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File: Hong Kong

August 19, 1983

Ref. # 397

Mr. David N. Laux
Director of Asian Affairs
National Security Council
Washington, D.C. 20506

Dear David:

It was a pleasure to see you again last week and have the opportunity to introduce you to the new Senior Representative, Alan Wong. Hearing about your new posting with the National Security Council and discussing the political and economic possibilities for Hong Kong's future made for an exchange which we both found to be most stimulating and informative.

I have requested that our staff commence forwarding copies of the HONG KONG TRADER to you, in addition to adding your name to the mailing list for our newsletter, THE HONG KONG CABLE. As promised, I am also enclosing a copy of the speech by Mr. Burton Levin, U.S. Consul General in Hong Kong, and a report done by the Stanford Research Institute on Hong Kong. I think you will find them interesting, and that the receipt of the TRADER and CABLE on a monthly basis will be helpful in keeping up-to-date on important happenings in the territory.

I hope that you will be able to visit our office - and perhaps join us for lunch - the next time you are in New York. We are very pleased that we had the chance to meet with you last week and will value any opportunity to maintain the open channels of communication between us in the future.

Very truly yours,

John J. McCabe
Manager

JJM/rg
enc.

**United States
Information
Service**

Consulate General of the United States of America
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THE FOLLOWING IS THE FULL TEXT, AS PREPARED FOR DELIVERY, OF A SPEECH BY AMERICAN CONSUL GENERAL BURTON LEVIN AT THE SRI INTERNATIONAL HONG KONG/SHENZHEN SESSION ON JUNE 28, 1983, AT THE REGENT HOTEL IN HONG KONG.

AMERICA'S ROLE IN HONG KONG

(BEGIN TEXT)

I'VE BEEN ASKED TO TALK ABOUT AMERICA'S ROLE IN THE HONG KONG ECONOMY, BUT WOULD LIKE TO BROADEN THAT TO SIMPLY AMERICA'S ROLE IN HONG KONG, OR SOMETHING CLOSE TO THAT. DESPITE MY EXPANSIONARY TENDENCIES, I INTEND TO KEEP THIS SHORT TO MINIMIZE OUR COLLECTIVE SUFFERING. I WOULD WELCOME COMMENTS AND QUESTIONS FROM THE FLOOR UPON CONCLUSION. SUCH EXCHANGES OFTEN PROVE FAR MORE INTERESTING AND WORTHWHILE THAN A SET SPEECH.

I'LL BEGIN WITH THE OBLIGATORY BOW TO THE SURPRISINGLY LONG AMERICAN PRESENCE IN THE NEIGHBORHOOD. AS AN EXAMPLE, THE TEA DUMPED IN THE FAMOUS OR, PERHAPS TO SOME OF YOU, INFAMOUS BOSTON TEA PARTY WAS ON-LOADED IN MACAU. I MIGHT NOTE THAT SINCE THEN WE HAVE BEEN CONSIDERABLY MORE HOSPITABLE TO GOODS FROM THE REGION. AS A SIGN OF THE IMPORTANCE THE AMERICAN GOVERNMENT ATTACHED TO CHINA TRADE, WE OPENED OUR CONSULATE HERE IN 1843, SCARCELY A YEAR AFTER HONG KONG'S ESTABLISHMENT AND ELEVEN YEARS BEFORE ADMIRAL PERRY'S SHIPS OPENED JAPAN. HAVING MAJORED IN AMERICAN HISTORY, I'LL SHOW OFF A BIT MORE BY NOTING THAT THE WEALTH AMASSED IN THE CHINA TRADE CONTRIBUTED IMPORTANTLY TO THE EARLY 19TH CENTURY CULTURAL FLOWERING OF NEW ENGLAND. THE SEARCH FOR WILD GINSENG TO PAY FOR OUR PURCHASES OF TEA, SILK AND OTHER GOODS FROM CHINA PROMOTED THE EXPLORATION AND SETTLEMENT OF WESTERN NEW YORK AND NEW ENGLAND, AND THE DRAMATIC LEAPFROG OF AMERICAN SETTLEMENT FROM THE SLOPES OF THE APPALACHIANS TO THE OREGON COAST WAS DIRECTLY ATTRIBUTABLE TO THE ABUNDANCE THERE OF BEAVER AND OTHER FURRY BEASTS WHOSE SKINS WERE A HOT ITEM IN THE CHINA TRADE.

I KEEP UNCOVERING HISTORICAL NUGGETS, THE LATEST BEING THE DISCOVERY THAT JOHN MOSBY, THE LEADER OF MOSBY'S RAIDERS -- A RENOWNED CONFEDERATE GUERRILLA FORCE DURING OUR CIVIL WAR -- WAS ONE OF MY PREDECESSORS, HAVING BEEN APPOINTED CONSUL IN 1879 IN WHAT I SUSPECT WAS A GENTEEL EXILE.

LET ME ABANDON THE TEMPTATION TO WEAVE A SORT OF AMERICAN-CENTERED "NOBLE HOUSE" VERSION OF THE U.S.-HONG KONG RELATIONSHIP. THE REALITY IS THAT WITH THE OPENING AND SUBSEQUENT FLOURISHING OF THE TREATY PORTS IN CHINA BEGINNING AROUND THE MID-19TH CENTURY, AMERICA AND HONG KONG LAPSED INTO

A VERY SLEEPY RELATIONSHIP. IT WAS NOT UNTIL THE EARLY 1950'S THAT A VASTLY CHANGED AMERICA BEGAN PLAYING A SIGNIFICANT ROLE IN A VASTLY CHANGING HONG KONG. THE FIRST MANIFESTATION WAS A FAIRLY SUBSTANTIAL AMERICAN PUBLIC AND PRIVATE CONTRIBUTION OF FOOD AND OTHER ASSISTANCE TO THE MASSES OF DESTITUTE PEOPLE POURING INTO HONG KONG. SUCH ASSISTANCE CONTINUED FOR MORE THAN TWO DECADES, AND WHILE CREDIT FOR TRANSFORMING THE DESPERATION OF THE EARLY 50'S INTO THE PROSPERITY OF THE PRESENT RESTS CLEARLY WITH THE HONG KONG GOVERNMENT AND PEOPLE, WE WERE IN THERE EARLY WITH A HELPING HAND.

AS THE FIFTIES PROGRESSED, THE HANDFUL OF AMERICAN BUSINESSMEN LONG-ESTABLISHED HERE WAS AUGMENTED BY AT FIRST A TRICKLE AND THEN A GROWING STREAM OF COMPATRIOTS ATTRACTED HERE BY THE POLICIES OF THE GOVERNMENT AND THE INDUSTRIOUSNESS OF THE PEOPLE. NEVERTHELESS, THE PATHETIC TRADE FIGURES INDICATE THE MINISCULE UNITED STATES INVOLVEMENT IN HONG KONG'S STRUGGLING ECONOMY OF THE 50'S AND EARLY 60'S. IN 1950, HONG KONG'S EXPORTS TO THE U.S. TOTALLED HK\$20 MILLION, A SUM UNDOUBTEDLY FAR LESS THAN THE CONTRIBUTIONS MADE TO THE HONG KONG ECONOMY BY OUR SAILORS IN WANCHAI. IN THAT YEAR HONG KONG IMPORTED HK\$76 MILLION OF AMERICAN GOODS.

I WILL NOT REVIEW IN GREAT DETAIL THE REASONS FOR HONG KONG'S EXTRAORDINARY ECONOMIC GROWTH OVER THE PAST TWO DECADES. IT IS NOT COINCIDENTAL THAT IT OCCURRED AT A TIME WHEN THE AMERICAN PEOPLE WERE ENJOYING AN UNPRECEDENTED GROWTH IN MATERIAL PROSPERITY AND WHEN AMERICAN BUSINESS BEGAN TURNING TO THE OUTSIDE WORLD. THE GOVERNMENT AND THE PEOPLE OF HONG KONG SUPPLIED THE LEGAL, POLITICAL AND SOCIAL FRAMEWORK FOR THE TERRITORY'S ECONOMIC TAKE OFF. WE AMERICANS SUPPLIED, MOST IMPORTANTLY, THE MARKETS, BUT ALSO THE CAPITAL, TECHNOLOGY AND MANAGEMENT SKILLS THAT PROVIDED THE ADDED IMPETUS ACCOUNTING FOR HONG KONG'S DRAMATIC RESULTS. TO GIVE SOME IDEA OF THE MAGNITUDE OF GROWTH IN U.S.-HONG KONG TRADE, HONG KONG'S TOTAL EXPORTS TO THE U.S. IN 1982 AMOUNTED TO HK\$36.8 BILLION OR ONE THOUSAND EIGHT HUNDRED FORTY-TWO TIMES THE 1950 FIGURE. HONG KONG'S 1982 IMPORTS FROM THE U.S. TOTALLED HK\$15.5 BILLION, A MORE MODEST BUT STILL IMPRESSIVE TWO HUNDRED-FOLD PLUS INCREASE OVER THE 1950 FIGURE.

I AM NOW ABOUT TO ENTER THE BOREDOM ZONE WITH MORE STATISTICS. BEFORE YOU TUNE OUT, I ASK YOU TO KEEP IN MIND SIMPLY THAT THE UNITED STATES IS BY FAR HONG KONG'S LARGEST FOREIGN INVESTOR AND BY FAR HONG KONG'S LARGEST EXPORT MARKET. ON THE TRADE SIDE, IN 1959 THE UNITED STATES REPLACED THE U.K. AS HONG KONG'S LEADING OVERSEAS MARKET. IT HAS MAINTAINED THIS POSITION EVER SINCE. THE MORE THAN US\$5 BILLION HONG KONG EXPORTED TO THE STATES LAST YEAR REPRESENTED 38 PERCENT OF THE VALUE OF HONG KONG'S DOMESTIC EXPORTS. THE VALUE OF THESE

EXPORTS HAS BEEN INCREASING AT A RATE OF 20 PERCENT -- 25 PERCENT ANNUALLY OVER THE PAST SEVERAL YEARS. GARMENTS (ABOUT US\$2 BILLION IN 1982), ELECTRICAL MACHINERY, OFFICE MACHINES AND COMPUTERS -- AS WELL AS TOYS AND PLASTICS -- HAVE LED THE WAY.

ON THE INVESTMENT SIDE, I HAVE A FIGURE OF U.S.\$2 BILLION FOR U.S. INVESTMENT IN HONG KONG AT THE END OF 1981. I CAN'T VOUCH FOR ITS ACCURACY. IT'S PROBABLY FAR TOO LOW, BUT IN ANY EVENT, AT THE END OF 1982, THE U.S. ACCOUNTED FOR 47 PERCENT OF TOTAL FOREIGN DIRECT INVESTMENT IN HONG KONG'S MANUFACTURING SECTOR, COMPARED TO 30 PERCENT FOR JAPAN AND SIX PERCENT FOR THE U.K. IN THE TOY INDUSTRY, THE U.S. ACCOUNTED FOR 90 PERCENT OF THE TOTAL FOREIGN INVESTMENT AND OVER 50 PERCENT IN THE ELECTRONIC, BUILDING AND CONSTRUCTION, CHEMICAL AND METAL PRODUCTS INDUSTRIES.

THE UNITED STATES IS VERY ACTIVE IN THE SERVICE SECTOR TOO. THERE WILL SOON BE 21 AMERICAN BANKS IN HONG KONG WITH THE RECENT APPROVAL OF IRVING TRUST OF NEW YORK IN HONG KONG. THERE ARE ALSO NUMEROUS AMERICAN FINANCIAL INSTITUTIONS, BROKERAGE HOUSES AND INSURANCE AGENCIES HERE. U.S. BANKS HAVE PLAYED A MAJOR ROLE IN HONG KONG'S FINANCIAL GROWTH AND DEVELOPMENT, ITS TRADING SECTOR AND ITS PROPERTY SECTOR. THEY HAVE BEEN IN THE FOREFRONT WITH THE INTRODUCTION OF NEW BANKING SERVICES HERE -- MAKING BANKING MORE COMPETITIVE AND PROVIDING BETTER SERVICE TO CUSTOMERS.

ON THE OTHER SIDE OF THE COIN, DESPITE ITS RELATIVELY SMALL SIZE, HONG KONG RANKS AMONG THE TOP 25 U.S. EXPORT MARKETS. THE U.S. SUPPLIED 11 PERCENT OF HONG KONG'S IMPORTS IN 1982, AND IS HONG KONG'S LARGEST SUPPLIER OF TEXTILE FIBRES, COMPUTER PRODUCTS, AND SCIENTIFIC INSTRUMENTS. HONG KONG IS ALSO ONE OF THE FASTEST GROWING MARKETS FOR AMERICAN AGRICULTURAL PRODUCTS. EVERY PERSON IN HONG KONG ANNUALLY EATS ABOUT US\$80 WORTH OF U.S. FARM PRODUCTS. THE TERRITORY IS THE LARGEST OVERSEAS MARKET FOR AMERICAN ORANGES, APPLES, TABLE GRAPES, SHELL EGGS, MELONS, PREPARED ANIMAL FEED, CELERY, LETTUCE AND, OF ALL THINGS, GINSENG -- MAYBE NOW ALSO CHICKEN. I CAN ASSURE YOU THAT OUR EXPORTERS ARE NO LESS ANXIOUS THAN THE FINANCIAL SECRETARY TO WITNESS AN APPRECIATION OF THE HONG KONG DOLLAR AGAINST OURS.

WITH ALL THIS AMERICAN ECONOMIC ACTIVITY TAKING PLACE IN HONG KONG, IT'S NOT SURPRISING THAT MORE THAN SIX HUNDRED AMERICAN FIRMS ARE REGISTERED HERE NOR THAT AT LEAST TWELVE THOUSAND AMERICANS ARE RESIDENT IN THE TERRITORY.

