Poland, Hungary, Roumania, North Korea, Bulgaria, Eastern Germany and Czechoslovakia.

As far as foreign exchange controls for imports and exports are concerned, there are no rigid restrictions operated by the exchange control office of the government. Subject to certain restrictions, foreign exchanges are made available at the official rate for imports both for use in the Colony and for re-export. Imports from countries in the American Account Area and Canada are generally financed in U.S. dollars through the local open market. There are no exchange control formalities for imports from China, Formosa and Macau if finance is arranged in Hong Kong dollars.

For export to the sterling areas such as the British Commonwealth (except Canada), British Protected States, Burma, Iceland, Iraq and the Irish Republic, China, Formosa, and Macau, an export licence is required only if goods are subject to control by reason of their nature. For export to countries other than the above mentioned, goods of any kind required an export licence. The exchange proceeds have to be surrendered to the authorized banks, except for those goods originating in Hong Kong, China, Formosa, Macau, and South Korea, and those for export to the American Account area and Canada against payment in U.S. dollars, exporters may retain the exchange.

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Since Hong Kong is traditionally an entrepot, certification of the origin of all products is required for goods exported. Another document of export, an Imperial Preference Certificate, is required in order to claim the reduced rates of duty to Commonwealth territories for certain classes of goods manufactured or processed in Hong Kong if the Commonwealth content of the finished goods has reached a certain minimum percentage, varying with the importing territory and with the product. This reduced rate of duty is of great benefit to most Hong Kong manufacturers.

Since it is now recognized that Hong Kong cannot be solely dependent on its liberal trade policy to further develop its foreign trade, the government has recently been exploring and experimenting with other ways for the promotion and expansion of this trade. One of the outstanding developments in this direction within the last few years has been that of arranging for exhibits of their products at important trade fairs throughout the world such as the United States World Trade Fair in New York, the Singapore Trade Fair, Melbourne International Trade Fair in Australia and so on. A monthly publication of "Trade Bulletin" was inaugurated and by 1959 ten thousand copies were being distributed free to overseas readers and possible customers. It is difficult to estimate accurately the results of either of these ventures, but there has been a noticeable development of a wider market

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for Hong Kong's products in recent years. Promotion of these economic matters rests in the hands of the Trade Promotion Branch, controlled by the Commerce and Industry Department.

To sum up, because of Hong Kong's absolute dependence on export markets for a prosperous economy, not only must every efforts be made to take full advantage of its free trade policy as explained here, but every possible means must be made use of to find even newer and better methods to reach the foreign market.

CHAPTER III

INDUSTRY

A. Recent Rapid Industrial Development:

During the last decade, Hong Kong has made continued progress in industrialization, from which new employment has become available for part of the refugees from mainland China. More factories have been built and new branches of manufacture have been successfully introduced. Established factories have, in many instances, imported and installed new machinery and otherwise introduced more modern devices and production procedures.

In 1958, the number of registered and recorded factories¹ had increased ^{from 1,266 in 1948} to 4,906, ^{in 1958} and the total number of persons employed by them amounted to 179,997.² These figures naturally give rise to the expectation of still further increases in the manufacturing industry as time goes on. In addition, a large number of smaller concerns, mostly

1 In Hong Kong, "registered" enterprises employ at least 20 workers; a "recorded" establishment is one which cannot be registered under the Factories and Workshops Ordinance, but is kept under supervision and employs at least 15 workers.

2 "Hong Kong's Industrial Development for the last 12 Years". Economic Herald, July 1, 1959.

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pursuing traditional chinese handicraft activities, in many cases set up by refugees, employ an estimated 200,000 people.³ Professor Edward Szczepanik, of the University of Hong Kong, illustrates the increase in employment and the growth in the number of registered and recorded factories and work shops during the post war period by means of an index number. Thus, if 1948 was taken as a base 100, the index number of factories by 1955 increased to 231 and the index of industrial employment to 203.⁴ Table X indicates the increasing number of registered and recorded factories and industrial workers for the period covered from 1940 to 1958. Hong Kong's economic survival was due to the expansion of, and a revolution in, its manufacturing industry. At present, the number of persons directly and indirectly dependent on the industry is probably 50 percent of the population.⁵

On the other hand, there has also been an increase in the variety of manufactured products and a consequent shift in the relative importance of various industries. Many factors have determined the choice of industries for

³ Hong Kong Government Publication, Hong Kong Annual Report-1957, p. 81.

⁴ Edward Szczepanik, The Economic Growth of Hong Kong, Oxford University Press, 1958, p. 159.

⁵ Hong Kong Government Publication, A Problem of People, Hong Kong, (W. F. C. Jenner), 1956.

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TABLE X

Number of Registered and Recorded Factories
and Industrial Workers, 1940-58
(1948=100)

Year	Factories		Workers	
	Number	Index	Number	Index
1940	800	63	30,000	47
1947	972	77	51,338	80
1948	1,266	100	63,873	100
1949	1,426	113	81,571	128
1950	1,752	138	91,986	144
1951	1,961	155	95,207	149
1952	2,088	165	98,126	153
1953	2,208	174	100,776	158
1954	2,494	197	115,453	180
1955	2,925	231	129,465	203
1956	3,319	262	146,877	229
1957	3,373	266	153,033	240
1958	4,906	388	179,997	282

Sources: The data were provided by Commissioner of Labour, Annual Departmental Reports. The index figures from 1940 to 1955 were made by Edward Szczepanik, and the index figures from 1956 to 1958 were made by the present writer.

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development such as transportation and power, markets for the products, capital, natural resources and so on.⁶ Because of lack of natural resources and space, coupled with the large and ever increasing population, industries such as agriculture and mining are out of the question, therefore the new developments which have taken place have been mainly in the field of light industry and labour intensive industry. The conditions and pre-requisites for a successful and expanding light industry are present in Hong Kong. These are:

1. The import of industrial raw materials is duty free.
2. An unofficial exchange market guarantees lack of complications in buying and selling. (This is necessary in a period of instability in international commercial relations). Foreign exchanges are here made available at the market rates to the importers for their payments at anytime.
3. Under efficient and trade promoting government guidance, together with the operation of Imperial Preferences, a considerable stimulus is given to products for exports especially in the Commonwealth market.⁷

⁶ United Nations Publication, Economic Survey of Asia and the Far East, 1959, p. 91.

⁷ Commonwealth markets are those markets which grant an Imperial Preference rate of duty to Hong Kong; this point has been explained in section D of Chapter two.

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In order to understand the growth of Hong Kong's light industries it is necessary to know something of its past development. Hong Kong served simply as a trading centre during its early history; thus its industries were almost wholly connected with shipping, shipbuilding and repairing, rope works, and so on. In 1899, the first industry not connected with shipping, a cement company, was started. Textiles, rubber-soled footwear, rattan furniture, shirts, felt hat and leather shoe industries were gradually introduced in subsequent years. Until the end of 1947, shipbuilding and repairing were still the principal sources of employment, engaging 28 percent of all registered industrial workers.⁸ But by the middle of 1948, the textile industry became the largest source of employment, engaging 23 percent of registered workers.⁹

Actually, the period of rapid industrialization had been initiated in 1947. Toward the end of 1946, Chinese businessmen, particularly in Shanghai, had become increasingly concerned about their future. This concern was to a considerable extent due to political unrest and the threat and, by early 1947, the certainty of the resumption of a

⁸ P.J. Hollies, "The Development of Light Industry in Hong Kong", The Hong Kong Exporter and Far Eastern Importer, 1958-59, Hong Kong.

⁹ Ibid.

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full scale civil war. Rapid inflation and its consequent corruption and the disorganization of production and foreign trade was all too evident largely due to uncertainty with regard to a possible new government's policy with regard to private industry. These factors disposed Shanghai industrialists to think of investing elsewhere, preferably where there was a stable price level, and a government with a policy of encouraging private industry. They found that Hong Kong possessed these advantages, and so 50 firms transferred to Hong Kong from China or started subsidiary factories in the Colony during 1947. In addition, Chinese in the U.S.A. began to invest in Hong Kong rather than in China itself. To operate the machinery, skilled workers began to move from Shanghai to Hong Kong. This movement of capital and labour continued throughout 1948 to 1949.

In this way a number of new industries rapidly developed, such as the manufacture of household utensils from aluminum, plastic wares, the cotton spinning industry, and so on. Parallel with the increased investment in manufacturing industries was the increased investment in land and building construction by refugees' capital from China; together with the increased housing need by refugees, a housing boom prevailed during 1953-56. Connected with the flourishing construction industry was the expansion of a number of local industries: cement, brick and tile, paints,

electrical apparatus, construction and building materials generally, furniture and others.

Despite the encouraging developments, Hong Kong faces serious long run problems.¹⁰ In the Colony's predominantly hilly terrain land suitable for industry has always been very limited. Consequently the introduction of new industry and the keen competition for any available land has increased its already high cost. A shortage of water is a constant problem. Despite the opening, in 1957, of the big reservoir with a capacity of 4507 million gallons at Tai Lam Chung in the New Territories, this provides only a temporary respite. Power supply is dependent on imported fuel and all raw materials required in manufacturing production have to be imported. The market limitations on manufactured goods, both for local consumption and for export, must be borne in mind, since there are no protective tariffs behind which local industry can develop on a firm basis of internal consumption. A further restriction exists that most of the local factories cannot exist by supplying the domestic market only; it must produce for export and be prepared to meet, under equal conditions, the competition and trade restrictions of other industrial countries.