LET ME SLIP INTO SOMETHING MORE COMFORTABLE FOR A NON-ECONOMIST. I HAVE IN MIND THE INTANGIBLE AND YET EXTREMELY IMPORTANT ASPECTS OF AMERICA'S ECONOMIC, POLITICAL AND CULTURAL PRESENCE HERE. AS A PROSPEROUS, DYNAMIC AND CREATIVE SOCIETY

WE HAVE ATTRACTED THOUSANDS OF STUDENTS FROM HONG KONG TO OUR UNIVERSITIES AND HUNDREDS OF THOUSANDS OF HONG KONG TOURISTS AND BUSINESSMEN TO OUR CITIES AND TOWNS. WE HAVE MORE THAN THREE QUARTERS OF A MILLION ETHNIC CHINESE LIVING IN THE STATES, MANY WITH CLOSE CONNECTIONS TO HONG KONG. IN THE ALMOST THREE DECADES SINCE MY FIRST VISIT HERE, I HAVE SEEN THESE TIES AND OTHER INFLUENCES PRODUCE A SUBSTANTIAL INFUSION OF AMERICAN ATTITUDES, SKILLS, TASTES, AND EVEN ACCENTS, INTO HONG KONG LIFE. THERE CAN BE LITTLE DOUBT THAT HONG KONG'S GROWING FAMILIARITY AND AFFINITY FOR THINGS AND THOUGHTS AMERICAN WILL BRING ABOUT AN EVEN CLOSER, MORE INTENSE RELATIONSHIP BETWEEN THE TERRITORY AND THE UNITED STATES.

WELL, I'VE WAXED SENTIMENTAL ABOUT THE PAST AND DESCRIBED THE PRESENT, BUT NOWADAYS MOST PEOPLE HERE ARE THINKING ABOUT THE FUTURE. THIS INCLUDES AMERICAN COMPANIES AND SOME OF US DOWN AT THE AMERICAN CONSULATE GENERAL. FROM WHAT THEY TELL ME, MY COMPATRIOTS SEEM TO BE RATHER OPTIMISTIC ABOUT FUTURE PROSPECTS. THEY KIND OF FIGURE THAT THE SHARED OBJECTIVES AND GOOD RELATIONS BETWEEN THE UK AND AN INCREASINGLY PRAGMATIC PRC ARE BOUND TO PRODUCE A SETTLEMENT OF THE 1997 ISSUE BENEFICIAL TO THEIR INTERESTS. WHAT THEY TELL ME IS, OF COURSE, LESS IMPORTANT THAN WHAT THEY DO. I'M PLEASED THAT THEIR ACTIONS ARE AT ONE WITH THEIR WORDS. I KNOW OF NO AMERICAN OPERATION THAT HAS LEFT OR IS PLANNING TO LEAVE BECAUSE OF PRESENT UNCERTAINTIES. ON THE CONTRARY, MAJOR FIRMS ARE ANNOUNCING NEW VENTURES, SUCH AS EXXON'S ADDITION OF TWO NEW ELECTRICITY-GENERATING UNITS TO ITS JOINT VENTURE WITH CHINA LIGHT AT CASTLE PEAK. FINANCING OF THIS PROJECT, BY THE WAY, WILL EXTEND FIVE YEARS BEYOND 1997. ANOTHER EXAMPLE: THIS YEAR THE CHASE MANHATTAN BANK PLANS TO ADD AT LEAST TWO MORE BRANCHES TO ITS EXISTING THIRTEEN BRANCHES. CHASE HAS INCREASED ITS HONG KONG STAFF BY 30 PERCENT OVER THE PAST TWO YEARS. THE VISITING CHAIRMAN OF THE BANK OF AMERICA TOLD ME JUST THIS MORNING THAT HIS BANK INTENDS TO EXPAND ITS STAFF AND OPERATIONS HERE. SEARS WORLD TRADE, ROCKWELL INTERNATIONAL, BEATRICE FOODS, AMERICAN TELEPHONE AND TELEGRAPH, ATARI, MATTEL ELECTRONICS AND FOSTER WHEELER ARE AMONG A NUMBER OF AMERICAN FIRMS THAT HAVE RECENTLY OPENED UP NEW OFFICES IN HONG KONG OR EXPANDED EXISTING OPERATIONS HERE. THE CONFIDENCE OF THE AMERICAN BUSINESS COMMUNITY IN HONG KONG'S FUTURE IS PERHAPS NO BETTER EVIDENCED THAN IN THE CURRENT PLANS OF THE AMERICAN CLUB TO RELOCATE AND EXPAND ITS TOWN SITE AND TO DEVELOP A COUNTRY RECREATIONAL FACILITY AT A COST OF AROUND HK\$200 MILLION. AS FOR THE CONSULATE GENERAL, WE ARE CURRENTLY EMBARKED ON A MAJOR HOUSING PROJECT. A COMPLEX OF TWENTY-SIX FLATS FOR CONSULATE PERSONNEL IS ABOUT TO BE COMPLETED IN THE SHOUSON HILL AREA AND FOUNDATION WORK HAS JUST BEGUN ON A SITE IN BONHAM ROAD WHICH

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WILL PROVIDE SEVENTY-NINE UNITS FOR OUR AMERICAN EMPLOYEES.
THE DECISION TO PUSH ON WITH THE LATTER PROJECT REFLECTS THE
CONSIDERED VIEW OF THE U.S. GOVERNMENT THAT THIS CONSULATE
GENERAL WILL CONTINUE TO BE HERE IN SIZEABLE FORCE FOR A LONG
TIME TO COME.

THANK YOU.
(END TEXT)

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Consul tells of expansion plans US thumbs up for Hongkong's future

By OLIVIA SIN

No American operation has left or is planning to leave because of the 1997 issue, according to the US Consul General, Mr Burton Levin.

On the contrary, he said major US firms are announcing new ventures and many are expanding their operations.

Mr Levin said the confidence of the American business community in Hongkong's future can be evidenced in the current plans of the American Club to pump in \$200 million to relocate and expand its town site as well as developing a recreational facility.

A major housing project embarked on by the American Consulate here also reflected the views of the US Government that the Consulate General will continue to be here in "sizeable" force for a long time, he said.

Addressing an international seminar on Hongkong/Shumchun organised by the Stanford Research Institute, he said American companies are rather optimistic about the future of the territory.

"They kind of figure that the shared objectives and good relations between the United Kingdom and an increasingly pragmatic People's Republic of China are bound to produce a settlement on the 1997 issue beneficial to their interests," he said.

"What they tell me is, of course, less important than what they do. I'm pleased that their actions are at one with their words.

"I know of no American operation that has left or is planning to leave because of the present uncertainties," he said.

Instead, he said United

States firms are stepping up their investment and have opened new offices here.

Exxon's addition of two new electricity-generating units to its joint venture with China Light at Castle Peak is an example, he said. Financing of this project will extend five years beyond 1997.

Another example he cited is Chase Manhattan Bank's plan to add at least two more branches to its existing 13 branches here.

He said a number of US firms have recently opened up new offices in Hongkong or expanded their existing operations.

Furthermore, he said the American Consulate has embarked on a major housing project, which included a

complex of 26 flats for consulate personnel in the Shouson Hill area and 29 units for their employees in Bonham Road.

The first project is about to be completed and foundation work has just begun on the second one.

"The decision to push on with the latter project reflects the considered view of the US Government that this Consulate General will continue to be here in sizeable force for a long time to come," he said.

Talking about American's role in Hongkong, Mr Levin said the US is Hongkong's largest foreign investor as well as the biggest export market.

The more than US\$5 billion worth of Hongkong ex-

ports to the US last year represented 38 per cent of the value of the territory's domestic exports, he said.

The value of these exports has been increasing at a rate of 20 to 25 per cent annually over the past few years.

On the investment side, he said he believed US investment in Hongkong totalled more than US\$2 billion at the end of 1981.

He said the US accounted for 47 per cent of total foreign direct investment in Hongkong's manufacturing sector last year, more than 90 per cent of the total foreign investment in the toy industry, more than 50 per cent in the electronics, building and construction, chemical and metal products industries.

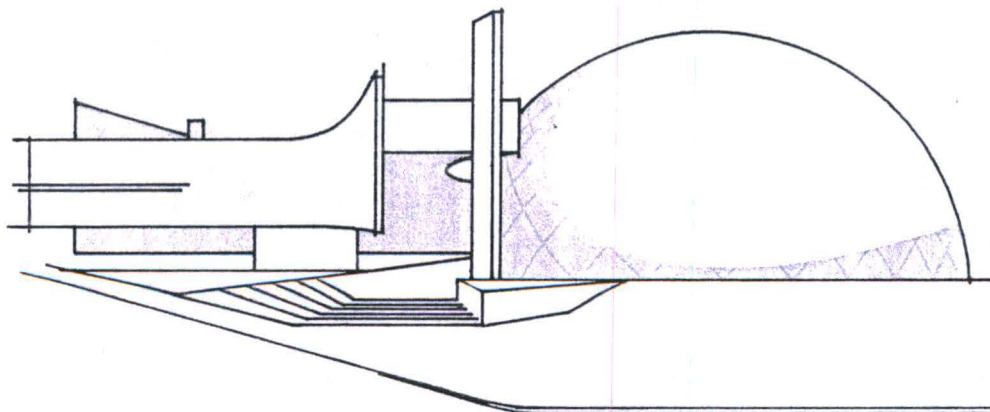


Mr Levin

Number Fifty-Three, 1983



INTERNATIONAL



The Hong Kong Report

The Hong Kong Report

SRI International is a series of publications on international topics produced for limited distribution to the International Associates of SRI International. *The Hong Kong Report* is *SRI International* No. 53, March 1983.

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THE HONG KONG REPORT is a special issue of SRI International devoted to an analysis of the factors that have led to Hong Kong's "Economic Miracle," and that will be most influential in determining its future growth and prosperity.

The report — as with other International Associate publications — is concerned more with economic and commercial matters than with the political considerations that also impact the outlook for Hong Kong. It does, however, consider the important Hong Kong-Chinese relationships presently emerging.

The Hong Kong Report provides background information for the Hong Kong/Shenzhen Session scheduled for June 27-July 1, 1983, on the theme of *Business in Hong Kong in the 1980s and Beyond*. It is also designed to inform both present and prospective friends of Hong Kong and China concerning the investment and trade opportunities available in Hong Kong and the region.

This issue of *SRI International* has been made possible by a number of SRI associate firms and other Hong Kong friends who believe its wide distribution throughout the world business and financial communities will be in the respective interest of Hong Kong, China, and companies interested in East Asia in one way or another.

While adhering to SRI's standards of factual analysis and objectivity, research for this issue has included an unusual number of consultations with persons intimately involved in Hong Kong business and financial life. SRI is most grateful to all of them, and also to the Hong Kong Government without whose cooperation the report could not have been prepared in its present form.

SRI continues to have great faith in the future economic progress of East Asia in general and Hong Kong in particular. We hope *The Hong Kong Report* will contribute to a better understanding of their potentials.

J. RONALD NATER

Vice President and Executive Director
World Business Division

The cover illustration depicts Hong Kong's Space Museum, the central structure in a new cultural complex being developed on the Kowloon waterfront.

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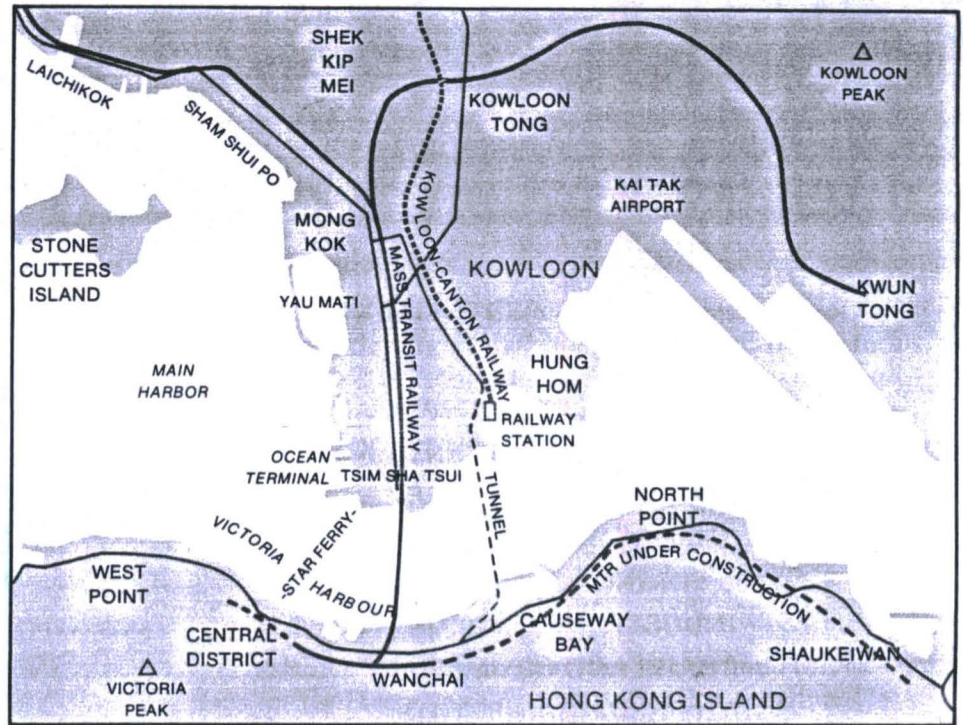
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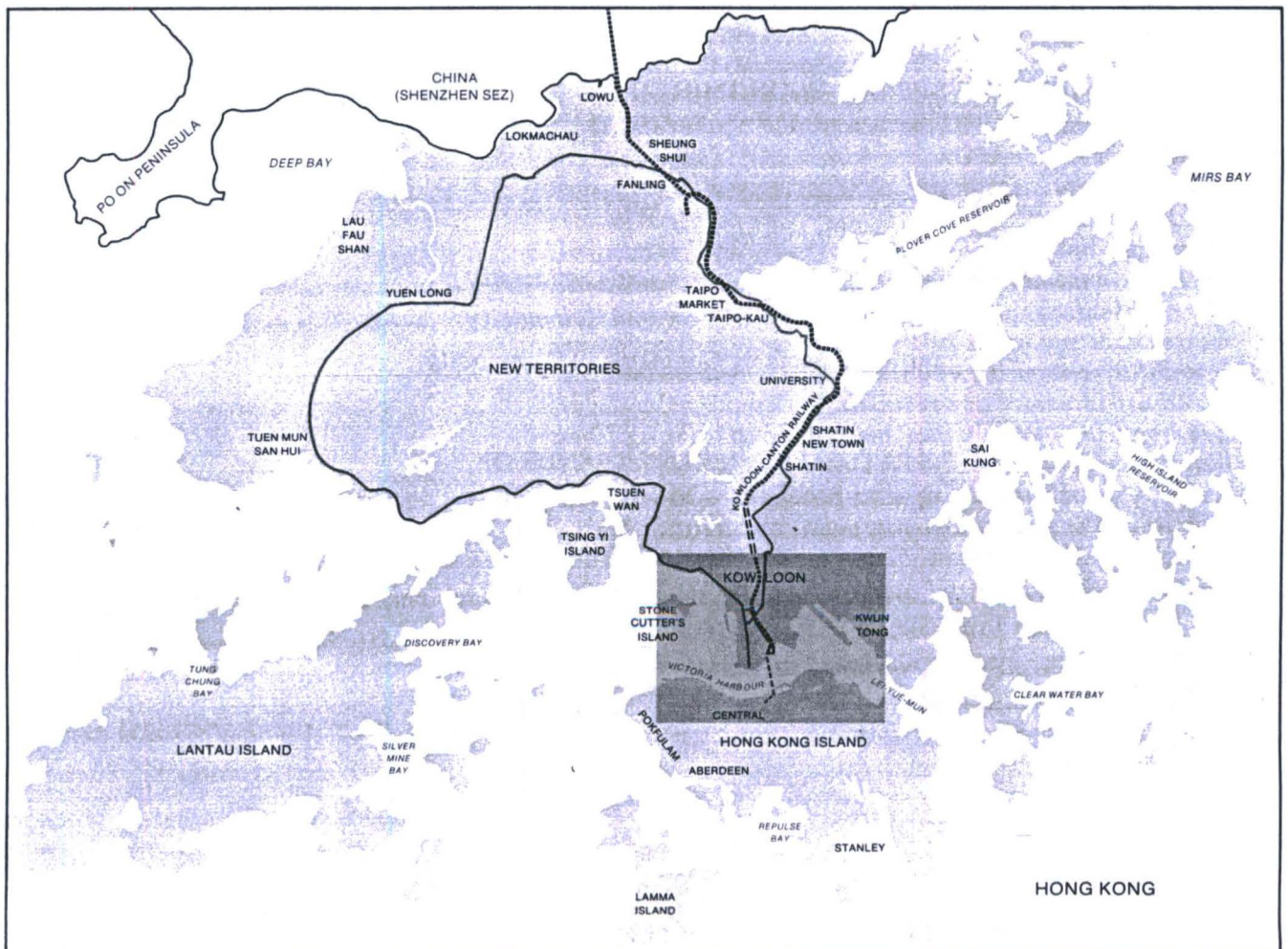
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Note: The Hong Kong dollar (HK\$), whose present exchange value is approximately US\$0.16 (HK\$6.50 per US\$1.00), and the U.S. dollar are used as indicated throughout the report.



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Summary

HONG KONG's long-term importance seems to be assured for at least three reasons: a strategic geographical position with respect to China and the Western Pacific; a hardworking and intelligent, well-trained labor force; and an enlightened administration which gives full play to individual entrepreneurship within a stable and secure environment.

Hong Kong's initial growth was based primarily on trade: it provided a necessary entrepôt for trade between China — the world's largest nation — the industrialized West, and all the countries of East Asia. Especially since the end of World War II, however, the territory's unique attributes have led to its development into a major financial and industrial center as well.

The People

Hong Kong's people, with their imported traditions, ideals, aspirations, and human values have become one of the most efficient, hardworking, and forward-looking groups in the world. They have not hesitated to adapt their lives from the class-consciousness of traditional China to fit the circumstances of a classless, urban and essentially free environment.

The extraordinary dynamism of the Chinese people has responded to the government's long-time "positive non-interventionism" or *laissez-faire* policy — featuring limited regulation and maximum reliance on the private sector to create wealth as it chooses — with a zeal and enthusiasm that has virtually no counterparts.

Government

In accordance with its particular circumstances, the Hong Kong government enjoys considerable political autonomy granted by the British Parliament. Leading members of the community advise the Governor on the formulation of policies and participate in the enactment of legislation. The people of Hong Kong elect district boards which manage local issues affecting their constituencies. They enjoy a measure of participation in governmental affairs not often achieved in developing or newly-industrialized countries.

SRI Reports have always maintained a very high standard of factual accuracy and objective opinion which makes them valuable sources of information and enlightenment. The SRI report on Hong Kong is an important addition to the series of reports and will prove useful to anyone seeking both basic facts about a wide range of aspects of Hong Kong's life and a detached assessment of Hong Kong's immediate and long-term prospects.

— MICHAEL G.R. SANDBERG, C.B.E.
Chairman
The Hongkong & Shanghai
Banking Corporation
Hong Kong

Education

Hong Kong's educational programs are designed to enhance the productivity and well-being of its people. The success they have achieved has been a major factor in Hong Kong's industrial, commercial, and financial progress. The commitment to further educational expansion and improvement is evident from the government's allocation of 16% of its total annual budget to education. In both quantitative and qualitative aspects, Hong Kong's record — and plans for the future — provide much encouragement.

Infrastructure

A sophisticated "world class" commercial and industrial infrastructure, unsurpassed in Asia, is provided either directly or by cooperation with privately-owned public utility companies and several autonomous bodies. The seaport contains the world's third largest container terminal, the centrally-located airport has an advanced computerized cargo terminal, and worldwide communications are uniformly excellent.

The government's land policy is to optimize its use within the framework of comprehensive zoning and development plans. Reclamation schemes and extension of urban areas into the New Territories have greatly mitigated the pressures and high costs that resulted from high population densities in a limited physical territory. Nevertheless, provision of adequate housing, office, and commercial space continues to absorb more than 50% of Hong Kong's construction resources.

Uncertainty about the future has always stimulated Hong Kong's progress. It makes people work harder to achieve their objectives.

The Economy

Hong Kong's industrial strengths, based on free enterprise and free trade, are primarily concentrated on the production of consumer goods. About 72% of the manufacturing workforce is employed in the textile and clothing (alone accounting for 41% of the total), electronic, plastic products, toys and dolls, watches and clocks, electrical products, and photographic and optical sectors.

The unemployment rate remains low by international standards — about 4% — banks have cooperated in rescheduling debts and alleviating the liquidity crises of a few major companies, and the economy seems once again to have regained its forward momentum.

A Financial Center

Ranking third — behind London and New York — as a financial center (in terms of syndicated loans arranged), Hong Kong's domestic and offshore banking and financial service activities are increasingly important. Nearly 130 banks have been licensed, of which 93 are incorporated outside Hong Kong in 20 different countries. A number of Hong Kong's banks have also diversified and expanded their overseas connections. They are supplemented by deposit-taking companies (DTCs), and a range of non-bank financial institutions such as insurance companies, pension funds, unit trusts and investment trusts, credit unions, and cooperative societies.

There are no exchange controls, and the Hong Kong dollar fluctuates freely in accordance with international market conditions. The monetary system features minimum regulations.

Four stock exchanges are active, and are scheduled to be unified during 1984. Commodity exchanges provide futures markets for cotton, sugar, soybeans, and gold.

Asia's rapid economic growth, and the increasingly important banking relations with China as that country continues its modernization program, will further enhance Hong Kong's international financial position in the years to come.

Industry and Labor

Hong Kong's industrial strengths, based on free enterprise and free trade, are primarily concentrated on the production of consumer goods. About 72% of the manufacturing workforce is employed in the textile and clothing (alone accounting for 41% of the total), electronic, plastic products, toys and dolls, watches and clocks, electrical products, and photographic and optical sectors.

The typical manufacturing establishment in Hong Kong is relatively small and specialized. It has unusual adaptability, "upgrading" product lines to meet changing market requirements.

Heavy and service industries — machine tools, printing presses, textile machines, and many others — also contribute substantially to Hong Kong's employment and exports.

Direct overseas investments in Hong Kong's manufacturing industry are important to its growth and diversification. They aggregate some US\$1.16 billion, of which the electronics sector alone accounts for about 37%, textiles and garments 12%, and building and construction materials 11%. The United States accounts for some 47% of the total, Japan 30%, and the United Kingdom 6%.

In the absence of a statutory minimum rate, wages and benefits result from the interplay of supply and demand. A Labour Department deals promptly with disputes, which are typically minimal. Manpower training is geared to the developing needs of Hong Kong's economy.

A few more "rough" years may be ahead for Hong Kong, but real recovery is seen as early as 1984, depending on world — and especially U.S. — economic trends.

Trade and Commerce

Dependent on imported resources for industrial raw materials, many consumer and capital goods, and most foodstuffs, Hong Kong's principal sources are China, Japan, and the United States, in that order.

The United States is by far the most important market for Hong Kong's exports — mostly manufactured goods made from imported materials — followed by the European Economic Community; together, they account for more than 60% of the total.

Recent bilateral agreements covering exports of cotton, man-made and woollen textiles provide for

reduced quotas and smaller growth rates in sensitive categories of Hong Kong's largest industry. Increased competition for all major markets is anticipated as other newly-industrializing countries — whose exports are also restricted in many cases — attempt to upgrade their products to the generally higher standards already achieved by Hong Kong.

Re-exports through Hong Kong from countries of origin to ultimate market destinations are also increasingly important in Hong Kong's total trade.

If one believes in China's future, one must also believe in the future of Hong Kong.

The Asian Connection

Hong Kong's central and strategic location for conducting business with all countries of the Western Pacific region, which account for a steadily increasing share of the world's economic activity, provides a highly positive outlook for Hong Kong's future growth.

Perhaps of even greater importance is Hong Kong's relationship to China. It provides more than one-third of China's foreign exchange and is the primary gateway for the infusion of the Western technical resources, support services, and managerial skills essential to the PRC's accelerating modernization program. About 90% of the investment in the SEZs, and some 60-70% of the total foreign investment in all of China, comes from Hong Kong.

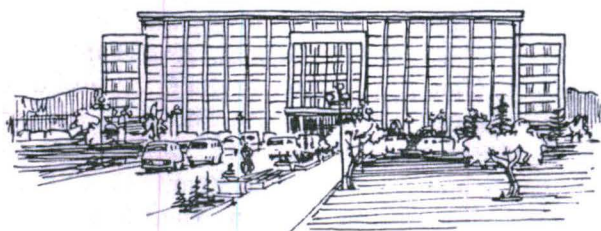
Chinese investments in Hong Kong are also highly visible, both directly and through local intermediaries. They include banks, stores, shipping and ship construction and repair, real estate development, and such services as warehousing and fuel marketing. Chinese banks are becoming major lenders of the Hong Kong dollar, and are expanding and strengthening their branch network position. China's stake in Hong Kong implies, and its political leadership has confirmed, increasing commitment to the territory's stability and prosperity.

The Future

Resolution of the 1997 issue is, of course, important to the long-range prosperity and progress of Hong Kong. Whatever it may be, the solution will be positive in the sense that future uncertainties will be laid at rest. Hong Kong's continued existence and prosperity depend, however, on much more than

The majority of Hong Kong's Chinese are still basically Chinese, and would be willing to have Chinese sovereignty — if it is not Communist.

any treaty: they are functions of its usefulness to the world at large. On that score there can be no doubt. Hong Kong has too many locational, technical, and managerial advantages to lose its regional industrial primacy. The essential character and attractiveness of Hong Kong is not likely to disappear despite the inevitable changes that growth will entail. The pragmatism and common sense evidenced on the part of both Britain and China provide the best assurances that Hong Kong's past success is only the prelude to the still more important role anticipated for it in East Asia's future. ■



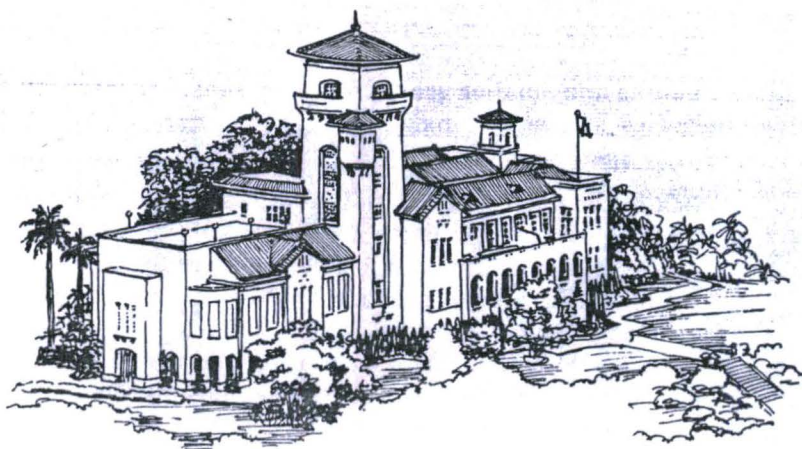
Special Economic Zones

The promotion and facilitation of foreign and overseas Chinese investment in China was a major objective in the designation of four areas in Guangdong and Fujian provinces as special economic zones (SEZs). In addition to their development potentials, the zones provide a means by which the Chinese Government can better understand the benefits available from deeper foreign involvement in China's future development.

Reciprocal benefits to Hong Kong lie in their help in overcoming the territory's shortages of low-cost land for capital-intensive heavy industry and the low-cost labor required for small industries. Economic cooperation through the "China Connection" is thus seen as mutually beneficial.

Firms that enter the China market through Shenzhen (or the other SEZs), or that utilize the zonal facilities for other economic purposes, will be in a particularly advantageous position as they earn the fruits of friendship and trust which are so important to the Chinese. ■

The Place, the People, and the Government



Location and Physical Characteristics

A STRATEGIC GEOGRAPHIC position has been the key to Hong Kong's importance since this "barren island with hardly a house upon it" was ceded to Britain by China in January 1841. Mountainous and deficient in fertile land and water, it was not an inviting prospect for settlement. Its one natural asset was Victoria Harbour, a deep and sheltered anchorage now considered to be one of the three finest and most beautiful in the world.

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Located on the main trade routes of the Far East, Hong Kong soon became the hub of a burgeoning entrepot trade with China. At the entrance to the estuary of the Zhu (Pearl) River, China's third largest, the territory is 90 miles (145 km) southeast of Guangzhou (Canton), the commercial and political center of the rich and populous Guangdong province. British Hong Kong quickly surpassed Portuguese Macao, its long-established neighbor and rival, in importance.