¹⁰ United Nations Publications, Economic Survey of Asia and the Far East, 1955, p. 100.

In order to achieve efficient utilization of Hong Kong's scarce factor of production - land, the government has undertaken to provide cheaper industrial sites to encourage the growth of industry. Shortage of land has been somewhat alleviated by large scale reclamations and site formation from hilly areas. Reclamation has been the only way to meet the need of new land, but most of the readily reclaimed land in the harbour region has already been secured or is in progress of reclamation. It seems inevitable that further large scale reclamation schemes will have to be undertaken outside the present urban area. A new and large reservoir programme at Shek Pik on Lan Tao is encountering the scarcity of water. A survey of the dam site has already been completed. The government's role without direct intervention in accelerating industrialization becomes more evident now.¹¹

B. Capital Formation and Technology in Industrialization:

Capital formation means the creation of capital goods, which include housing, materials, and durable physical assets of all types. Here, I agree that most authorities exclude land from the meaning of the term "capital goods" on

¹¹ United Nations Publication, Economic Survey of Asia and the Far East, 1955, p. 100.

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the ground that all the others referred to are made by man and are, for all practical purposes, unlimited in quantity whereas land is an original gift of nature and is limited in quantity. Capital formation is made possible in two ways: the first is from domestic savings, that is an economy's accumulation of productive capital from current output. The second source of capital is from an inflow of foreign capital. Savings play an important role in industrialization since they provide the means for future growth and enable the expansion of industrial output to take place. Generally, the rate of savings tends to be lower in the poor community than in the wealthy one, since they must consume completely all that they produce and savings are almost impossible. In a colony like Hong Kong the people's income and standard of living are low in comparison with those of advanced countries in the western world, but relatively higher than in Malaya, Ceylon, the Philippines, and so on. The following table indicates the comparative statistics of national income (at factor cost) per head of total population per annum in 1949-50. The national income per head in the United Kingdom was about four times as high as in Hong Kong; in the United States it was seven times as high. The estimate of national income per head in Hong Kong was approximately H.K.\$ 1800 (U.S.\$ 300) per annum for 1954.

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TABLE XI

Comparative Statistics of National Income
(at factor cost) per Head of Total
Population per Annum in 1949-50
(Rounded Figures)

Country	U.S. \$
United States	\$1,450
United Kingdom	786
Hong Kong	200
Malaya	162
Philippines	144
Ceylon	109
Thailand	104
Japan	99
Korea (South)	88
India	71
Pakistan	67
Indonesia	57
Burma	43
Taiwan	38
China	35

Source: Ronald A. Ma and Edward Szczepanik,
The National Income of Hong Kong,
(Oxford University Press, 1955).

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Owing to the inadequacy of statistical data provided in Hong Kong a full account and a detailed analysis of the growth of national income and capital formation cannot be covered for the whole period, 1949-59. The net national income at factor cost is approximately equal to H.K.\$ 1,600 million in 1947-48.¹² By 1954-55, the net national income increased to H.K.\$ 4,000^{million}. During these eight years, the average rate of national income growth at current prices equalled 18 percent per annum. Using the year 1947-48 price level as a basis, the average rate of real income growth would be 13 percent per annum over this period. An average increase of income exceeding ten percent per annum in real terms should be attributed to industrial development in Hong Kong. One third of the national income is being derived from the manufacturing industry. In absolute terms the gross real capital formation increased from H.K.\$ 242 million in 1953-54 to H.K.\$ 318 million in 1954-55.¹³ Per capital gross fixed capital formation equalled H.K.\$ 135 (U.S.\$ 22.5) in 1954.¹⁴ It is generally accepted that this figure remained

¹² In Hong Kong, each financial year ends on the 31st of March.

¹³ Edward Szczepanik, The Economic Growth of Hong Kong, Oxford University Press, 1958, Chapter 11, p. 139.

¹⁴ United Nations Publication, Economic Survey of Asia and the Far East, 1959, p. 95.

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about the same up to 1959.

Gross capital formation is the total value of all capital goods accumulated from which allowance for depreciation has to be deducted in order to obtain net capital formation for each year. Tables XII and XIII illustrate the figures of gross and net capital formation respectively. And the figures of national income will be shown in the following Table XIV. Statistical data of capital formation and national income after 1955 is not available at present.

With a relatively low level of income, the propensity to consume is so high that little can be saved for investment. In Hong Kong, foreign investment plays an important role in the economy. Approximately one third of investment is financed by internal savings, the remaining two thirds by capital from abroad. Foreign capital has been secured for industries and other forms of investment for the past ten years due to the liberal exchange policy which has existed, for there are no restrictions on capital movement, exchange control, etc.

One of the important and consistent sources of inflow capital is overseas Chinese remittances. Estimates made by various authorities, quoted by D.K. Leiu, have placed the amount of the annual remittances from America to Hong Kong since 1946 at not less than U.S.\$ 44 million. By 1956-57, an estimate of total remittances from the Americans

TABLE XII

Gross capital formation estimates for 1947-55
(Scale - H.K.\$ Million)
(At current Price)

	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
1. Retained Imports:								
Machinery		43.5	47.6	18.9	28.9	41.1	58.8	
Vehicles		3.0	4.2	2.4	5.2	3.8	1.8	
Implements and Tools		3.6	3.6	7.1	16.8	13.3	14.4	
Ind. Elect. Equip.		5.0	6.7	5.3	9.6	31.1	31.3	
Radio Transmit. and Receivers		4.2	5.9	1.7	5.4	5.9	5.4	
Tel. and Telegr. equipment		1.1	2.8	1.8	2.5	4.0	1.7	
Total ret. imports		60.4	70.8	37.2	68.4	99.2	113.4	
2. Domestic production of machinery		4.8	6.4	8.0	8.8	9.6	10.4	
3. New Building and public works		84.0	149.0	138.0	83.0	186.0	119.0	
Total Gross Capital Formation	*95.0	149.2	226.2	183.2	160.2	294.8	242.8	*318.0

* Not separately recorded.

Sources: Ronald A. Ma and Edward F. Szczepanik, The National Income of Hong Kong, 1947-50, Hong Kong University Press, 1955, and Edward Szczepanik, The Economic Growth of Hong Kong, Oxford University Press, 1958.

TABLE XIII

Net Capital Formation Estimates for 1947-1955
 (Scale = H.K.\$ Million)
 At Current Price

	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
Machinery, vehicles, etc.								
Gross capital formation		65.2	77.2	45.2	77.2	108.8	123.8	
Less depreciation		7.7	12.6	14.9	19.2	25.5	32.4	
Net capital formation		57.5	64.6	30.3	58.0	83.3	91.4	
Building and public works								
Gross capital formation		84.0	149.0	138.0	83.0	186.0	119.0	
Less depreciation		8.9	12.2	15.2	16.7	20.2	22.0	
Net Capital formation		75.1	136.8	122.8	66.3	165.8	97.0	
Total net capital formation	*85.0	132.6	201.4	153.1	124.3	249.1	188.4	*250.0

* Not separately recorded.

Source: As Table XII.

TABLE XIV

National Income of Hong Kong in the Years,
1947-8 to 1954-5,
(Scale H.K.\$ Million)

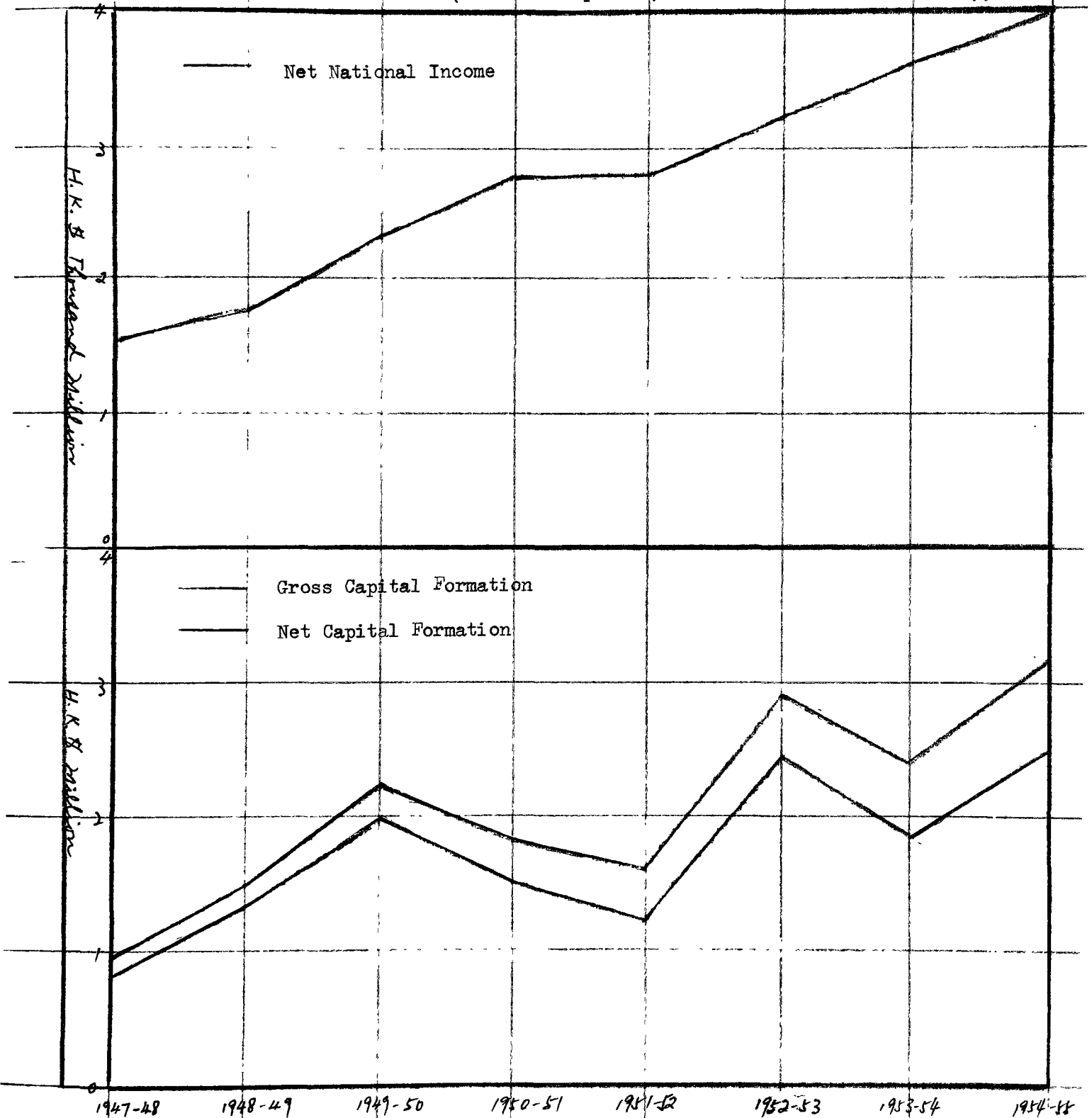
	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
Net National Income (Current Prices)	1,564	1,775	2,330	2,800	2,800	3,200	3,600	4,000
Net National Income (1947-48 Prices)	1,564	1,707	2,100	2,300	2,200	2,500	2,800	3,250