Midway between Singapore and Tokyo, and 800 miles south of Shanghai, Hong Kong has an East Asian regional as well as South China local importance. Manila, Taipei, and Seoul are within the territory's immediate economic orbit.

Hong Kong Island soon became inadequate, particularly from a defense point of view, and Britain obtained the cession of the cross-harbor Kowloon Peninsula in 1860. In 1898, the New Territories — the area north of Kowloon up to the Shum Chum (Shenzhen) River, plus some 235 outlying islands — were leased for 99 years. These New Territories account for some 90% of Hong Kong's 400 square mile (1061 sq km) area — about the size of Singapore.

As the topography is generally rugged, only about 15% of the entire territory — a scant 60 square miles — has been built up. Some 40% of the land area (40,833 hectares) is included in 21 country parks to be retained for recreational use. Hong Kong's 5,330,000 people (1982) inhabit one of the most

densely populated places in the world. The metropolitan areas of Hong Kong Island, Kowloon, New Kowloon, and Tsuen Wan had a density of 28,500 persons per square kilometer (1981 census). Development of seven new "towns" in the New Territories, now underway, will help provide an increasing population with better housing and an improved living environment.

Climate

Hong Kong's climate, despite its location (22° North Latitude and 114° East Longitude) is not truly tropical. There are two distinct seasons — a hot and wet summer (April to October) and a relatively cold winter (December to March).

The mean daily temperature in July is 28°C (82° Fahrenheit), and the relative humidity is about 80%. By contrast, in February the mean temperature is only 15°C (59°F). The mean annual rainfall is 85 inches (2225 mm), of which about 80% falls between May and September. From July to October occasional tropical cyclones (typhoons) with galeforce winds sweep in from the South China Sea.

The People

Just as geographic location is an essential key to Hong Kong's strategic importance, the people of Hong Kong have correctly been characterized as the territory's greatest asset. The initial influx of Chinese was unexpected, because it had not been anticipated they would choose to live under a foreign flag. But during Hong Kong's first decade the population increased to some 33,000, of which 31,500 were Chinese. Asking only to be left alone, they thrived under the liberal British colonial rule. During each successive decade Hong Kong became a center of Chinese emigration and trade with other Chinese communities abroad: it is the paragon of all the "Overseas Chinese" and "Compatriot" success stories.

Hong Kong's population is historically immigrant, rather than indigenous. The 1981 Census showed that only 57% of the residents were born there. About 98% of the 5.3 million people are ethnic Chinese, most of whom have strong ancestral and family ties in neighboring Guangdong province.

In addition to the dominant Cantonese, Shanghai-nese entrepreneurs — who transferred their industrial skills to a more hospitable environment after the Communist take-over in 1949 — have had much to do with Hong Kong's rapid development.

Of the 67,000 citizens of other Commonwealth countries who reside in Hong Kong, 22,300 are members of the British Armed Forces (including dependents) and 14,200 are Indian. Non-Commonwealth residents aggregate 73,000, including 15,000 Filipinos, and 11,500 Americans.

Hong Kong's population is relatively young, about 36% being below 20 years, with a median age of 26. The proportion of the population of working age (15 to 64) increased from 60% in 1971 to 69% in 1981. The average number of economically active persons in the nuclear Hong Kong family of four is 1.9, ample testimony to their activity, ambition, and pace of living. The dependency ratio — the proportion of the young and aged to those in the working group — decreased from 674 per thousand in 1971 to 457 per thousand in 1981. (This compares with a ratio of 484 in Japan, 517 in Singapore, 788 in India, and 844 in the Philippines.)

The large influx of illegal immigrants after 1971 — mostly young and male — resulted in a further increase in the ratio of males to females from 1033 per 1000 in 1971 to 1093 in 1981.

Although illegal immigration from China continues to be a matter of some concern, its flow has been greatly reduced since the introduction (October 1980) of requirements for individuals to carry proof of identity at all times. Border defences against illegal immigration, and efforts to intercept arrivals by sea, have been strengthened. Vietnamese refugees, mostly coming in small boats, are given temporary asylum pending resettlement overseas, but are no longer the serious problem they once were.

While the average annual rate of population increase during the 1970s decade was 2.4%, the rate of natural increase dropped steadily from 1.5% to 1.2% during the same period.

Population of the New Territories increased from 17.2% of the total in 1971 to 20.1% in 1981, or from 675,000 to 1.3 million. (Hong Kong Island accounted

for 1.2 million, Kowloon 800,000, and New Kowloon 1.7 million.)

Custom and religion continue to be important aspects of the lives of many Hong Kong-Chinese, who do not disdain spiritual beliefs as they seek material gains. Household ancestral shrines are common, and shops often display images of favored divinities. Buddhism and Taoism are different religions, but devotees tend to think of them as similar in that they both involve the practice of sacred rites of traditional origin.

Almost all of the 350 or more temples and monasteries are open to the public, but temple-going is largely confined to festivals and other special occasions. Both Buddhist and Taoist organizations help meet welfare, educational and medical needs, either directly or through contributions to institutions. Religious studies are conducted at monasteries, nunneries, and hermitages. Places for spiritual cultivation are widespread in urban areas. Traditional clan organizations still play an important role in New Territories villages, despite urban encroachment. Major Chinese festivals are public holidays.

The Christian community, estimated at about 500,000 people, comprises more than 50 denominations and independent groups. Roman Catholics —



who slightly outnumber Protestants — are active in education (313 schools with over 280,000 pupils), social and health services. Protestant groups are responsible for 168 primary and 115 secondary schools, three post-secondary colleges, three schools for the deaf and several for the mentally handicapped. There are 15 theological seminaries.

Some 30,000 Muslims include Chinese as well as South Asians. Hindus, Sikhs, and Jews are also represented in the Hong Kong religious communities.

Culture

Hong Kong's primary image among tourists is one of the world's greatest shopping centers, but there is also an impressive and growing variety of leisure, recreation, and cultural activities and facilities.

Extensive country parks and beaches, fascinating outlying islands, sailing and exotic harbor cruises, Ocean Park's vast marine land, the impressive Peak tramway, beautiful botanical and zoological gardens and other nature-based attractions and sports centers are only the beginning.

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The Royal Hong Kong Jockey Club's two world-standard race courses — at Happy Valley and Sha Tin — not only cater to the sport and gambling proclivities of residents and tourists alike, but also provide substantial financial support for other cultural and recreational facilities.

The government's Recreation and Culture Division provides administrative and financial support to such organizations as the Hong Kong and Asian Arts Festivals, Philharmonic Society, Chinese Orchestra, Conservatory of Music, Repertory Theatre, and Academy of Ballet. The Urban Council also has a major role in planning and providing cultural programs and attractions, including international com-

panies on tour, and also plans and manages a wide range of recreational facilities.

Hong Kong's museums include the Art Museum at City Hall and Fung Ping Shan Museum at Hong Kong University; the Hong Kong Museum of History, Space Museum and Han Tomb in Kowloon; and the Art Gallery of Chinese University in Sha Tin. The Arts Centre in Wanchai has three auditoria, art galleries, art and craft studios, and music rooms.

The Space Museum is the first stage of a cultural complex which will provide exceptional entertainment and knowledge about related sciences through exhibitions, lectures, and classes. The new Queen Elizabeth Stadium, on Hong Kong Island, provides facilities for indoor sports, and a still larger and more sophisticated stadium is under construction at Hung Hom in Kowloon.

Hong Kong's government and citizens are doing much to improve the cultural and aesthetic, as well as the economic, aspects of the good life.

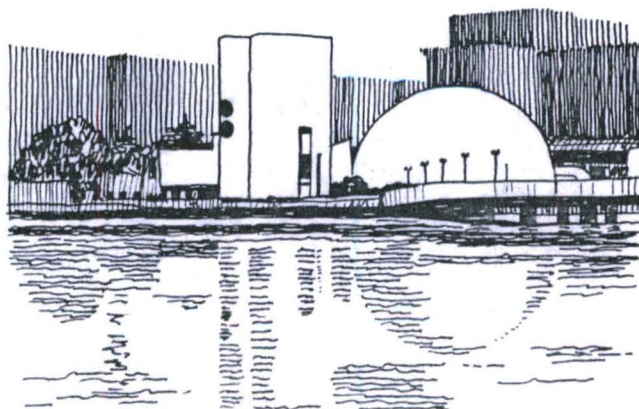
Government and Administration

The Governor, who reports to the British Parliament through the Secretary of State for Foreign and Commonwealth Affairs, is responsible for Hong Kong's administration. In accordance with Hong Kong's particular circumstances, his position traditionally enjoys considerable political autonomy with little direct interference from London.

More than 40 government departments are organized on a functional basis — i.e., Public Works, Education, Labour, Trade, Industry, Customs, Medical and Health, etc. — coordinated and supervised by the Government Secretariat, headed by the Chief Secretary. A Financial Secretary is responsible for financial and economic policy, including supervision of departments concerned with those fields.

An Executive Council, with five official members (Chief Secretary, Commander British Forces, Financial Secretary, Attorney General, and Secretary for Home Affairs) and 10 appointed (one official and nine unofficial) members, advises the Governor on policy. The Governor, however, decides on matters to be put before the Council's weekly meetings. He is the statutory authority for making regulations, rules, and orders under a number of ordinances.

The Legislative Council comprises 27 official members (including the Governor) and up to 27 unofficial (private) members, all of whom except five ex-officio members are appointed. Its primary functions are to enact legislation and control the expenditure of public funds. The Council meets in





The sovereignty issue is perhaps the least important issue facing Hong Kong, after the slump in property values and the world recession/protectionism. Hong Kong's recovery is tied to that of the United States, but recovery of property values will take more time.

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erable latitude concerning external trade. The territory's dependence on trade has led the Hong Kong Government to establish offices in London, New York, Washington, Geneva, and Brussels to maintain and improve commercial relations with other countries. With the increasing emphasis on industrial development, the government has also established Industrial Promotion Offices in San Francisco, London, Stuttgart, and Tokyo.

The Chinese language has equal status with English in government communications with the public, and its use is also being promoted in other official business.

Judiciary

English common law and the rules of equity are in force in Hong Kong, to the extent they apply to local circumstances. English Acts of Parliament are also in force if they are specifically applied by a Hong Kong Ordinance, by their own terms, or by an Order in Council.

The courts of justice include the Court of Appeal, the High Court, the District Court, Magistrates' Courts, Coroners' Court and Tenancy, Labour, Lands, and Small Claims tribunals.

The High Court's civil jurisdiction is similar to that of the English High Court, and it also has jurisdiction over lunacy, bankruptcy, and company winding-up matters.

The Court of Appeal's decisions may be appealed to the Judiciary Committee of the Privy Council in London.

The Public Sector

Some concern has been expressed — both in public and private circles — about the expanding size of the public sector, whose expenditures have risen to about 24% of gross domestic product (GDP). In an economy where major utilities (except railways) are privately owned, and where there is no burden of defense expenditure, such a ratio causes anxiety.

The government has been sensitive to social needs, and an infrastructure to meet the requirements of a growing economy, but it has proven difficult in Hong Kong, as elsewhere, to reverse such trends without painful readjustment processes. Private consumption expenditures rose by 23% in 1981 but government consumption expenditures increased 43%, proportions that were continued in 1982. The administration's dilemma — how to reduce expenditures in the face of large budget surpluses — has been reduced to some extent by the recession, which drastically affected government revenues in 1982 and (prospectively) in 1983, but the normal instincts of thrift will be hard to renew in the face of public expectations for more facilities and services.

In the three-year period 1979-81 the government's salary bill doubled despite the fact that the civil service strength remained 11% below the approved establishment. Some 12,500 new posts were authorized in 1981, plus 16,500 in 1982. This may be a good time to expand the bureaucracy, when private industrial employment is in at least a mini-recession, but the implications for Hong Kong's future are apparent: will Hong Kong abdicate its position as the ultimate bastion of free enterprise, or will it in time succumb to the same "disease" that is already too common in virtually every other developed (and developing) country? The signs are not yet ominous, but the prospects of Hong Kong becoming another "paper mill" are not as remote as they once may have seemed. As of now, however, Hong Kong is far more attractive in this sense — as in many others — than other countries with industrial aspirations. ■

public weekly (except during August and September), but the Finance Committee (and its subcommittees) meet also in private to consider certain matters. A Public Accounts Committee has reference to the Director of Audits' reports and certain other duties.

Unofficial members of the Executive and Legislative Councils (UMELCO), as leading members of the community, advise in the formulation of government policies, participate in the enactment of legislation, consider public complaints, and monitor administrative effectiveness. They hold more than 300 seats outside the two councils on various committees and boards concerned with community affairs. A UMELCO office provides administrative and research facilities and services.

The people of Hong Kong, under a recently-introduced elective district administration scheme (18 districts), have an opportunity to participate with the *District Boards* in the management of local issues affecting their particular constituencies. Electors include all persons over 21 years of age who have been Hong Kong residents for seven years.

The *Urban Council* consists of 15 appointed and 15 elected members for terms of three years each. Its responsibilities, restricted to Hong Kong Island, Kowloon, and New Kowloon (which have a population of 4 million), include such matters as public sanitation; licensing of premises for serving food, selling liquor, and providing entertainment; management of civic centers, museums, and other public facilities; and the provision and promotion of cultural services. The Council's policies are carried out by an Urban Services Department. Its main revenue is derived from a 34.8% share of tax yields in the urban area, but various fees and charges also provide some income.

Advisory Committees play an essential role in Hong Kong's system of government. More than 320 such boards and committees provide a means of consultation with interested groups in the community on a wide range of issues. Such advisory bodies include "appeal" boards (which deal with particular industries), advice on particular areas of government policy, and local district or neighborhood concerns. Both government officials and members of the public are represented on such committees.

Civil Service growth reflects both the continuing expansion of existing and new services, and the central operation of hospitals, public works and utilities, police, and other matters that are often decentralized.

A *Home Affairs Department* monitors public opinion on current affairs, assesses public response to proposed government policies and activities, and promotes better mutual understanding.

The *New Territories* are administered as an integral part of Hong Kong, but with a different type of organization, provided by the Secretary for District Administration, who is assisted by a number of District Officers concerned with community building and services, development and security. A council of 27 rural leaders, known as the Heung Yee Kuk, acts as a spokesman for the inhabitants and advises the government on New Territories matters.

The *London Office* is a projection of Hong Kong in Britain. The Commissioner provides a point of direct contact with departments of the British Government, Members of Parliament, and other organizations with interests in Hong Kong.

Foreign Relations are the responsibility of the British Government, but Hong Kong enjoys consid-

The Hong Kong Story

On behalf of The Hong Kong General Chamber of Commerce, I am glad to support the publication and distribution of this report on Hong Kong. The Hong Kong story is better known around the world today than was the case some years ago, but, even so, it is often not realized just how important a contributor to world trade Hong Kong has become. With one of the three finest natural harbours in the world, the Hong Kong port is also one of the most efficient.

The vast interchange of a bewildering variety of goods places Hong Kong, despite its small population and geographic size, within the first twenty trading territories in the world. A highly competitive export-oriented light industry provides the economic base and the impetus for economic and trade growth. An incomparable work force and the free flow of high technology will keep Hong Kong in the forefront of world trade far into the future.

This publication has therefore been encouraged and assisted by the Hong Kong General Chamber of Commerce as a further means of providing accurate and up-to-date information on one of the most vibrant economies in the world today.

JOHN L. MARDEN, C.B.E.
Chairman
The Hong Kong General Chamber of Commerce

Social Development and Welfare

Education

THE HONG KONG PEOPLE and government alike accord priorities to both training and education at all levels. During the decade of the 1970s, the proportion of persons who had completed secondary or post-secondary courses increased from 28.5% to 42% of the total population. About 8% of the workforce has some professional or technical training, but only 2.7% have benefited from participation in university-level programs. The latter figure alone is relatively weak compared with some other countries with industrialization objectives.

The 1981 census indicated that some 260,000 persons were undertaking, or had completed, a professional or technical subject in either a university, post-secondary college, polytechnic, technical institute, education college, or nursing school.

Primary education has been free in all government schools and most aided schools since 1971. Chinese is the language of instruction in most primary schools, English being taught as a second language, but 11 junior schools cater to children whose first language is English.

There are four main types of *secondary* schools: Anglo Chinese, Chinese middle, technical, and pre-vocational. Except for the Chinese middle schools instruction is mainly in English. Only a few students pay for secondary education, most attending government-supported schools. Special education for handicapped children is available in 70 such institutions, in special and resource classes in both primary and junior secondary schools.

Technical education is provided in five technical institutes (a sixth is being planned for Tuen Mun in the New Territories). They provide courses at craft and technician levels on either a full-time, block-release, part-time, day-release, or evening basis. The main disciplines include such varied skills as construction, electrical and mechanical engineering, marine and fabrication, textiles and clothing, commercial studies, industrial technology, design, printing, hotel-keeping, and specialized short courses for industry.

Post-secondary education is provided for about 8,000 students in three approved colleges. Student loans are available for eligible students, and other government assistance is available.

Higher education, largely financed by government grants, is available at the Hong Kong Polytechnic (12,000 full-time equivalent students); the

University of Hong Kong (6,400 undergraduate and graduate students, plus 23,000 registered in extra-mural evening and day courses); and the Chinese University of Hong Kong (whose principal language of instruction is Chinese), with an undergraduate and graduate enrollment of more than 5,000, and extra-mural courses participated in by 32,000 students. Both universities offer medical and scientific programs, engage in substantial research programs and have extensive library facilities.

In addition to local opportunities, qualified students may further their education overseas. Some 4,100 students are accepted in Britain annually, 4,800 in Canada, 2,000 in the United States, and 400 in Australia.

A wide range of *adult* education programs — including academic courses and recreational activities, both formal and informal — is provided by the Education Department and a number of voluntary organizations (with government assistance). Visual education, cultural crafts, music, physical education, youth clubs, school library services, and educational television programs are also available.

Hong Kong's educational programs are designed to enhance the productivity and well-being of its people. The success they have achieved has been a major factor in Hong Kong's industrial, commercial, and financial progress. The commitment to further educational expansion and improvement is evident from the government's allocation of 16% of its total annual budget to education. In both its quantitative and qualitative aspects Hong Kong's record, and its plans for the future, provide much encouragement despite lingering problems. The language of instruction is the principal issue.

Educational opportunities (below the university level) are very good, however, for children of the expatriate community. Schools they attend are private, but aided by the government.

Health

Stringent health measures have made Hong Kong free from quarantinable diseases for many years. With improvement in the general standard of living, the average life span is comparable to that typical of advanced developed countries.

There are 13 government and government-assisted hospitals, the largest (1938 beds) being the Queen Elizabeth Hospital in Kowloon. The 21,600 beds represent 4.2 per thousand population. Out-patient clinics and other services provided by the govern-

Hong Kong Chinese — especially the older people — have a great affinity for China, but the young people, now a majority, don't have the same family ties. They may cause problems if the economy is stagnant, as they are accustomed to realizing their aspirations. The recent downturn has been a good thing in the respect that it dampened speculative fever, and brought the people back to basics.

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ment, subsidized organizations and private agencies are being expanded. Mobile dispensaries and floating clinics are available to outlying islands and other rural areas, along with a "flying doctor" service. Some 13 million persons were treated in government out-patient clinics in 1981.

Family health services are operated in 39 centers, each of which provides comprehensive healthcare programs for women and children — including family planning, detection of abnormalities, treatment, rehabilitation, marital consultation, and other health-training programs. Independent mental health and dental services are further aspects of the government's concern for the welfare of all the people. A Port Health Office enforces quarantine controls, eradicates rats on vessels and disinfects refugee boats. Laboratory and other special services meet all requirements for advanced diagnostic and therapeutic services in hospitals and clinics. A community nursing service extends domiciliary care to discharged patients, and various health education programs are implemented.

Medical education for doctors and nurses is maintained at international standards, with post-graduate training programs by dual arrangements with United Kingdom and Australasian institutions.

Doctors trained in western medicine have a generally high reputation, although some specialties may not be adequately represented in all situations. Chinese medicine, including acupuncture, also plays a significant role in curative medicine. Many people continue to believe there must be something good in an art that has survived so many hundreds of years.

An independent government laboratory provides practical and advisory services in applied chemistry and related scientific disciplines, including physical and chemical testing of pharmaceutical products and food.

Drug abuse is a long-standing problem with serious social, economic, legal, medical, and psychological implications. The government's expressed

policy is to stop illicit trafficking of narcotic drugs into and through Hong Kong, to develop treatment and rehabilitation programs, and to dissuade residents from their use. Continued efforts have at least contained the problem and made substantial inroads in preventing its spread.

Environmental hygiene is carried out by a workforce of some 5,000, with over 400 specialized vehicles. Both mechanical and manual street sweeping methods are utilized, refuse is collected daily free of charge, licensed premises are inspected regularly, and pest controls are carried out on a regional and district basis. The Urban Council operates 51 public markets with 5,400 stalls for the retail sale of fresh foodstuffs and other commodities. In the New Territories 31 public markets are operated near housing estates. The Urban Council and government control 38,000 licensed hawkers throughout the territory, of whom 5,000 are situated in off-street bazaars; there are some 20,000 unlicensed hawkers.

A comprehensive "clean Hong Kong" campaign emphasizes public education, community involvement and enforcement of legislation. The government is committed to a further expansion of the wide range of medical and health services available throughout the territory.

All in all, it is not an exaggeration to state that Hong Kong — despite its high population density and severe growth problems — is one of the safest places in Asia to live in or visit, both from health and security points of view.

Social Welfare

Social security is provided through various assistance schemes, means-tested and non-contributory, designed to help needy individuals (Hong Kong residents for at least one year, subject to certain exceptions for extreme hardship) and families by increasing their income to a prescribed level. The scales of assistance are regularly reviewed to maintain their purchasing power. Old age, disability, and long-term supplements are payable as additions to the basic scale rates.

Aid for probationers, family welfare and child care services, care of the elderly, services for young people, community building, and rehabilitation of the disabled are among the comprehensive and expanding welfare activities designed to keep Hong Kong's population from severe want. Some 75 voluntary welfare agencies are affiliated with the Community Chest, and play a major role — in coordination with the Social Welfare Department — in providing the high standard of services for which Hong Kong is noted. ■

The Infrastructure

Transport and Communications

THE DENSITY AND VARIETY of Hong Kong's public transport services are probably unequalled anywhere. They include a 26.1 kilometer high-speed urban electric railway (MTR) which is being extended on Hong Kong Island; the electrified railway from Kowloon to Lo Wu on the Chinese border (which extends to Guangzhou); a light rail system connecting two new towns (Tuen Mun and Yuen Long) under construction; a slow but high capacity tramway service along Hong Kong Island's main urban corridor; a funicular cable tramway ascending the steep slopes of Victoria Peak; a network of more than 300 bus routes serving all parts of Hong Kong and Lantau islands, Kowloon, and the New Territories; one of the world's largest ferry fleets operating vehicular and passenger services across Victoria Harbour and linking Hong Kong Island with the outlying islands and parts of the New Territories; a large fleet of 14-seater public light buses operating over some 120 established routes, and with freedom to adjust their fares, frequency and routes in response to demand; and a fleet of more than 11,000 taxis. All of these services, except the railways, are privately-owned and operated. Despite recent fare increases, use charges remain nominal, and are very cheap compared with most major cities.

Hong Kong has 1,182 kilometers of road used by over 330,000 motor vehicles (1981) — one of the highest densities (280 vehicles per kilometer) in the world. There are 211,500 private automobiles — an increase of 49,000 (30%) since 1979, 64,200 trucks (goods vehicles), and 27,400 motorcycles. The highway network is constantly being improved with new elevated sections, tunnels, bridges, subways,

and pedestrian overpasses to expedite the flow of traffic. Some HK\$3,500 million of roadworks are expected to be completed within the next five years.

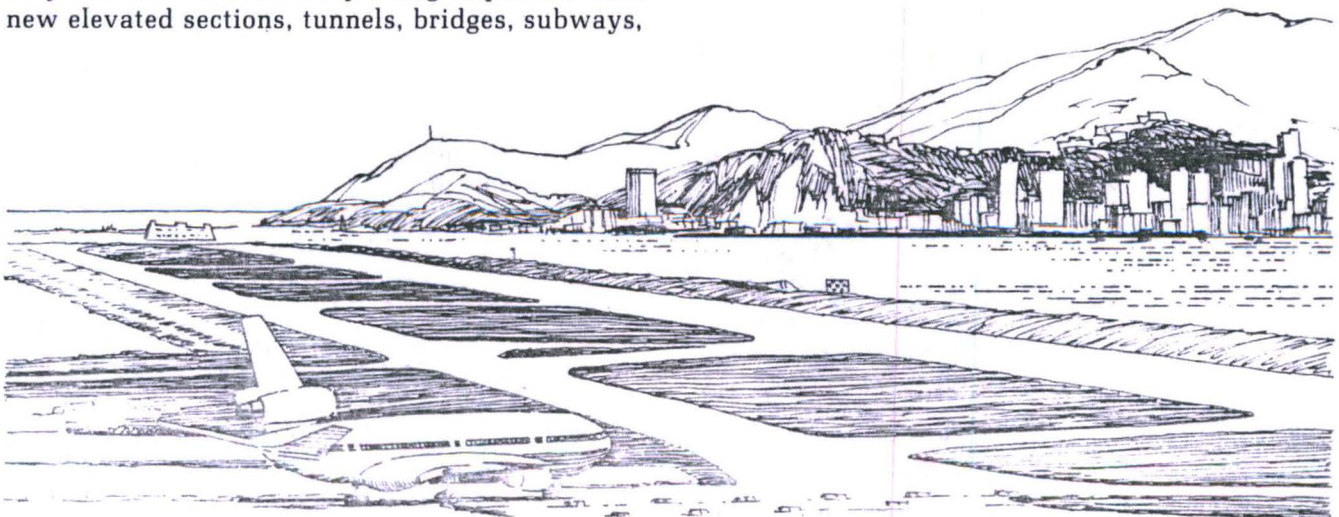
Ten multi-story car parks and five temporary open-air parks with 6,000 spaces are publicly operated, and 40 private-sector car parks have an additional 10,000 spaces.

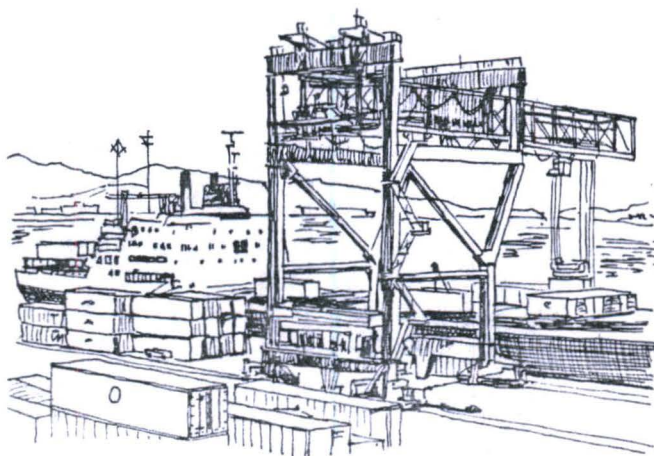
Water, Electricity, and Gas

Ample water supplies are now available from an expanded system of reservoirs on Hong Kong Island and the New Territories, supplemented by a pipeline from sources in Guangdong Province in China.

The miracle of Hong Kong has largely been made possible by electricity that has been supplied when and where needed. The Hong Kong Electric Company has constructed a new plant on Lamma Island to cater to the rising demand on Hong Kong Island. The China Light and Power Company, which serves customers in Kowloon and the New Territories, is also completing one of the world's largest oil/coal-fired power stations in cooperation with Exxon. Major investments by Exxon (since 1964) continue to evidence that U.S. firm's commitment to Hong Kong's future.

Town gas is supplied throughout the built-up areas of Hong Kong by the Hong Kong and China Gas Company from production facilities centered in Kowloon. Submarine gas mains cross the harbor to Hong Kong Island.