Sources: Edward Szczepanik, The Economic Growth of Hong Kong,
Oxford University Press, 1958.

GRAPH III

NATIONAL INCOME AND CAPITAL FORMATION
1947-48 to 1954-55
(at current prices)

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Sources: See Tables XII, XIII and XIV.

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had increased to U.S.\$ 85 million,¹⁵ that is about H.K.\$ 500 million.

Estimates of remittances from South East Asia, of money passing through banks and remittances houses, during 1956-57 ^a were shown in the following table.

¹⁵ Wong Po Shang, The Influx of Chinese Capital into Hong Kong since 1937, Hong Kong, 1958, p. 8.

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TABLE XV

Remittances from Overseas Chinese in South East Asia
to Hong Kong, 1956-57.

(in H.K.\$ million)
Round numbers

The Philippines	\$ 50.0
Straits Settlements	30.0
Indonesia	30.0
Vietnam	20.0
Siam	20.0

Total	\$ 150.0
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Source: Chinese Economic Information Bulletin, (in Chinese), No. 521, June, 1957.

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In addition to the above mentioned remittances, both from the Americas and South East Asia, remittances from all other places amounted to an estimated H.K.\$ 50 million. Thus the total remittances from all Chinese overseas amounted to H.K.\$ 700 million for 1956-57, as compared with H.K.\$ 600 million in 1948.¹⁶

The flow of Chinese remittances from overseas was diverted from China to Hong Kong following the Communist occupation of the mainland. According to reliable estimates, at least 70 percent of the total sums of money remitted by Chinese to Hong Kong is retained in the Colony. The remaining 30 percent is sent to mainland China and elsewhere. A substantial proportion of this overseas capital is spent on ordinary living expenses by the persons receiving it; a large part is invested in land and building construction; and a smaller part in the manufacturing industry. Some also remains unspent, and this is kept in banks.

The second important source of influx of capital was caused by the Civil War in China. As mentioned above, the resulting inflation of the Chinese currency "Gold Yuan"

¹⁶ According to the estimates of the International Monetary Fund, the total overseas Chinese remittances amounted to about U.S.\$ 100 million in 1948. The Balance of Payment Year Book, 1948 and preliminary 1949 editions, pp. 113-115.

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during 1947-49 led merchants and industrialists in China to use their "Gold Yuan" to buy manufactured goods and equipment, such as machinery for textile mills, cotton and many kinds of raw materials, in order to avoid loss due to the depreciation of the "Gold Yuan". They also used their holdings for exchanges into U.S. dollars, pounds sterling and Hong Kong dollars, and then transferred them to Hong Kong. During 1949-50, the inflow of capital from the mainland to Hong Kong reached at least the H.K.\$ 1,000 million level.¹⁷

The remaining sources of inflow capital from abroad are the net balance of invisible earnings, foreign direct investments, grants, and so on. But this sum of money constitutes only a small proportion in relation to foreign capital in Hong Kong.

However, the inflow of foreign capital to Hong Kong has become a great asset in the Colony's industries as well as in building investments. Further inflow of capital cannot be ~~excluded~~^{precluded}, but it is hard to make any prediction. Generally speaking, the inducement to the inflow of foreign capital depends mainly upon the rate of interest and the marginal efficiency of capital. Thus, more attractive rates on bank deposits and finance corporations, or higher profit rates on building construction and manufacturing industry

¹⁷ Wong Po Shang, The Influx of Chinese Capital into Hong Kong since 1937, Hong Kong, 1958, p. 5.

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could be important elements in attracting more capital from abroad. Foreign capital reached Hong Kong at the right time in sufficient financial strength to make an important contribution to the Colony's economy during the last decade, helping, thereby, to solve the housing and employment problem for part of the refugees from China. But foreign capital cannot be relied upon at all times. It is hoped that savings will be increased for future development as a result of the increased income of the industrialized economy.

Technology is another important aspect in industrialization. It is evident that a shortage of technical skills is a great obstacle in a country which desires to industrialize rapidly. The higher the degree of the technical skill of the workers, the better will be the result of both the quality of the products and the productivity of given resources. Industrial knowledge can be obtained from formal education and plant training. As far as technical training is concerned, there has been some progress; but its tempo is still too slow to affect, in a significant manner, the output potential and thus the basic cost of local factories. Furthermore, it is difficult to train men and women for any kind of skilled work unless they have received a basic general education. Therefore, the abolition of illiteracy and provision of primary education is necessary for future industrial development.

Technical education is provided by the following schools:

1. The Hong Kong Technical College:

The opening of the new Technical College in Kowloon, which replaces the twenty years old building on the Island, was an important development in technical education in the Colony. This government institution provides training in mechanical engineering, building construction, naval architecture, telecommunication engineering, field surveying, mathematics and commercial subjects. A new department of textiles has been formed recently, and the mechanical engineering curriculum now includes more production engineering subjects. There were, including part time, approximately 6,000 students in the year 1957.

2. There are two more government technical schools: the Victoria Technical School for boys, and Ho Tung Technical School for girls. Courses in woodwork, metal work and technical drawing are offered for boys and art, embroidery, cookery and handicraft for girls.

3. Two large private schools for technical training are operated by the Salesian Society.

In addition, there are quite a number of private colleges and institutions, as well as evening schools providing technical courses at various levels. All these facilities and their work are excellently operated. The

only criticism to be made is that they are still inadequate for the needs of local industry.¹⁸

One of the traditional methods of technical training in Hong Kong is by way of apprenticeship. In plant training this is often more directly successful than formal education in raising operational standards, but that implies well organized factories and competent worker-teachers. Thus, this method cannot be exercised effectively in some old establishments, because there is no training system and method instruction. The apprentice is expected to learn the skills by watching, imitating and doing. Recently, some of the well developed industries have operated this method more effectively through a series of training programmes.

Again, technological improvement and progress in industry is indispensable in economic development. Although the shortage of managerial, supervisory and technical skill is basically the responsibility of each industry, and it cannot be overcome in a short period of time, the government can assist the industries as a whole through the establishment of more technical training schools in a long run period.

¹⁸ "Problems of Hong Kong Manufacturing Industries", Far Eastern Economic Review, July 14, 1948, p. 26-27.

C. The Development of Major Industries:

1. The shipbuilding and ship repairing industry.

As befits a trading centre, Hong Kong's oldest industry is, of course, connected with shipping. Shipbuilding and repair yards are conveniently established around the harbour. There are two large establishments, Hong Kong & Whampoa Dock Co., and the Tackoo Dockyard & Engineering Co., which together have an annual building capacity of 80,000 to 100,000 tons and can accommodate vessels up to 500 feet in length on their building berths. The repair work covers every type of operation, such as complete rewinding of large motors, refrigeration equipments and so on. During 1958, repairs were carried out on 1535 vessels, aggregating 4,800,000 gross tons.¹⁹ In addition, there are some 21 other smaller shipbuilding and repair yards which between them service the large fleet of junks, launches, ferries, and small coastal ships. This industry continues to develop steadily and constitutes a significant line of exports due to excellent workmanship and competitive prices.

2. Steel rolling Industry.

Steel rolling in Hong Kong is by no means a new industry. The first factory for reprocessing scrap was set up

¹⁹ Hong Kong Government's Publication by the Dept. of Commerce and Industry, Directory of Commerce, Industry, Finance-1959, p. 20.

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some years before the Japanese occupation, but the nature and scope of the industry has now grown out of all recognition. The raw material for Hong Kong's steel mills is scrap metal. Before the second World War, most of the scrap was imported, but although this trade still continues, ship wrecking has recently tended to provide the main source of supply of material and has become a profitable business in itself. During 1958, 23 no longer suitable for regular used vessels were imported into Hong Kong for this purpose, totalling some 108,856 gross tons.²⁰

There are 17 steel rolling mills in Hong Kong, varying considerably in size. The smaller ones confine themselves to producing regular simple steel structural bars, while the larger ones can make structural shapes to a customer's specifications. One mill also operates an iron foundry and can produce anything from large pipelines to tin openers.