Shipping

One of the world's 10 major ports in terms of tonnage, cargo handled and number of passengers, Hong Kong is well regarded for excellence of facilities and operating efficiency. The container terminal (Kwai Chung) ranks among the top three (after New York and Rotterdam), and over 50% of Hong Kong's exports are containerized. Loading and unloading of conventional cargo is efficiently handled by 33 public and private wharves equipped with modern cargo handling facilities. A considerable amount of dry cargo is transported at some stage by lighters and junks — many of which are mechanized. Wharf and godown companies provide a total storage capacity of well over one million tons. They can store and transship all types of merchandise, including dangerous and refrigerated goods.

Bunkering, fresh water, telephone, repair, maintenance, drydock, and firefighting facilities are readily available. Pilotage is not compulsory, but is advisable because of the density of traffic and scale of harbor works continually undertaken. Hong Kong is also a prominent center for the recruitment of seamen for vessels of all flags.

Civil Aviation

More than 8.2 million passengers passed through Kai Tak International Airport in 1981, an increase of 21% over 1980. The air cargo tonnage throughput also increased 12%, to 258,000, with a value of HK\$56 million, up nearly 27%. Air shipments account for nearly 21% of Hong Kong's imports (by value), over 26% of domestic exports, and 24% of re-exports. The United States is the major source of airborne imports, and market for such exports, with 20% and 45% of the respective totals.

Thirty-one airlines operate some 1,000 scheduled passenger and cargo services, and 11 others operate about 30 non-scheduled services each week.

The airport has recently completed a 20-year development program, during which its handling capacity has been increased from 550 to more than 5,000 passengers per hour.

Postal and Telecommunication Services

Hong Kong is well served by all modern forms of postal and telecommunication services. In the urban areas two deliveries are generally provided each weekday. A Speedpost service extends to 18 countries, including the United States.

The telephone company, operating under a government franchise, provides telephone and other telecommunication facilities. The density of telephones — 37 for every 100 people — is the highest in South-east Asia. The network is fully automatic, with 64 exchanges using equipment ranging from electro-mechanical switching to advanced electronic systems. International service is provided in conjunction with Cable and Wireless (Hong Kong) Limited. Direct dialing calls can be made to more than 80 countries. All other telecommunication services are available as well.

Television is a principal leisure-time activity, 92% of households owning one or more sets. Two enfranchised commercial stations broadcast an average of 220 hours of programming each week, virtually all in color. Both feature comprehensive news bulletins in Chinese and English. A publicly-financed company, using the transmission services of the private commercial stations, produces more than nine hours of programs weekly. Educational television, also utilizing commercial services, transmits for eight hours each school day.

There are 10 radio channels, both Chinese and English. A recent survey indicated that 75% of the population aged nine and above are radio listeners. The aim is to provide high-quality entertainment, information, and education, and to provide a link with the homelands for expatriate listeners.

Printing and Publishing

Printing and publishing is a major industry. More than 2,600 printing companies, 200 publishing houses, and 600 advertising agencies are involved. The most modern and sophisticated electronic techniques are utilized. All the paper has to be imported — about 200,000 tons annually — of which 100,000 tons are exported as finished publications.

Hong Kong's flourishing free press consists of 72 newspapers and 413 periodicals, with a high readership market. Some 300 copies of newspapers are printed for every 1,000 people — three times the world average ratio. Six English language (and 55

Chinese) newspapers are published each day, including editions of the Wall Street Journal and International Herald Tribune, and the PRC's China Daily.

Land and Housing

All land is owned by the Crown, which sells or grants leasehold interests. In the urban areas of Hong Kong and Kowloon leases are now standardized to terms of 75 years, usually renewable for a further 75 years at reassessed rent. In the New Territories (including New Kowloon) leases terminate three days before the expiry of the lease from China, which is July 1, 1997.

The government's land policy is to optimize the use of land within the framework of comprehensive land use zoning and development plans. Most land available for commercial and industrial use is sold by public auction or tender. (In the towns of the New Territories, however, much of the development land is disposed of by tender to holders of land exchange entitlements.)

Leases for certain special purposes — such as capital-intensive industries which introduce higher technology and skills into Hong Kong — are initiated only in response to formal applications and in certain circumstances may be concluded by private treaty. Old lease conditions may also be modified in order to allow for redevelopment under applicable town planning requirements.

Sale of Crown land — including that reclaimed from the sea — provides a substantial portion of government revenues and is a major factor in making tax rates much lower than would otherwise be possible.

With the virtual exhaustion of land suitable for development in urban areas, despite extensive waterfront reclamation schemes and considerable leveling of hills, the principal building emphasis is now in the New Territories. Agricultural and other rural areas on the mainland are being displaced by seven self-contained communities, or new towns. The largest — Sha Tin, Tsuen Wan, and Tuen Mun — are being designed to accommodate some 500,000 people each; the others will be somewhat smaller. Four townships of more modest size are being completed on outlying islands.

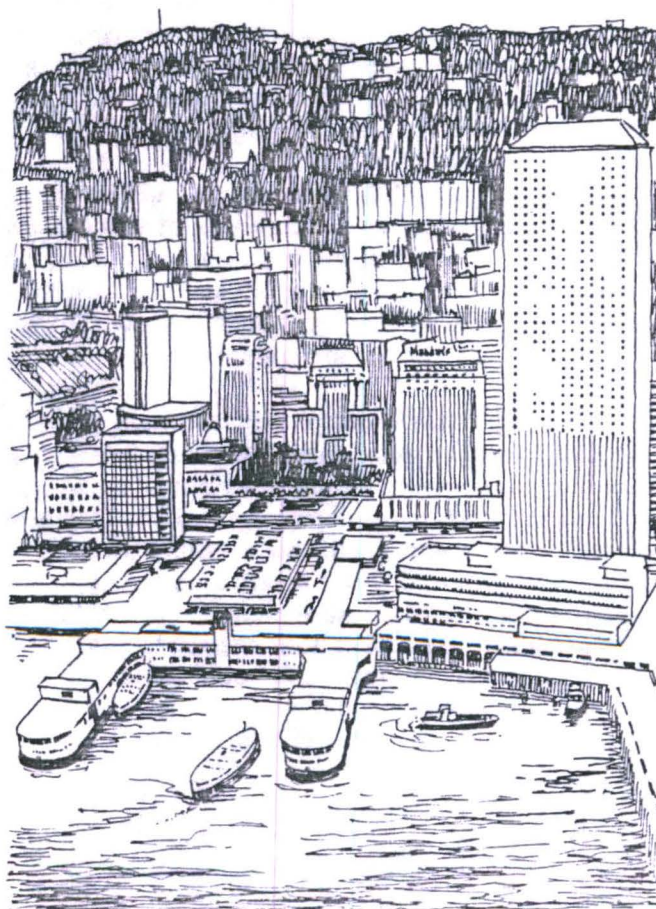
The most serious problem in Hong Kong is housing the rapidly growing population. About 50% of the territory's construction resources are employed in public and private programs that provide rental and home ownership units. In addition to the private sector, the Hong Kong Housing Authority has become the world's biggest landlord. More than 2.25 million people live in public housing either pro-

vided or subsidized by the government. There is a long waiting list for public housing, and the hillside squatter population remains much too large despite efforts to reduce it. Massive redevelopment programs to improve the living conditions of about 350,000 persons in older urban areas are also underway, mostly by the Housing Authority.

Construction of — and speculation in — private-sector commercial properties has also been a factor in domestic inflation. Prices have now begun to decline sharply, however, especially at the top end of the housing market, where substantial numbers of newly-built flats await tenants.

Rents for flats in the housing estates vary widely according to their age, location, and quality, but they are much lower than for comparable units in the private sector. Some 50% of public housing tenants pay less than US\$20 per month. Rents of some private domestic rented accommodations are controlled.

A housing real estate boom was kindled several years ago when the long-standing government policy of selling Crown land to raise revenues coincided with the arrival of flight capital from nervous Chinese residents of Indonesia, Thailand, Vietnam, and



Chinese entrepreneurial and technical manpower is basic to Hong Kong's position. The present system must not be eroded if this position is to be maintained. A similar situation exists with respect to investments, which will not continue to be forthcoming if confidence is eroded. But Hong Kong's investors like to diversify, even under the best of local conditions. They are very flexible.

other Southeast Asian countries. The result was almost a frenzy of speculative activity at a time when Hong Kong's trade and economy were burgeoning, both because of its inherent advantages in an expanding world economy and because of the promise of an open, modernized, and more flexible regime in Beijing after Mao's demise.

The property market boom also fed on a genuine shortage of commercial and residential space that forced prices to exceptionally high levels before the recent, and inevitable, readjustment. While many speculators have undoubtedly learned their lessons the hard way, on balance and in the long run especially, the readjustment can only help Hong Kong's future development — both industrially and commercially. Land values (and rents) are now stabilized at more reasonable levels.

Rentals for Hong Kong offices are no longer the world's highest. A recent survey indicates a more than 10% decrease in prime-space rentals during the past year. Hong Kong now ranks fourth in this regard, well below New York, London, and Tokyo.

Hong Kong's continuing prosperity, despite the pervasive and often perverse unease — if not pessimism — that has accompanied the change from a fast-growing economy to one that has only been holding its own for a time, has spawned a new middle-class which desires more of the western accoutrements and privileges to which they have long been exposed but to which they could not aspire until recently. These include, above all, privacy and independence, no longer to be bound by the restrictions of living in the traditional extended-family crowded environment. The vast new "mid-level" deluxe apartments in Hong Kong, and their counterparts in Sha Tin overlooking the new race-course, may long have high vacancy rates, but the lines of eager clerks and factory workers seeking better accommodations at affordable prices are not going away.

Industrial Estates

As Hong Kong's normal multi-story factory buildings are not suitable for manufacturing processes requiring high ceilings, heavy floor loadings or special environments, the Hong Kong Industrial Estates Corporation has been created to develop land (in the New Territories), at cost price, to extend the range of feasible industrial development beyond small-scale or light industries.

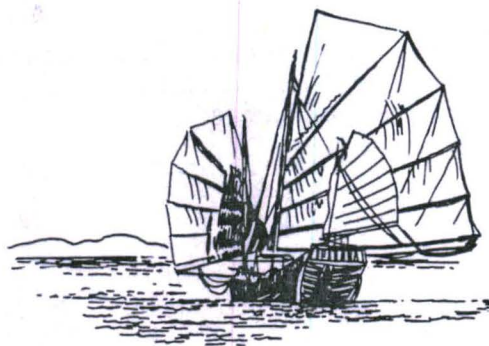
Two industrial estates — at Tai Po and Yuen Long — offer eminently suitable facilities for introducing new processes and technology which would have been impossible in an urban environment. The Tai Po estate, for example, has a balance between Hong Kong companies, joint ventures with overseas investors, and companies in which the capital and technology come entirely from abroad. The companies represented in the estate reflect Hong Kong's position as a major trading and industrial center with worldwide interests. They include, among others, a brewery, two can manufacturers, food processors, flexible industrial hose plants, jacking units for high-rise construction, color television sets, specialist printers, electronic equipment and components for various high-technology products.

Both estates have easy access to the main urban areas, airport, and harbor facilities. They are integral parts of new town developments which provide a ready source of labor, housing, educational, and recreational facilities. Both estates are fully serviced by roads, drains, sewers, electricity, and water. Telephones are available almost on demand, with free local calls and direct dialing to 80 countries.

Successful applicants for estate sites, including blocks of semi-detached factory units with adaptable designs, must satisfy certain criteria whose purpose is to ensure that the estates help diversify and broaden Hong Kong's industrial base. In addition to non-offensive operations which cannot economically be carried out in ordinary multi-story buildings, industries given priority should be concerned with new or improved manufacturing processes or products, higher levels of technology and working skills, and products with high value-added characteristics to meet Hong Kong industrial requirements, or for export. Sites are readily available, on leasehold terms, to suit individual requirements of applicants. All building plans are subject to corporation and government approval.

The standard pre-built four-story factory units are flexible and adaptable for use in a wide range of industrial processes. They provide a fixed capital outlay, immediate occupation, and use of all common facilities and services.

The Economy



HONG KONG'S ECONOMIC LAISSEZ-FAIRE policy has been instrumental in attracting a level of entrepreneurship that provided remarkable growth during the decade of the 1970s and through 1981. Hong Kong has excelled in providing the right products at the right time for world consumer markets. The economic performance in 1982 was only a 2% real growth rate, compared with the 11% achieved in 1981, and a forecast of 6% at the beginning of 1983.

The adaptability of Hong Kong's industrialists and traders again proved itself, however, during a period of world recession that brought many economies — even in burgeoning East and Southeast Asia — to the brink of disaster.

In many of Hong Kong's overseas markets consumer spending remained either stagnant or grew very slowly throughout 1982; even in the first half of 1983 the anticipated recovery was slow to develop. High interest rates and threats of unemployment adversely affected consumer psychology. Quantitative restrictions on some of the more popular export items further shifted the growth of domestic exports. In dollar terms, export growth declined in comparison with the previous record year; after adjusting for price increases of 7 to 9%, the decline in domestic exports was approximately 3%.

Re-exports were also disappointing. They showed a 2% decrease for the year as a whole, but accounted for a larger share of total exports.

Trade performance has a pervasive influence on Hong Kong's economy, but the most important component of GDP is the private consumption expenditure which constitutes some 70% of it. During the period 1977-81 the growth rate of private consumption expenditures — 22% — exceeded that of GDP as marginal propensity to consume steadily improved.

The official forecast of 6% growth in GDP for 1982 was based on the assumption of a similar growth in private consumption expenditures. This was not achieved: foodstuffs imports rose 7%, but the volume of other consumer goods imports declined 1%. Retail sales fell (in volume) about 4%. Discretionary spending is always curtailed in a deteriorating economic climate although other expenditure compo-

nents may rise — utilities, transport and rents, for example. In Hong Kong consumer spending is very sensitive to wealth-effect, as well as to shifts in income. A booming stock market is very positive, a declining one extremely negative.

Private investment in plant, machinery, and equipment amounted to only HK\$19,000 million (against a forecast of HK\$22,000 million) as the manufacturing sector sustained the pressures of falling margins, declining orders, and to some extent political anxieties. Nevertheless, major investments in power generation and transport — both in the private sector — continued as scheduled. Public sector activity in building and construction remained strong because of public works and housing programs, and the construction of the MTR Island Line.

The fall in land values resulting from the end of a speculative building boom — that many observers believed was overdue — affected government revenues as well as corporate profits. The projected surplus of HK\$2.3 billion disappeared completely and the government was fortunate in having only a modest deficit. Impact on revenues is only now (in 1983) being felt even more dramatically, as current taxes are assessed on profits of the previous year. The government's policy of reliance on the sale of land at high prices has now been changed, however, in that more emphasis will henceforth be placed on the manufacturing and export sectors.

Basic economic conditions were disappointing, although they certainly could not have been unexpected or surprising, when the British Prime Minister visited Hong Kong and Beijing in late September. The immediate reaction was an over-concern with uncertainties about the political future of Hong Kong. The stock market thereupon declined to a new low for the year of 927 — a 30% decline from the comparable date in 1981.

The Hong Kong dollar has floated independently, according to market conditions, since 1974. Its exchange value decreased from a "normal" 5.9 per US\$1, to a low of 6.8 in 1982 before recovering to 6.5. On a trade-weighted basis the currency had depreciated about 8-10% by the end of 1982.

On the brighter side, the rate of inflation was reduced from 15% in 1981 to 10.6% in 1982.

Growth rates of various elements of Hong Kong's GDP in 1982 (and 1981 for comparison) were as follows (Preliminary data for 1982):

	1981	1982
Private Consumption	12.2%	1.7%
Government Consumption	25.4	7.7
Gross Fixed Capital Formation	13.1	-0.2
Private Construction	(4.8)	(-1.0)
Public Construction	(6.8)	(-25.6)
Total Exports	13.0	-1.7
Domestic	(8.0)	(-2.7)
Re-exports	(24.6)	(0.3)
Imports	11.7	-2.7
GDP	10.9	2.4

Per capita GDP of US\$4,950 in 1982 was impressive — it has grown 97% in real terms in ten years — but is skewed more than is desirable; real daily wages rose by only 38% from 1975 to 1982, a period when real per capita GDP rose 73.5%. (Real wages in the manufacturing sector have risen only 2% in real terms during the last three years.)

Balance of payments can only be approximated in the absence of capital account estimates, but they presumably offset the negative current account balances that typically prevail:

	US\$ Million		
	1980	1981	1982
Exports	19,743	21,842	20,979
Domestic	(13,700)	(14,379)	(13,675)
Re-exports	(6,043)	(7,463)	(7,304)
Imports	22,438	24,741	23,533
Trade Balance	-2,695	-2,899	-2,554
Balance of Services	1,629	1,564	1,522
Net Balance	-1,066	-1,335	-1,032

Inflation is measured by a GDP deflator issued by the government annually and three consumer price indices, as well as export and import price indices. The Hong Kong consumer price index increased by 11.6% in 1979, 15.5% in 1980, 15.4% in 1981, and 10.6% in 1982. Like other countries, Hong Kong has experienced excess money growth.

Public sector finance has traditionally been conservative, with each year's expenditures covered by current revenues. The accumulated surplus (HK\$16,636 million in 1981 and HK\$22,571 million at the end of 1982) is held (mostly) by the government's Exchange Fund rather than being used to increase capital projects — which many observers believe lags Hong Kong's basic requirements for transport, housing, education, and other needs for which there is a substantial backlog. Of the total revenue, budgeted for HK\$38.3 billion in 1982, 32% was to come from land sales. The actual figures were HK\$30.8 billion and 15%.

The fact that domestic demand continued to grow faster than exports in 1982 reflects depressed exports at a time when demands to overcome basic facilities must be met.

Some marginal industries ceased manufacturing to redevelop their land during the recent property boom, thus reducing their labor force requirements and increasing unemployment. Nevertheless, the apparent unemployment rate is very low by international standards — about 4%.

Against these negative factors, the banks have cooperated in rescheduling debts and alleviating the liquidity crises of a few major companies. Some further problems may emerge, particularly if the worldwide recession is prolonged. No major defaults have occurred, however, and the economy has once again proven its resilience — as it did in 1973 and 1975-76.

Despite some rumors to the contrary, outflow of funds from Hong Kong dollar accounts to other countries does not appear to have been serious.

The "crisis of confidence" that gripped Hong Kong for awhile in the fall of 1982 was based on some multiple concerns: the future political status of Hong Kong, the world trading system and access to world markets, the world financial system and possible defaults in the Third World, whether highly liquid Chinese money would continue to be attracted to Hong Kong, the possibility of foreign banks reassessing their country risk levels in Hong Kong, and the liquidity crisis of some deposit-taking companies (DTCs).

In retrospect, the problems of 1982 seem to be largely over, and economic recovery imminent. Strengths remain, and will continue to provide a basis for future growth. Confidence has returned, and is increasing rapidly. Under these circumstances it would be a mistake to "sell Hong Kong short." It is well positioned, in all respects, to benefit in full measure from the world and regional recovery that is foreseen for the remainder of this decade — and the longer range future — even allowing for the temporary adjustments that are an inevitable feature of the world economy.

Hong Kong's economic growth in 1983 will depend in large measure on the extent to which demands in principal markets — especially the United States — stimulate Hong Kong's production for export. The modest recovery now forecast for the U.S. economy is not likely to be felt in Hong Kong until the second half of the year, but may be sufficient for a 5-5.5% Hong Kong growth rate for the year as a whole. This would be a substantial improvement over 1982's 3%, but far below the average for the past several years. ■

A Financial Center

HONG KONG'S COMBINATION of institutional features is probably unique for an international financial center. There is little specialization within the monetary sector, especially among deposit-taking companies (DTCs). Only one institution is concerned exclusively with granting mortgage finance, and none established only to gather savings deposits. There is no central bank as such, but the Financial Secretary and the Monetary Affairs Branch of the Government Secretariat are the monetary authorities. They carry out certain central bank functions through the Hong Kong Government Exchange Fund and its commercial bankers. There is no marketable direct government debt, and the total public debt is extremely low. A well-developed money and foreign exchange market exists, with no exchange controls of any kind. The gold market is very active.

Hong Kong is an Asian financial center with a dynamic domestic market and important offshore banking and financial services activities. It ranks third to — but far behind — London and New York in terms of the number of syndicated loans arranged.

In 1982, responding to repeated requests from bankers, the government abolished the interest tax on foreign currency deposits held in Hong Kong, which tended to impede local financial institutions from competing with other international centers for funds, particularly for large syndications. The main effect of the tax, however, was to cause banks to book loans and deposits to other offshore centers, such as Singapore, Guam, Port Vila, etc. This charade has now largely been eliminated. The removal of the tax, along with reduction of the withholding tax on Hong Kong dollar deposits from 15% to 10%, effectively discourages any tendency to switch Hong Kong dollars to foreign currency deposits. It also significantly enhances Hong Kong's competitive position vis-à-vis Singapore to be the center of the Asian dollar market.

The Monetary Sector. Effective in mid-1983, the business of taking deposits is shared by three distinct classes of institutions:

- Licensed banks which can take deposits in any amount and of any maturity in the course of their banking business.
- Licensed deposit-taking companies which can take deposits of not less than HK\$500,000, and of any maturity.
- Registered deposit-taking companies which can take deposits of not less than HK\$50,000 and with an original term of not less than three months.

Some 128 banks are licensed, with 1,435 banking offices among them. Of this total, 93 of the banks (including 22 American) are incorporated outside Hong Kong in 20 countries. In addition, there are 120 local representative offices of foreign banks.

Future bank branch network expansion is likely to be focused on major towns in the New Territories (Tsuen Wan, Sha Tin, Tuen Mun, Yuen Long, Tai Po, and Fan Ling) which will have a combined population of about two million by the mid-1980s.

Banks incorporated outside Hong Kong must have minimum assets of US\$10,000 million (among other factors) to be licensed. Domestic companies (incorporated in Hong Kong and predominantly owned by local interests) must satisfy three criteria for a license:

- Share capital of HK\$100 million (paid up).
- Deposit-taking from, and granting credit to, the public for at least 10 years.
- Hold public deposits of HK\$1,500 million and total assets of HK\$2,000 million (both subject to annual review).

Non-bank financial institutions which take deposits from the public but do not conduct banking business (as defined in the Banking Ordinance) are required to be either licensed or registered. *Licensed* status is reserved for larger companies which have a minimum issued share capital of HK\$100 million and paid-up capital of HK\$75 million, and which meet certain (partially subjective) criteria with regard to size, ownership, and quality of management. *Registered* status is further restricted to companies that are more than 50% owned by banks (either in Hong Kong or elsewhere), with a minimum paid-up capital of HK\$10 million. At the end of 1982 there were 361 registered (but no licensed) DTCs.

A number of DTCs are merchant banks which offer services in syndicating offshore currency loans for corporations and governments both within



During this century Hong Kong has passed through the devastations of two world wars and numerous periods of social and commercial upheaval. In recent years fundamental changes have occurred in the world's financial and economic order, together with a growing mood of protectionism in the industrially advanced nations of the West. All these developments have made the international trading environment more and more challenging. There is a Chinese saying to the effect that it is difficult to start a business and still more difficult to nurture it. Hong Kong's progress during all these years — sometimes interrupted but always resurgent — provides ample testimony to the success of those many entrepreneurs who have capably nurtured what their progenitors founded.

and outside Hong Kong. Most are incorporated in Hong Kong, only 12 being foreign. Many DTCs, however, are owned by institutions outside Hong Kong, including banks incorporated overseas. Because they are not required to observe the interest rate agreement set by the banking cartel, the Hong Kong Association of Banks, they are able to offer competitive rates to attract large institutional depositors. However, the recent monetary reforms are likely to reduce the growth of DTCs because they limit access to short-term deposits which constituted their primary source of funds.

The Commissioner of Banking (in the Financial Secretary's office) supervises the banks and DTCs, and takes part in the international network of banking supervisors.

All licensed banks belong to the Hong Kong Association of Banks, a statutory body which operates (in consultation with the government) the interest rate agreement that establishes the maximum rate of interest allowed to be paid by a licensed bank on certain deposits. In the absence of government debt and other conventional instruments of monetary policy, deposit rates set under the interest rate agreement are important in the monetary scene.

Non-Bank Financial Services. As a wide range of non-bank financial services is available from banks and DTCs, there is a relatively limited range of other kinds of financial institutions in Hong Kong. They include insurance companies and pension funds, unit trusts and investment trusts, credit unions, cooperative societies, pawnshops, and pri-

vate money-lenders, but all are still quite small in terms of the local markets.

Financial Markets

Domestic. The demand for funds on the Hong Kong "money market" — a phrase used to refer to banks and DTCs engaged in raising or placing Hong Kong dollar funds among themselves — comes principally from institutions (mainly local branches of banks incorporated outside Hong Kong) which don't have an adequate Hong Kong dollar base to support their lending of such funds.

Hong Kong dollar certificates of deposit (CDs) are quite widely used by some banks as a means of raising Hong Kong dollar resources — as of December 31, 1982, they had a total value of HK\$5,318 million, of which some HK\$2,889 million was held by licensed banks and DTCs.

The only direct government debt outstanding (HK\$250 million) is owed the Asian Development Bank. Marketable government-guaranteed debt is comprised of HK\$607 million obligations of the Mass Transit Railway Corporation (MTRC) and HK\$150 million of notes issued by the Hong Kong Building and Loan Agency.

Foreign Exchange. The residual liquidity of banks and DTCs is held in foreign currency assets, principally claims on banks overseas, in the absence of sufficient instruments denominated in Hong Kong dollars. The ability to buy Hong Kong dollars against the sale of a foreign currency balance enables banks without an adequate local deposit base to acquire the resources to lend to customers in Hong Kong if they cannot do so at acceptable rates on the domestic money market.

In the absence of exchange control, a number of banks and DTCs are active participants in the foreign exchange market. International banks deal on behalf of their other branches around the world during the hours that the Hong Kong market is open. Hong Kong's position midway between the U.S. and European time zones gives it a strategic advantage in this regard.

The government does not intervene to influence the Hong Kong dollar's exchange value, although it does occasionally seek to smooth out erratic fluctuations. The issue of foreign currency CDs (mostly U.S. dollars), started in 1980 by Hong Kong banks and DTCs, rose to HK\$2,892 million at the end of 1981 and HK\$6,165 million (US\$950 million) at the end of 1982.

Stock Market. Trading continues on four exchanges pending commencement of operations of a unified Stock Exchange of Hong Kong (scheduled

for not later than February 1, 1984) — a move initiated by the Hong Kong government. Some 241 persons have been admitted to the new exchange after satisfying certain financial eligibility requirements. It should be noted, however, that some skepticism has been expressed concerning the desirability of this compulsory unification.

The existing exchange turnovers during 1982 were: Far East Exchange HK\$21,109 million, Hong Kong Stock Exchange HK\$9,859 million, Kam Ngan Stock Exchange HK\$15,193 million, and Kowloon Stock Exchange HK\$67 million. The total of HK\$46,226 million was a 56% decrease from the 1981 total of HK\$106,000 million.

On December 31, 1982, the Hang Seng Index (July 31, 1964 = 100) was 783.82, a 44% decrease from 1406 a year earlier (and a 1981 high of 1800), mainly reflecting weakness in the Hong Kong property market, the shares of which companies are very influential in the composite index while industrial shares maintain less weight.

Commodity Exchanges

Four commodity futures markets are operated by the Hong Kong Commodity Exchange Limited, the sole licensed company: cotton, sugar, soybeans, and gold. A working party has been established to investigate the possible addition of a financial futures market. The *Gold Market* trading by the 194 members of the Chinese Gold and Silver Exchange Society is very active — the most active being trading in gold futures. Price movements parallel those on the other major markets in London, Zürich, and New York. Dealings take place in U.S. dollars per troy ounce of 99.95% fine gold, with delivery in London. It registers the largest retail sales of physical bullion of any city in the world.