The mills are able to supply not only a considerable proportion of the reinforcing bars required for use in the Colony's flourishing building industry, but also to export a valuable quantity of various kinds of structural steel shapes, bars and rounds, to countries in the Far East.

²⁰ Hong Kong Government's Publication by Dept. of Commerce and Industry, Hong Kong Trade Bulletin, Feb. 1959, p. 42.

3. The textile Industry.

It includes spinning of cotton, rayon, silk and woollen yarns; weaving; knitting; dyeing and finishing; printing; and also the manufacture of all types of garments such as shirts, brocaded coats, gowns, jackets, slacks, pyjamas, and underwear. In 1958, it continued to provide the principal source of industrial employment, with 42,338 workers in a total of 680 registered and recorded factories alone.²¹ This figure should be at least doubled to obtain the figure of total employment, since there are quite a large number of employed in unregistered and unrecorded privately owned establishments.

Most of Hong Kong's cotton mills were established between 1948 and 1950. As a result of the change of regime in China, many textile industrialists from Shanghai moved to Hong Kong and operated of cotton spinning mills during 1948-1950.²²

	1948	1949	1950
Mills (number)	5	11	13
Spindles (thousands)	88	132	187.5
Year's output (million lbs.)	6.5	23.7	54.0

²¹ Hong Kong Government's Publication, Hong Kong Annual Report-1958, p. 358.

²² P.J. Hollies, "The Development of Light Industry in Hong Kong", The Hong Kong Exporter and Far Eastern Importer, 1958-59.

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The spinning mills, now operating over 350,000 spindles, are among the most up to date in the world and first class amenities are generally provided for workers. Production in 1958 was over 120 million lbs.,²³ the greater part of which was consumed by local weaving establishments.

The branch of weaving in this industry began quite long ago with hand operation. It has expanded steadily year after year; the production for 1958 amounted to 270 million square yards,²⁴ most of which was exported. As a result of the improvement in quality of locally woven and finished cloth during the last few years, an increase in the use of local materials by the garment industry in the Colony has resulted.

In the knitting industry, one of the outstanding features is the rapid expansion of a new product, woollen gloves, which was introduced to Hong Kong only a few years ago. One of the biggest glove knitting factories is the Oriental Corporation, which not only knits gloves, but also spins its own yarn. Woollen gloves are now one of the important items of export to American and European markets.

²³ Hong Kong Government's Publication by the Dept. of Commerce and Industry, Directory of Commerce, Industry, Finance-1959, p. 21.

²⁴ Ibid.

A large scale production of finished fabrics from loomstate cloth has developed in Hong Kong during the last decade. Before 1949, only limited quantities of hand screened cloth was produced. There are now a number of finishing factories, continually improving the quality of the finished textiles and processing them to meet specific requirements. Multicolour printing, preshrinking, crease resisting and water proofing are operated by various processes with newly installed modern machinery. The industry will continue to grow, for Hong Kong's finished quality cotton has gained a world wide reputation.

4. Aluminium ware Industry.

This industry is among Hong Kong's more recently established concerns; the first factory was not erected until 1953, but since then, aluminium ware has become one of the leading products for local consumption as well as for export. Exports are currently valued at some H.K.\$ 8-9 million per annum.²⁵ Aluminium is imported in both wrought and unwrought forms, Canada being by far the largest supplier. Distribution of retained imports between wrought and unwrought forms gives an idea of the dramatic growth of

²⁵ Hong Kong Government's Publication by the Dept. of Commerce and Industry, Hong Kong Trade Bulletin, January 1959, p. 15.

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the industry in recent years.²⁶

	1955	1956	1957	1958 (Jan./Nov.)
Unwrought (tons)	1,278	1,023	1,589	2,563
Wrought (tons)	1,883	2,159	971	204

Some of the Hong Kong's factories are now equipped with modern machinery to transform raw, imported ingots of aluminium by melting, rolling, annealing, blanking, circling, stamping, assembling and polishing into a wide range of finished products, such as saucepans of all sizes, kettles, coffee percolators, boxes, mugs, travel cases, furniture frames, and so on.

5. Enamel ware Industry.

This industry was begun in 1932, but its rapid expansion during the last decade is due to efforts made by many Shanghai entrepreneurs. As a matter of fact, Shanghai was more advanced than Hong Kong in this field. Production is principally of brightly coloured household utensils suited to the requirements of South East Asian and African markets. The value of exports in 1958 exceeded H.K.\$ 68 million.

²⁶ Hong Kong Government's Publication by the Dept. of Commerce and Industry, Hong Kong Trade Bulletin, January 1959.

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6. Plastic ware Industry.

This is also a relatively new industry, introduced to the Colony not more than ten years ago. The pioneering firm was the Kader Industrial Co., which began production in 1949. A very wide variety of articles are produced for local consumption and also for exports. These are mugs, beakers, combs, coat hangers, cigarette cases, toys and household utensils. By 1958, there were 296 registered and recorded factories producing plasticware, providing employment for more than 8,000 people. As a result of the growing use of plastic in Hong Kong, new industries such as the fountain pen industry have been developed during the last few years. There were nine factories in 1958. Plastic tooth brushes were introduced in the Colony in 1949 to replace the hand made bristle tooth brushes with bone handles, the material for which were obtained from China. Still other industries linked up with this same plastic material are manufactures of buttons and cameras.

7. Paint Industry.

In order to satisfy the needs of the local housing and construction projects, the paint industry has been expanded. Before the Second World War, there were only four factories producing low grade paint, and most of the paint for local need was imported. By 1958, there were 11 establishments, of which most are highly mechanized and equipped

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with modern machinery producing a wide range of paints and lacquer for home consumption and for the export market. With humidity an ever present problem, it is more than interesting to note that special water proof paint and, indeed, fungus resisting paint has been featured in the Colony. While oil colours in a rainbow range have been firmly developed, it is perhaps in the field of varnishes and lacquers that Hong Kong has made the most progress.

Hong Kong paints have gradually built up a reputation for quality and durability. The Public Works Department of the Hong Kong government is one of the principal users. Others are building construction companies, ship-building companies, and enamel ware factories. Singapore, Malaya, Siam, British North Borneo, IndoChina, and Okinawa are the principal export markets.

8. Tourist Industry.

This is now one of the economically significant industries in the Colony. It is estimated that the volume of business in tourism ranks second only to the textile industry. The figures of incoming visitors to Hong Kong for the past three years increased considerably, from 59,370 in 1957 to 103,058 in 1958 and to 138,561 in 1959.²⁷ They came from

²⁷ H.F. Stanley. "The Growth of Tourism", The Hong Kong Exporter and Far Eastern Importer, 1959-60, p. 143.

all parts of the world and stayed approximately five or six days. The average figure of individual expenditure was about H.K.\$ 750 a day.²⁸ Since about 1955, when the Colony was realizing its attractiveness to the visitors, various measures have been used in the promotion of the tourist industry.

The Hong Kong Tourist Association was established in 1957. The main work is the collecting of a vast amount of information upon Hong Kong which is made available to tourists. The work has also included the design of posters, pamphlets and other literature for distribution to travel agents, information centres and many other channels of publicity promotion in the Pacific.

In order to alleviate the shortage of first class accommodation for visitors, luxury hotels have been built in Hong Kong in recent years; in fact, the hotel accommodation increased by 300 rooms with construction of the Astor and New Ritz Hotels during 1958,²⁹ bringing the total to more than 2,000 rooms available for tourists. In addition, there are numerous smaller and second class hotels.

²⁸ E.S. Kirby, "Hong Kong as a Tourist Centre", The Hong Kong Exporter and Far Eastern Importer, 1955-56.

²⁹ "Hotels-Weak Link in Hong Kong Tourist Industry", Far Eastern Economic Review, January 29, 1959.

TABLE XVI

Industrial Undertakings and Persons Employed in Main Industrial Groups

U.N. Standard Industrial Classification Number	Industry	Industrial Undertakings			Persons Employed		
		1957	1958	1959	1957	1958	1959
14	Clay Pits & Quarrying	55	46	62	2,109	1,320	1,549
20	Food Manufacture	322	360	362	6,521	6,921	6,983
22	Tobacco Manufacture	8	9	7	1,229	1,534	1,244
23	Manuf. of Textiles	651	680	691	43,538	42,338	52,936
24	Footwear & Weaving Ap.	277	680	740	14,054	28,233	47,926
25	Man. of Wood & Cork	126	185	177	2,306	2,720	2,782
26	Man. of Furniture	33	137	131	960	2,543	3,067
28	Printing & Publishing	375	609	624	7,298	8,265	8,614
30	Rubber Products	73	107	108	7,215	8,788	7,923
31	Chemicals & Chem.Prod.	93	113	113	2,719	3,288	3,140
33	Non-metallic Min.Prod.	70	96	88	1,902	2,112	2,214
34	Basic Metal Industries	31	66	72	1,417	2,289	2,350
35	Metal Products	470	575	578	24,367	24,342	26,473
36	Man. of Machinery	213	280	282	3,712	4,291	4,305
37	Electrical Apparatus	54	83	84	2,417	2,822	3,147
38	Transport & Transport Equipment	47	65	66	14,999	14,540	12,906
39	Misc. Manuf. Industries	336	586	607	11,452	17,577	21,839
51	Electricity & Gas	8	8	7	1,517	1,827	1,466
72	Storage & Warehousing	3	19	24	464	796	2,973
73	Cable, Wireless & Telep.	2	2	1	1,064	1,072	1,099
84	Laundry & Dry Cleaning	126	200	199	1,773	2,379	2,431
	Total	3,373	4,906	5,023	153,033	179,997	217,367

Source: Hong Kong Government's Report, Annual Report, 1959, p. 358.

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The visitors also have the opportunity of enjoying a wide variety of cuisine, including the Mandarin food of Peking as well as Cantonese food. Some of the restaurant menus include the specialities of old Russia, Italy, and France. As far as entertainment is concerned, there are many modern and well decorated night clubs as well as numerous cinemas.

Although many tourist amenities of a high standard already exist in Hong Kong, there is further need for both a greater number and a greater variety of such amenities in order to raise the standard of those that are not of the best. Only in this way will it be possible to augment the number of visitors to the Colony and further develop it as a holiday resort.

Hong Kong has now gained a reputation for hospitality, for good service, and for recreation facilities. It is the finest and most exciting shopping centre in the world: a unique blend of western and oriental civilizations, something not easily found any where else.

CHAPTER IV

POPULATION

The latest government estimated population at the end of 1959 amounted to 2,919,000, of which at least 1,000,000 were refugees from mainland China. During the whole period 1949-59, the population had increased more than 55 percent.¹ Hong Kong now is one of the most densely populated areas in the world.

More than ninety nine percent of Hong Kong's population is of the Chinese race. There are over fifty different nationalities represented in Hong Kong's cosmopolitan non-Chinese population. At the end of 1959 the number of British subjects from the U.K. and the Commonwealth, excluding personnel of the British armed forces and their dependents, numbered about 15,000. The total non-Chinese residents other than those of British nationality, such as Portugese, Americans, Japanese amounted to about 11,500. The largest proportion of Hong Kong's urban Chinese population is of Cantonese origin, but political changes have brought people from many other parts of China.

¹ Hong Kong Government's Publication, Hong Kong Annual Report, 1959, Chapter 2.

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The population is increasing year after year; it rose by about 113,000 during the year 1959. Of this increase, 84,329 was due to natural increase--the excess of registered births over registered deaths--and 28,181 was recorded by immigration. This continuing rise in the population, due to the large influx from China and to the natural increase, influences every sector of the community life and it could impose a strain on the Colony's resources which it would be quite unable to bear, especially when land is so scarce and building costs so high.² The situation of serious population pressure existing in Hong Kong will be discussed in Section A. As a result of over-population, shortage of housing has also become a serious problem. The progress of resettlement for squatters and the story of the tackling of this difficulty for the last few years will be studied in Section B. Apart from the housing problem, the Colony also requires far more schools, hospitals, clinics and so on to satisfy its urgent needs. The conditions and achievements with respect to public health and social welfare will be studied under Section C.

A. Population Pressure and Economic Development:

Nearly three million people inhabit a total area of

2 "Hong Kong's Population", The Economist, March 23, 1957.

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391 square miles; of these, over two million live in the thirty six square miles of the urban area, and the majority of them are residents of the ten square miles of the built up city on the harbour shores. Here, densities of over 2,000 to the acre are common.

As a result of over-population, squatter settlements³ appeared in two towns, Victoria on the island of Hong Kong, and Kowloon on the mainland peninsula. The result was a serious economic and social problem in the Colony. Most of the refugees, in order to solve the urgent need of accommodation, occupied every sizeable vacant site even resorting to flat rooftops and the sections under the balconies of existing occupied structures.

When there was no flat land remaining, they moved up to the hillside and slopes which were too steep for normal development. The huts were constructed with cheap materials such as flattened sheets of tin, wooden boarding, cardboard and even sacking pulled over bamboo or any other material

³ The huts were built and lived in by three different classes of people, i.e. immigrants who left China before the Communist victory; refugees who left China because of that victory; and Hong Kong residents who sold out their homes to wealthier immigrants in one or the other of the two former classes, and who had themselves later become virtually destitute. The one thing that all classes had in common was the inability to find or to afford conventional accommodation. These squatter settlements contained elements of all three categories, but the first and third categories were not so numerous in the settlement as the second.

available for frames. Land was scarce, even for squatters, and the huts were packed like dense honeycombs or irregular warrens at different levels, with little ventilation or light and no regular access. By 1953, the squatters population had increased to at least 300,000.⁴

There are three solutions in relation to the refugees' problem: they could return to their country of origin, they could move on to some other country; or the Colony in which they find themselves could accept them as an integral part of the community. It was hoped that refugees would return to their homes when the violence of the upheaval in China was over, for they had suffered both poverty and exile in the Colony. Although the Hong Kong government has placed no physical bar on return to China, it is increasingly apparent as the months and years pass that there is, no desire on the part of most of these people to return home. Emigration has also proved impossible, because of the unwillingness of other countries to receive large numbers of Chinese immigrants. Hence, the third solution, integration has been considered as the only feasible one since 1953. Prior to 1953, it was by no means so clear as it now is that the first and second plans would be impossible ways to meet the

⁴ Hong Kong Government's Publication, A Problem of People, Hong Kong, 1956, p. 14.

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squatter problem, and the provision of resettlement housing for those people living in the squatter areas was largely left to private enterprises. As a result of the event of the Shek Kip Mei fire (in one of the largest squatter areas) on the 25th of December, 1953, over 50,000 persons lost their homes. This constituted a crisis of the social order and compelled to take direct responsibility for the squatters in their moment of extreme need, the government, from 1954 onwards, entered the field of resettlement using public funds and assumed control of construction.

Looking back over the history of the economic development of the last decade, it becomes evident that this rapidly increasing population has not, in every respect, proved a detriment to the Colony. On the contrary its prosperity and industrial development have depended to a very considerable extent on these immigrants. The immediate demand and necessity for more consumer goods provided a stimulus for economic activity. In addition techniques for industry, new to Hong Kong, which some of these same immigrants brought with them, were adopted by already established manufacturing plants with the consequent improvement in rates of production and in the products themselves. Potentially too this could lead to an increasing foreign market for such goods.

On the other hand, the immediate urgent problem is the support of this very large population.⁵ A stable or reasonably stable population is clearly not yet in sight; even though no further immigrants were forthcoming, the annual rate of natural increase in the near future would still stand at approximately three percent. The pressure of this still expanding population may be considered as an obstacle to the further economic development of the Colony.

There is a close relationship between population and the economic development, because either over-population or under-population can have economic disadvantages. Thus an optimum population is best for economic betterment. Such an optimum has generally been defined as the population which can produce the maximum per capita amount of goods with the resources and means of production (it includes capital, skills, foreign trade, methods of production, etc.) available to it. In other words, if there are still increasing returns by employing more people, population is less than optimum; but as population increases up to a certain point, per capita output will decrease and it can then be said that population is more than optimum. Since changes in the means of production are taking place almost constantly, an

⁵ E.S. Kirby, "Hong Kong's Economic Problems", Far Eastern Economic Review, Feb. 26, 1959.

optimum population will be subject to change in a dynamic economy.⁶

In analyzing the disadvantages of over-population or under-population of a country, one must refer to its economic resources and other factors mentioned above. In a country where resources are rich and where space is also plentiful for its inhabitants, an increasing population is necessary in order for this nation to gain and maintain economic growth. A comparison study of the population position of Canada and Hong Kong will be made in order to explain this important element of economic growth more fully.

A country like Canada has sufficient natural resources for agricultural development as well as industrial expansion, and is also a great storehouse of many valuable and useful minerals. In size, Canada is second only to the U.S.S.R. Thus its considerable economic progress has been made possible in part during recent years by its rapidly growing population. As a result of greater utilization of productive resources by more manpower, the real income per capita has been raised.

Conversely, in a place like Hong Kong where land is scarce and where available productive resources are so poor

⁶ W.S. Thompson, Population Problems, New York, McGraw-Hill Books Co. Inc., 1953.

in quality or so deficient in quantity, a net increase in population simply creates a burden to the community as a whole. Because a rapid growth of population will make per capita production tend to become lower, the level of living will also tend to fall. When most of the people are already living under poor conditions savings become almost impossible. This, in turn, means only very little additional capital available for investments on the production of essential goods and housing to satisfy the extra needs of an increased population. This trend will bring the Colony towards even more and more difficult conditions. When the population grows rapidly beyond the Colony's food capacity dangers such as famine and hunger, disease and epidemics, and threats to law and social order may result. These are the impediments to economic growth.

B. Shortage of Housing:

It is not difficult to understand that Hong Kong suffers from a chronic housing shortage which is a direct result of the rapid increase in the population during the years following the Second World War. Generally, living conditions are very poor for most families. In many many cases, three or more families totalling over 20 persons live in a small flat. The following figures indicate the housing conditions in 1957; 79 percent of all households were sharing accommo-

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dations they occupied, 95,000 households were living in cubicles (sub-divided rooms made usually of fibre board), 43,000 in bedspaces (numbers of people sleep and live in one bed, several of which may be contained in a room), 8,000 in cocklofts (small attics, little rooms built in the space provided in between the ceiling and the roof of regular houses), and 4,000 on verandahs (former verandahs or porches closed in with wood or glass or other available material). Only 20,000 households had accommodations with a living room not used for sleeping.⁷ In addition, many households were living in squatters shacks, and even a large number of laborers wrapped in blankets and sacks were sleeping on the streets near to their working place.

In order to alleviate the housing problem, both the government and private sectors have already made an effort to build up more and more low cost housing to provide simple accommodations for the resettlement of squatters. At one time, about half a million persons lived in wooden huts, mostly on the fringes of the urban areas. Squatters' fires were frequent, and in addition constituted an immediate danger to public health. It was therefore decided in 1951

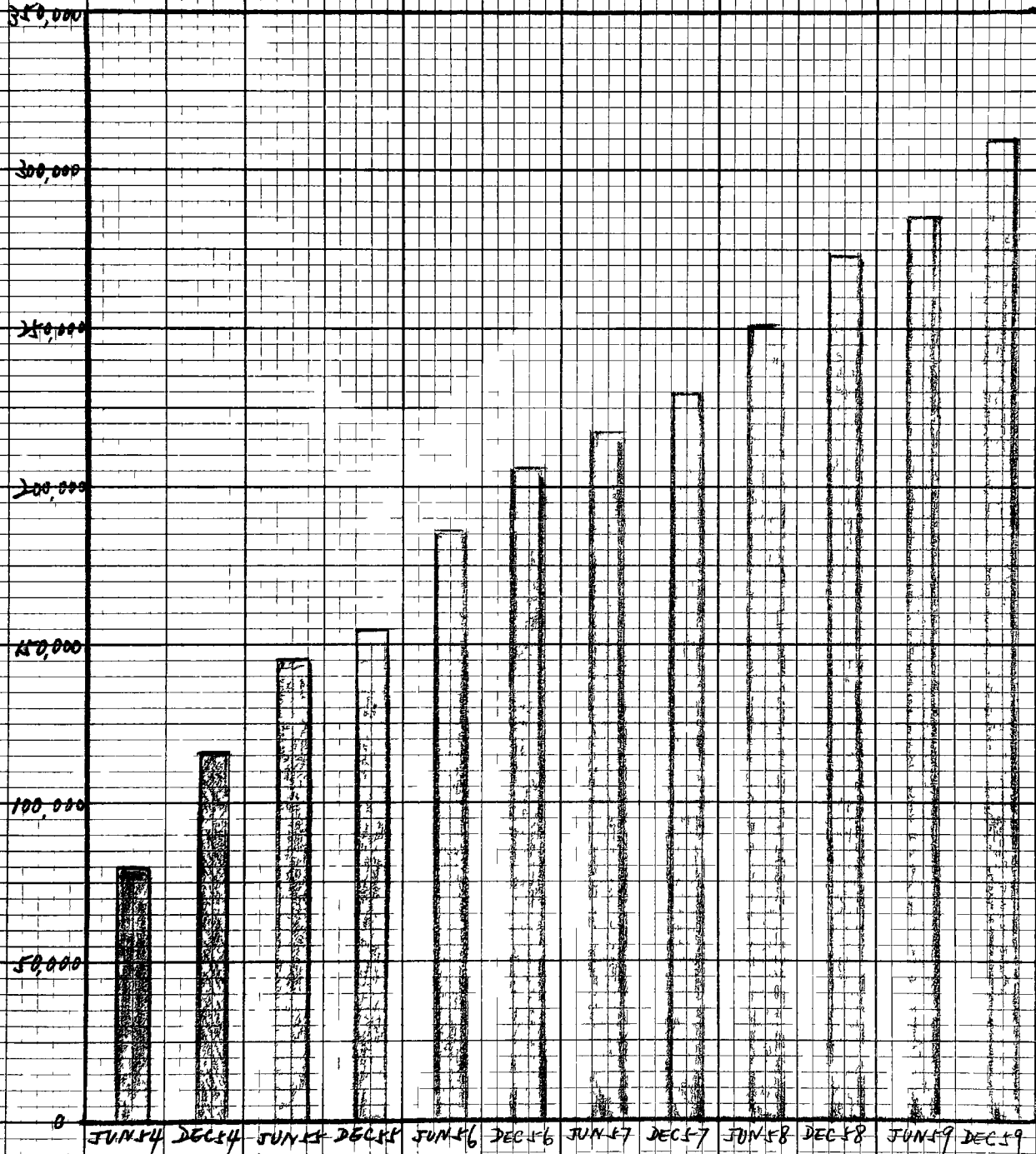
⁷ This housing survey was conducted by the Hong Kong University in 1957 at the request of the Special Committee on Housing which was appointed in 1956 by the government to investigate and record the housing situation.

to establish resettlement areas for squatters, but private enterprise alone could never meet the demand, and progress in the development was slow. As already explained, at the beginning of 1954, the government therefore entered this field on a massive scale to construct large multistorey resettlement estates. The aim of this project is two fold: the freeing of land in squatter area required for the Colony's permanent development and expanding needs, in particular for more houses, schools and factories; and as a practicable solution to the squatter problem.

All matters connected with the clearance and resettlement of squatters in the urban areas are the responsibility of the resettlement department, which came into existence early in 1954 under the direction of the Urban Council. By the end of 1956, 40 multistorey resettlement blocks had been built, spread over four estates and housing some 103,000 people in all. By the end of 1959, 103 domestic multistorey resettlement blocks had been built in nine estates at a total cost of H.K.\$ 106,000,000. In these, 229,956 people were housed. Apart from those who have been provided with homes in the multistorey estates, there are 80,386 persons resettled in 14,611 cottages in the cottage areas. Graph IV indicates the number of persons resettled from 1954 to 1959, and Graph V indicates the changing trends

GRAPH IV

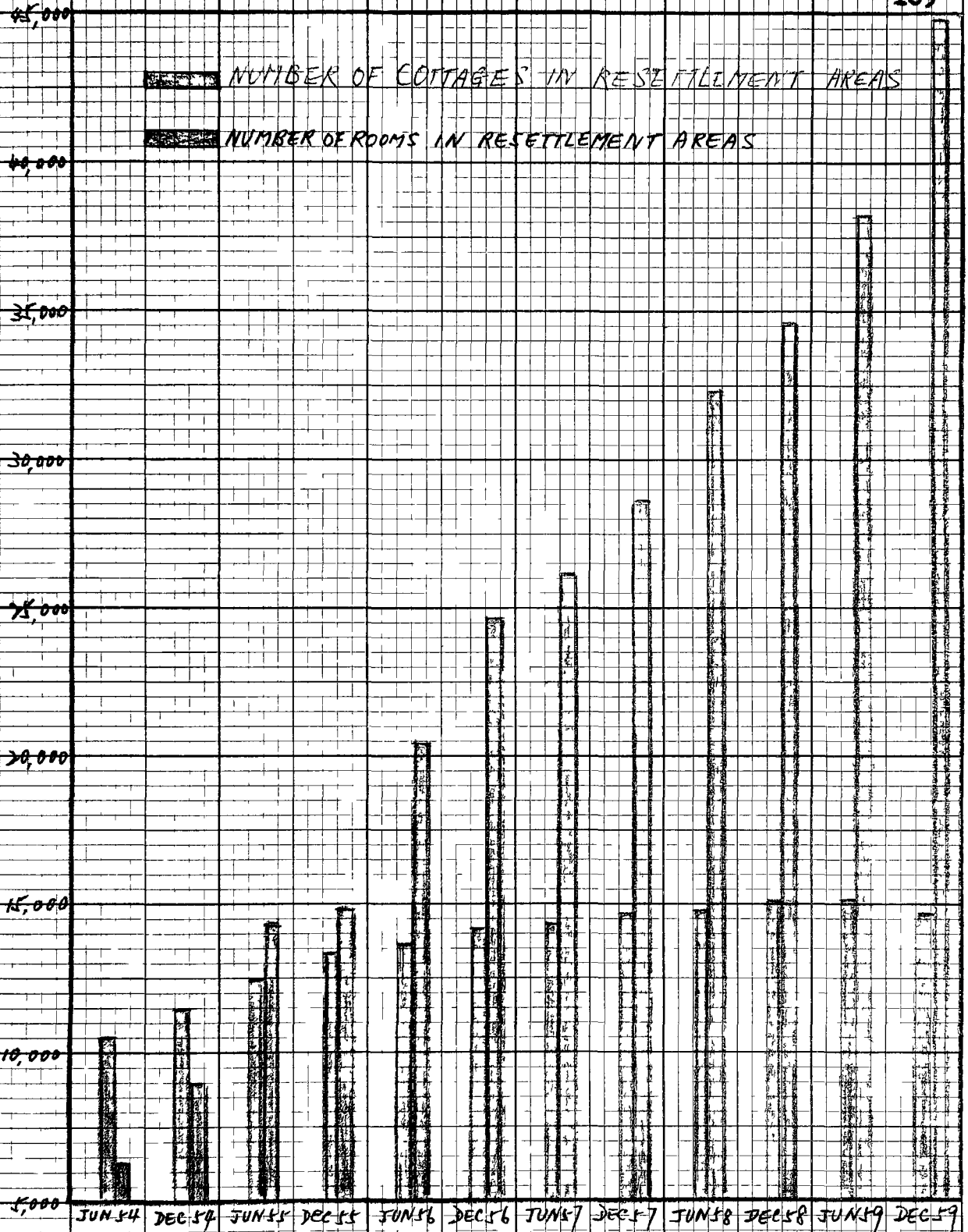
NUMBER OF PERSONS RESETTLED
1954-59



Source: Dept. of Resettlement, Annual Departmental Report, 1959.

GRAPH V

CHANGING TRENDS IN RESETTLEMENT BUILDING
 BETWEEN 1954 AND 1959



Source: Dept. of Resettlement, Annual Departmental Report, 1959.

in resettlement building between 1954 and 1959.⁸

Multistorey resettlement estates are standardized in design, and can be described as follows: they are seven storeys high and built in the form of an 'H', the bar of 'H' being used for communal latrines, washing spaces and bathing cubicles on each floor. These seven storey buildings are divided into rooms of different sizes, varying from 86 square feet to 240 square feet, the majority being of 120 square feet for a family of five persons. The monthly rent for such a room is H.K.\$ 14 which is much cheaper than similar rooms in old tenement buildings. The average accommodation provided in each seven storey 'H' resettlement block is for about 2,500 persons, larger estates provide for 40,000 to 65,000 persons.⁹ Resettlement has, however, solved the housing problem for half of the population living in squatters quarters, and as a matter of fact, they are now better housed than most of the families in normal buildings in Hong Kong.

Apart from the housing scheme for squatters, there is still another part of the population in urgent need of

⁸ All these figures connected with the resettlement were obtained through the Resettlement Department of the government.

⁹ Hong Kong Government Publication, Annual Report, 1957, p. 195.

better and cheaper housing; these are the dwellers in dangerous, dilapidated and old tenement buildings and those with a low income who are unable to afford the normal type of accommodation and who are not eligible for resettlement. The principal role of providing houses for these two groups of people has been played by the following organizations, the Hong Kong Housing Society, Hong Kong Model Housing Society, Hong Kong Economic Housing Society, Hong Kong Housing Authority, and so on. In order to encourage the above mentioned nonprofit making housing societies the government sells land to them at one-third of the estimated market price. Loans have also been made available from the government at a low rate of interest. By 1958, 2,591 flats had been constructed under the Hong Kong Housing Authority and 2,780 flats and cottages were provided by the Hong Kong Housing Society. Over 33,000 people have benefitted from these houses.¹⁰

C. Public Health and Social Welfare:

A fair measure of the overall success of all types public health services during the period since the Second World War is evident in the fact that no serious epidemic

¹⁰ Hong Kong Government Publication by the Dept. of Commerce and Industry, "Land and Housing Report", Directory of Commerce, Industry, Finance, 1959.

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has developed. Moreover, the death rate has continued to decrease; the death rate of 7.1 per 1,000 in 1959 was again the lowest on record. The following table gives the figures of births and deaths for the years 1954-59.

In spite of this great improvement, the decreasing death rate does not present the whole picture of health situation in the Colony. Because of the background of overcrowding, a limited water supply, lack of adequate housing and modern sanitation, there is, of course, the potential danger of diseases springing up at any moment. Thus, the continuous medical services and clinics are necessary.

Tuberculosis continues to be the major health problem in Hong Kong and X ray surveys indicate that two percent of the adult population have the disease in an active form. The chances of contact with an open case are very high because of the density of the population and overcrowded living conditions. Control measures are therefore based upon the protection of the vulnerable section of the population, infants and young children by B.C.G. vaccination.

The principal diagnostic agency in the Colony is the Government Tuberculosis Services, which now operate three major full time chest clinics in the urban area and ten smaller part time clinics, six of which are in the rural areas. When a person with active pulmonary tuberculosis has

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TABLE XVII

The Growth of Population, 1954-59

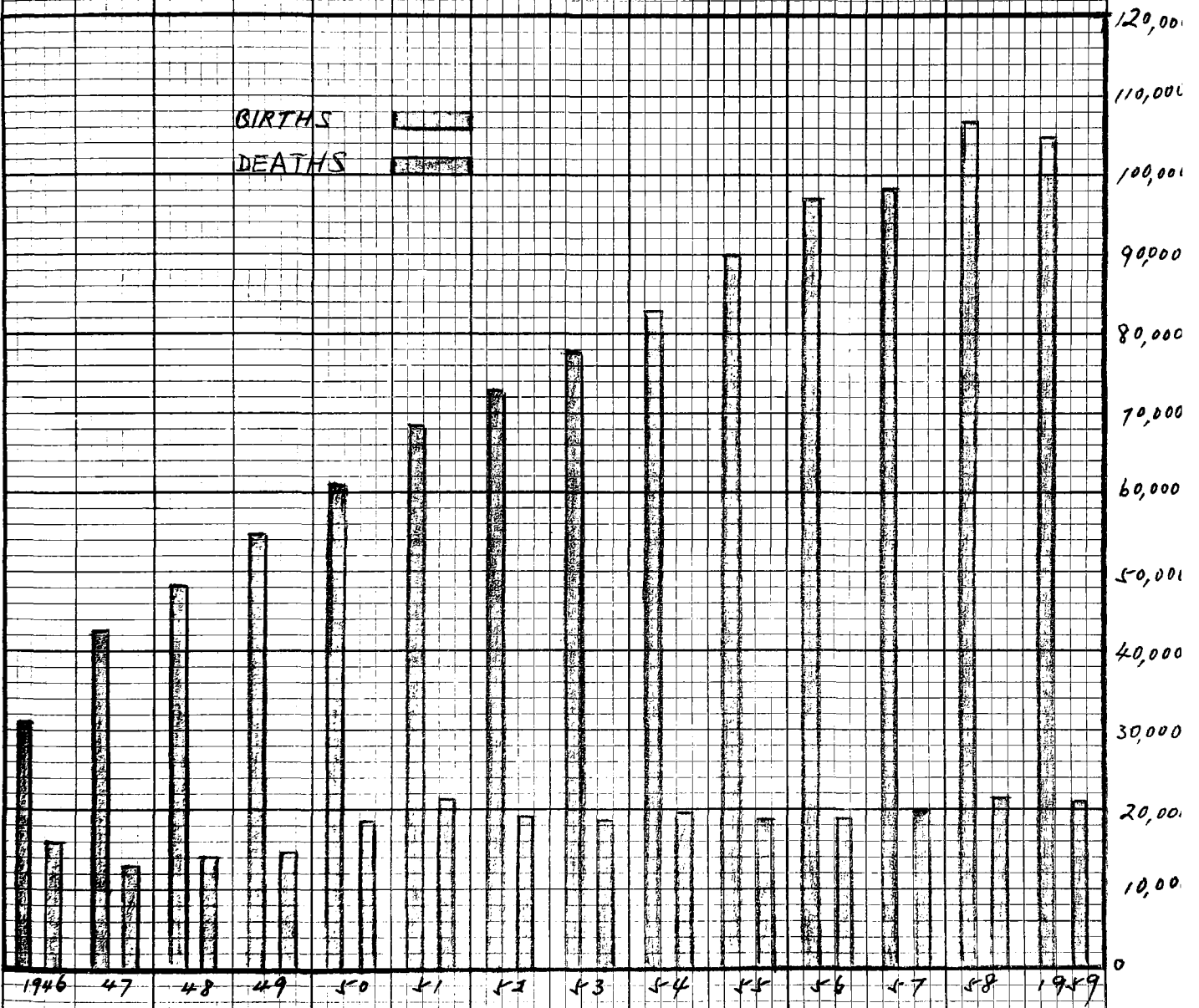
Year	Births	Birth rate per 1000 of estimated mid-year population	Deaths	Death rate per 1000 estimated mid-year population
1954	83,317	36.6	19,283	8.5
1955	90,511	38.7	19,080	8.2
1956	96,746	39.7	19,295	7.9
1957	97,834	37.9	19,365	7.5
1958	106,624	38.9	20,554	7.5
1959	104,579	36.6	20,250	7.1

Source: Dept. of Medical and Health Services,
Annual Departmental Report, 1959.

GRAPH VI

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BIRTHS AND DEATHS
1946-1959



Source: Hong Kong Government Publication, Annual Report, 1959, P. 145.

been found, a full course of treatment as an out patient will be started immediately. For those receiving streptomycin injections night clinics have been opened at a number of strategic points so that patients who are in employment are able to receive treatment, with the minimum of loss of working time. The total number of hospital beds available for tuberculosis treatment is 1,864, the majority of which are operated directly or indirectly by the government.¹¹

The death rate from tuberculosis was 208 per 100,000 in 1951, but it has declined steadily to 76.2 per 100,000 in 1959. The percentage of deaths from tuberculosis occurring in children below five years of age has also declined from 34.0 percent in 1951 to 19.0 percent in 1959.¹²

Although progress is being made and the results of the control measures applied are encouraging, further effort is still needed in connection with medical services and facilities for tuberculosis treatment.

As far as the number of hospital beds for all purposes is concerned, these have increased considerably since 1949. In that year, there were 11 government hospitals,

¹¹ Hong Kong Government Publication, Annual Report, 1959, p. 134.

¹² Department of Medical and Health Services, Annual Departmental Report, 1959.

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having a total of 1,750 beds; there were also 2,150 beds in government assisted and private hospitals, giving a total of 3,900 hospital beds. By the end of 1959, there were 12 government hospitals having 2,212 beds; government assisted and private hospitals had 5,490 beds. The total number of beds available had, however, long been recognized as inadequate, and so a large new general hospital - the Queen Elizabeth Hospital - is now under construction and is expected to be completed by the end of 1962.

The 12 government hospitals comprise two large general hospitals, two mental hospitals, two maternity hospitals, and one large hospital for both long term cases and infectious diseases, two prison hospitals, one small hospital for the treatment of venereal diseases, and the St. John Hospital with general, maternity, and tuberculosis beds.

Out patient services of varying scope are available at 42 government clinics and dispensaries situated throughout the urban and rural areas. In addition there are quite a number of private clinics for all kinds of medical treatment.

Apart from health and medical care problems, all the other social welfare needs are seriously aggravated by the swollen population. Surplus manpower has brought about underemployment and a low standard of living. According to a survey covering a very representative sample of the

Colony's workers made by the Hong Kong University in 1955, out of 257 workers, 97 have incomes under H.K.\$ 200 per month (equal to approximately U.S.\$ 35), 86 workers have monthly incomes between H.K.\$ 200 to H.K.\$ 300, and only 4 have incomes above H.K.\$ 500.¹³ As a result, the whole family must live on such an income. In addition, rents are very high, about H.K.\$ 50 a month for each cubicle, which is home for a couple and their children, generally five or six persons. As a result the shortage of housing and school facilities, and the difficulty of obtaining full time employment, have induced or accentuated a number of serious social evils, such as the abandonment of babies, prostitution, illness and poverty. In short, social conditions are dominated by the struggle for survival.

In order to fight against such social evils, the Social Welfare Department, joined by well over 100 voluntary welfare organizations and many small groups of welfare workers, sponsored by different missionary bodies, are responsible for the whole field of social work. In addition to the Social Welfare Department, government action within the broader framework of the social services includes the rehousing of squatters, and the extension and improvement of

¹³ Edward P. Szczepanik, The Cost of Living in Hong Kong, 1956, Hong Kong University Press, p. 5.

medical and educational facilities and industrial welfare. During the past ten years, the Hong Kong government has spent more and more of its own resources on such social services, approximately one third of its total revenue.

The following social services are provided by the Social Welfare Department, together with the voluntary agencies. Child welfare work in Hong Kong may be broadly divided into two sections: play centres, is generally undertaken by voluntary organizations, with a close connection to, and in many cases financial support from the government through the Social Welfare Department. Since there are many working mothers employed in the factories receiving very low rates of pay, they are unable to give their children proper care during the day. Thus, the need for this kind of service for children has been increasingly recognized; there are now nine nurseries, two creches and two play centres which were caring for some 1,340 children at the end of 1959 as compared with 450 at the end of 1958.¹⁴ In addition, a number of voluntary bodies are planning to open new nurseries in the future. Secondly, there is the protection and the legal adoption of children abandoned on the streets due to economic reasons. They are admitted to children's homes and babies' homes.

¹⁴ Hong Kong Government Publication, Dept. of Social Welfare, Annual Departmental Report, 1959.

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Adoption can be made from these organizations through registration with the Department. Because of the poor dwelling conditions, physical recreation is not possible; youth organizations such as the Y.M.C.A. and Y.W.C.A. provide recreation, a varied educational and vocational training program for the grown up boys and girls.

The problem of prostitution in Hong Kong is, however, aggravated by the conditions of a major seaport, a crowded centre of urban population, and a further influx of million of refugees who have been uprooted from their homes in mainland China with a loss of possessions and a consequent disruption of their careers, family ties and traditional moral values. The main cause is economic; chronic unemployment and keen competition in the less skilled jobs induced a proportion of the female population to resort to this as method of earning a living. Therefore, another important social work which is rendered by the Department is to seek to rescue these young victims of exploitation. The Sisters of the Good Shepherd Order who specialize in this type of welfare work, cooperate closely with the government by providing residential care and effective training. Thus these girls may be equipped to earn an honest living.

For those disabled persons such as the blind, deaf, and mentally handicapped, both voluntary and official welfare organizations strive to provide various kinds of ser-

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vices, by giving them accommodation, medical care, education and vocational training in order to equip them again for employment or to help them to live useful lives.

As a result of over-population, many thousands of families are obliged to depend upon the earnings of irregular work or part-time work for their livelihood; thus, they have no material reserves. Therefore, the scope of social work provided by the Department is quite wide, including a vast field of relief work. Cooked meals as well as dry food stuffs are distributed every day to those families earning inadequate wages; emergency relief work also operates efficiently in helping those families in times of difficulty resulting from fires, house collapses and floods. Many welfare organizations, such as the Catholic Relief Services, Hong Kong Family Welfare Society, and the Salvation Army, play an important part in assisting these victims by providing food stuffs, used clothing, blankets or cash grants after each disaster.

The range variety of social work is still expanding as time goes on. During 1959, two new projects were launched: one was the Resettlement Estates Loans to families in resettlement estates who would otherwise be forced to borrow money at a high interest rate from money lenders. Another was the Employment Assistance Scheme, the purpose of which is to find work for those unemployed in order to solve Hong

Kong's beggar problems.

Although there has been a steady expansion in many aspects of social services to cope with all social evils, the main handicap to the more rapid development of welfare work in Hong Kong, apart from the purely economic aspect, is the chronic shortage of trained and well qualified professional staffs. There is therefore a very real need for training more social workers for further development.

CONCLUSION

Throughout the foregoing discussion the emphasis has been on the fact that Hong Kong's problems are essentially economic. The Colony's existence depends on trade and industry; any other activities are mainly contingent on its economic, and in some respects political, existence. One of the urgent economic problems that Hong Kong is facing is its population pressure. Industrialization, by all available means, appears to be the most important and perhaps the only effective way of maintaining the increasing number of people.

If Hong Kong is to forge ahead, it must not only support this very large population, nearly 3 million, but also improve their standard of living. The solution of the uncertain political future of the Colony, discussed in Chapter I, is to some extent also dependent upon its ability to solve this serious economic difficulty. Although efforts to tackle population pressure have been supplemented by the work of religious organizations, special U.N. committees and other interested groups culminating in the "World Refugees Year" movement, apparently, reliance on aid or charity from the outside world will not bring about any adequate solution to this tremendous problem. Consequently, a very high priority must be given to the development of industry and the promotion of foreign trade to spread the products of these

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industries throughout the world. Although during the last decade, because of industrial development, Hong Kong has enjoyed a certain degree of prosperity. It is now essential that in order to meet the needs of the population expansion, efforts must be intensified to increase this prosperity.

For further industrial development, both the government and private sectors should make efforts to build up an industrial structure suitable to the peculiar local conditions. Since there are no special industrial development institutes, such as industrial banks and industrial assistance corporations, etc., for speeding up industrial progress and to take care of industrial activity, all such problems and difficulties have to be solved by individual manufacturers and industrialists. As a recognition of this need, a movement is under way for the establishment of a Hong Kong development corporation to foster its industrial growth.

Although capital is available for investment, only a portion of it flows into industry. The reason is that many of the capitalists and banks in Hong Kong tend to maintain high liquidity and to view with disfavour long term commitments. Therefore the object and function of the development corporation should be to provide long or short term capital on a secure basis for any enterprise which will further the best interest of the Colony as a whole. In addition it must also act as a specialist in industrial promotion as well as

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a consultant in industrial problems. Its financing services should be complementary to and not competitive with the existing financial and banking structure.

One of the weaknesses in industrial growth has been the result of high liquidity outlook of the investors, so capital for long term investment is generally regarded as meagre. This is the reason why for the last decade the building construction business has flourished far more than manufacturing industries, since investors can sell their houses and buildings much more easily and get their money back at any time. The official report of February, 1959, provided a good example of this trend. It showed expenditure on residential accommodation in Hong Kong and Kowloon (58 buildings) of H.K.\$ 7,700,000 and workshops (3 buildings) of H.K.\$ 1,748,000.¹ This is an unbalanced situation, with residential accommodation not matched by sufficient industrial and commercial premises which must ultimately produce the income out of which the home rent is paid. Paradoxically, Hong Kong's business activity seems to thrive under a state of deferred uncertainty which is due to the fact that the long term stability of the government is frequently called into question. Of course, if there was unlimited prospects of

¹ John Matthews, "Speculative Value and Use Value", Far Eastern Economic Review, April, 30, 1959.

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peace and security in the future of the Colony, the feverish desire for quick returns of investment might diminish.

For the creation of the proper climate for industrial expansion, a development corporation can play an important role. For example, when in time of economic depression or political uncertainty, private capital will not be sufficiently available to industry on attractive terms through ordinary banking and financial channels, and such capital will almost certainly have to be supplemented out of the corporation's own funds, until the public confidence in the prospect of private industry is well established again. From the standpoint of the short term view of industrialists, there is also the need for some bold farsighted government action which will act as a psychological booster for the growing ranks of industrialists who have been depressed and demoralized by the Chinese Communists dumping and the loss of their markets.² So it is necessary to provide a optimistic climate for the stimulation of investments which are not primarily made on the incentive of high liquidity.

Another weakness of Hong Kong is its present industrial set up is such that, except for a few large factories, many of the light manufacturing plants are actually of the

² "Development Corporation", Far Eastern Economic Review, Sept. 11, 1958.

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cottage industry type. The major economic resource is, of course, a huge population which provides an abundance of labour but unfortunately a high proportion of this group are quite untrained in modern techniques. Although labour power is still a factor in modern industrial and business activities, an exclusive or even main reliance on it is no longer really economic or competitive in the modern world and is likely to become rapidly less so in the future. To remedy this situation, Hong Kong needs an industrial development corporation which can help many of the existing factories to modernize their equipment and to install new manufacturing devices in order to lower production costs, because Hong Kong's economy is still largely dependent on external markets for its products. Therefore this new corporation must also help the industry in bringing about diversification and improvement of the quality of products in order to preserve the overseas markets it already has and to open new ones.

In short, a development corporation is urgently needed in Hong Kong, which will give hope to industries, and, in turn, a relief to over-population.

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