Exchange Fund. The government's Exchange Fund is effectively the banker to the government, and so carries out a number of quasi-central banking functions. The fund holds the backing of the note issue, the notes being issued by two banks — The Hongkong and Shanghai Banking Corporation and the Chartered Bank — against their holdings of certificates of indebtedness. These certificates are non-interest bearing liabilities of the Exchange Fund, and are issued or redeemed as the value of the notes in circulation rises or falls. The bulk of the government's financial assets are held in the Exchange Fund, and are placed by the fund in bank deposits in Hong Kong dollars and certain foreign currencies, and in various interest-bearing instruments in foreign currencies. The fund's extensive diversifica-

tion program, both in terms of currencies and management, is reflected by its conducting business through 87 accounts in 13 countries.

In the absence of a more satisfactory system of monetary control (than the Exchange Fund), Hong Kong's currency is particularly dependent on foreign currency inflows — which can be curtailed rapidly whenever there is any perceived reason to lose confidence in the local investment environment. The Hong Kong dollar is especially vulnerable, therefore, to adverse shifts in sentiments such as occurred in the last quarter of 1982.

Financial Structure

The rapid influx of banks and DTCs into Hong Kong has created a two-tier financial structure. Most of the local banks, and a number of foreign ones, have built large networks of branches to attract Hong Kong dollar deposits. Many newer one-branch banks, however, rely on the local money market to fund substantial portions of their loan portfolios. There is little external or internal restraint on the ability of banks to increase their loans, apart from their own criteria for prudence. This is, however, a flexible concept that varies from one bank to another and changes with assessment of market conditions.

Complexity comes with growth. Hong Kong's financial sector has expanded enormously and has great promise for the future. The Hong Kong monetary system features minimum regulations, which has contributed greatly to the financial sector's growth but also to its instability. Whether or not the sector's overall requirements will be allowed to dictate the government's monetary policies in whatever ways may seem to suit its immediate interests is an important issue.

A number of Hong Kong's domestic banks — led by the Hongkong and Shanghai Banking Corporation (Hongkong Bank) — have in recent years been active in diversifying and expanding their overseas business connections. The Hongkong Bank, which ranks 33d among world banking groups in terms of total assets, has 300 branches in Hong Kong, more than 800 offices overseas, and a majority shareholding in Marine Midland Banks, Inc., in the United States. Other domestic banks are particularly interested in upgrading their activities with overseas Chinese communities in Singapore, Malaysia, Indonesia, Taiwan, London, San Francisco, and Vancouver. As most of them have comparatively small asset bases (by world standards), their involvement will continue to be somewhat modest.

A new development is the growing interest of Hong Kong banks in forming joint ventures with overseas securities and commodities firms. The Sun Hung Kai Bank, for example, with the agreement of its Paribas partner, has accepted equity participation of Merrill Lynch, the leading U.S. brokerage firm, to provide services on an international level. Another example is the joint venture of Wardley Ltd. (wholly-owned by Hongkong Bank) and ACLI International, by which Wardley will gain access to international commodities futures markets.

Many locally incorporated banks also own one or more services-related subsidiaries or associated firms such as trust, insurance, finance, mutual fund, and nominee companies. They are in a better position for such diversification than some of the foreign banks which are prevented from participating in non-banking related business by the banking ordinances of their home countries.

The presence of a considerable number of foreign banks (53 entered during the period March 1978-June 1982 alone) has made competition severe for both customer and inter-bank deposits. (Foreign banks established in Hong Kong before 1978 can establish branches freely, while those entering since then cannot.) The pressures on loan pricing and all kinds of fee-based activities have also intensified. As most of the newcomers have thin local deposit bases their activities tend to be concentrated on wholesale banking, foreign exchange trading, management of syndicated loans, and correspondent banking services.

In order to support their strong growth in assets, foreign banks in Hong Kong place emphasis on attracting deposits despite their heavy reliance on borrowing from abroad and from the interbank market for loanable funds. There is a tendency for them to tap new sources of funds by issuing negotiable CDs, often at rates which attract longer-term (more than one year) funds. The attraction of Hong Kong to foreign banks in general is indicated by their considerably higher profitability ratio than the worldwide average for banks. The government's recent (1982) abolition of the withholding tax on foreign currency deposits will strengthen the tendency for foreign banks to book their offshore lending in Hong Kong.

The 30 locally incorporated banks together accounted for about 61% of the total assets of the banking system in 1980 and absorbed some 60% of total bank deposits and 40% of total loans and advances extended domestically and abroad. There is a tendency for their market shares to be reduced

in view of the keen competition by the aggressive foreign (including Chinese) banks. The Chinese banks' share of total deposits rose from 25% in 1978 to 28% in 1980, and from 24% to 30% of the lending total. Foreign (non-Chinese) banks claimed 12% of 1980 deposits (10% in 1978) and 30% of the loans, an increase from 24% in 1978.

Foreign banks depend largely on offshore funding from Euro- and Asian-currency markets as the local banking ordinance permits the inclusion of overseas accounts in the assessment of liquidity. Nevertheless, most of them rely on the local interbank market for short-term loanable funds.

Hong Kong's Regional Position

As a financial center, Hong Kong enjoys a central geographical position among the main Asian markets for loans: Taiwan and South Korea to the North; the Philippines, Thailand, and Indonesia to the South. Asia's rapid economic growth outlook will continue to increase the demand for loans, and Hong Kong's financial institutions can benefit from the expansion of Asia's economies in the 1980s. Many overseas Chinese in Asia remit money through PRC banks in Hong Kong to China. The increasingly important banking relations between Hong Kong and China will continue as China modernizes and opens to the international economy; Hong Kong's role will further enhance Hong Kong's standing.

While Singapore is the only Asian city able to compete seriously with Hong Kong, it plays a more complementary than competitive role in international finance.

Singapore's readiness — and Hong Kong's reluctance — to abolish the interest withholding tax on offshore deposits led to Singapore's success in capturing the Asian-dollar market in the late 1960s. Singapore's abolition of exchange controls in 1978 also strengthened its position in arranging offshore funding. At present Singapore seems to be moving toward further liberalization of its monetary sector, while Hong Kong has to some extent — and from a very different starting position — increased its intervention in banking and money markets.

On the other hand, Hong Kong leads — by a large margin — in the syndication of offshore currency loans and placement of Asian dollar bond issues, and Hong Kong banks experience higher profits. Hong Kong is a financial center where risk is rewarded by low taxes and high returns.

Hong Kong's overall tax treatment is also more favorable. All offshore banking earnings in Singa-

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pore are subject to a 10% interest tax, while they are tax-free in Hong Kong.

China's financial needs — along with those of fast-developing Asia — will also highlight the intermediate role that Hong Kong plays. At prevailing high interest rates, China is reluctant to initiate long-term foreign commercial bank borrowings, but will depend largely on Hong Kong's commercial loans for short-term financing.

New Developments

Several new areas have been noted for Hong Kong's development as a financial center, including:

- *Financial Futures Market.* To bridge the gap between the United States and London, the proposed market will allow Hong Kong and interna-

tional traders, industrialists, financiers, and investors to hedge their exchange and interest rate risk in volatile circumstances by an efficient and cheaper method. Such a market will also help to improve Hong Kong's invisible trade flows by attracting business to Hong Kong from abroad.

- *Domestic Capital Formation.* An intermediate-term money market (say up to 3 or 5 years) is needed to supply intermediate-term funds to support industries. Such investments are now usually financed by overdrafts or short-term loans, an inadequate method for multi-million dollar outlays in capital-intensive industries. Hong Kong needs more manufacturing industry rather than reliance on income from property. In order to remain competitive internationally, Hong Kong's manufacturing industry

Hong Kong's Multinational Chemistry

When Jardines first moved to Hong Kong from Guangzhou, establishing the company's headquarters here in 1841, it would have required great vision to foresee the extent to which the city has become the region's principal financial, marketing, and transportation center. But it is partly that vision which has made — and will continue to make — Hong Kong a most attractive environment in which to base a major commercial organization.

I think the fact that we maintain our headquarters and a significant portion of our assets in Hong Kong underscores this point. Our business interests here fall into five distinct but related main areas of activity. Our Financial Services, such as insurance and merchant banking, thrive in the free competitive economy which Hong Kong has to offer. Our original business as China Traders continues to grow since Hong Kong plays a significant role in supporting the modernization of China. With our multinational expertise we can be a representative of the West in the East, and vice versa. Furthermore, Hong Kong — a high growth and investment area — makes our Construction expertise and Property assets valuable in the long term. Finally, Jardines' Transportation Services take advantage of Hong Kong being the third largest port in the world and the far eastern center in the movement of the world's trade.

Outside Hong Kong Jardines have also developed. Today we hold significant interests in Europe, North East and South East Asia, the Middle East,

the United States, and Southern Africa where we plan to concentrate on generally the same business activities — doing what we do best — particularly as they also offer significant growth potential in most of these territories. Our objective is to remain a balanced company, both geographically and functionally, with the center remaining in Hong Kong.

The prosperity of Hong Kong has been very much behind the success of Jardines and we in turn like to think that we have contributed to the growth of Hong Kong, both as a business community and as a society in general.

Much has been said recently about the future of Hong Kong after 1997. Whatever the uncertainties at this stage, I am confident that this matter will be resolved in a manner which will preserve Hong Kong's economic stability and thus permit free enterprise to flourish and grow. I believe that there is a mutuality of interest in Hong Kong's future between Hong Kong and China, and between Hong Kong and its international business partners. The multinational chemistry is fundamental to Hong Kong's success and future prosperity. I am sure that Jardines will continue to play a leading role in this exciting community.

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Hong Kong

needs the capital to be still more innovative. No domestic money market exists for loans beyond six months, and there is also an absence of certain essential instruments. A more viable intermediate-term money market would serve the demand which already exists.

The present primary negotiable CD market, ranging from three- to four-year maturities, can be developed into a good secondary CD market, after which the intermediate-term money market will evolve. The secondary CD market is nearly non-existent at present because of lack of participation by local banks which are normally lenders since the negotiable CDs do not qualify as liquid assets. To make Hong Kong a more mature financial center, such CDs could well be made eligible as liquid assets. Bank liquidity ratios are 48% compared with a requirement of only 25%. There is a view that new liquid assets will lead to further excess liquidity and credit creation.

Hong Kong also does not have any short-term negotiable debt raising instrument. Government has no debt instrument like treasury bills to finance deficits. However, commercial papers — which are short-term negotiable debt instruments issued by big companies — are a possibility. A secondary market can also be made on commercial paper.

A deposit rate structure tied to money market rates, i.e., decided by market supply and demand, is also desirable. It would encourage savings, dampen excessive credit growth (hence inflation), and discourage switching to foreign currencies of higher market yields.

- *Foreign Currency Capital Market.* The economic progress of the Asia-Pacific region, in the future as in the past, will continue with the help of foreign capital. The foreign currency market will therefore play a significant role in providing long-term funds which are badly needed by all developing countries. Hong Kong as a financial center should develop a foreign currency capital market to serve the needs of the region. This is what the U.S. dollar loan syndication market in Hong Kong is all about.
- *Financial Supermarket.* Looking further into the future, banking will surely not be the same as it is now. Due to deregulation and rapid technology change, commercial banks, insurance companies, large retail-sales chains, and financial houses may lose their present specific identities and be transformed into financial supermarkets providing what sophisticated customers want. Externally and internally, such changes are already under way. ■

Industry and Labor

EVEN THOUGH only 9% of Hong Kong's 1,064 sq km land area is used for farming, and less than 3% of the working population is engaged in fishing and farming, Hong Kong produces a considerable proportion of its fresh food requirements. Farmers in the New Territories — despite continuing urban encroachment — raise nearly 38% of Hong Kong's vegetable requirements, and the 5,000-vessel fishing fleet catches 90% of the fresh marine fish eaten. Pond fish farmers produce about 16% of the freshwater fish consumed.

According to the United Nations Food and Agriculture Organization (FAO), the territory is one of the best-fed areas in the world, the per capita daily protein intake being some 107 grams compared with a normal requirement of 70 grams. Local producers raise 61% of the total live chicken requirements for this consumption and about 21% of the live pigs slaughtered. Nevertheless, some 4,000 pigs are imported daily from the neighboring Guangdong province in China.

The government's policy is to foster the development of agriculture, bearing in mind priorities in land usage and the economics of regional food producing and marketing. The objective is to ensure that local food production is maintained at a reasonable level.

The Agriculture and Fisheries Department encourages optimal land usage throughout the rural areas. It provides technical, development, and advisory services and handles the administrative organization and supervision functions for cooperative societies and credit unions. The department also manages open countryside areas and is responsible for soil and water conservation, woodland management and landscape repair, fire fighting and the development of recreational facilities in country parks. Research programs cover crops, livestock, pest control, animal husbandry, fisheries and marine resources, environmental concerns, and the like.

The shortage of farm labor, intensified by the success of industrialization programs, has led to the development of mechanical and other labor-saving aids and educational programs designed to improve productivity. Individual and cooperative production and marketing loans are available through three separate loan funds administered by the department.

The government's vegetable and fish marketing organizations wholesale some 34% of locally-produced vegetables and 75% of marine fish landings. Operating on a sales commission basis, these non-profit organizations provide a number of educational and financial services to farmers and fishermen and their families. As facilities in existing wholesale markets are inadequate for handling the ever-increasing quantities of imported fresh vegetables, fruits, poultry, eggs, fish and crustacea, a number of temporary wholesale markets have been brought into operation pending the planned establishment of new markets in Kowloon and Hong Kong Island.

Mining. The Crown has the ownership and control of minerals, granting leases for their exploitation. Limited quantities of kaolin, feldspar, quartz, and low-grade iron ore are produced.

Industrial Hong Kong

Despite the recessionary economic climate prevailing in many of Hong Kong's major export markets, the manufacturing industry — heavily dependent on exports — continued to perform well during 1982 despite problems in some sectors. The flexibility and adaptability of Hong Kong's industrialists have been put to a test to which they have responded in their traditional agile manner. Manufacturing contributes about 25% of GDP and absorbs some 40% of the total labor force, but value added is a modest 27% of output (1980).

The government's consistent economic policies of free enterprise and free trade have fortunately been maintained at a time when many countries have responded to increasing protectionist pressures from local industrial groups. It has correctly been realized that any such action on Hong Kong's part — aside from limited intervention in response to the pressure of economic and social needs — would be extremely deleterious. On balance, the policy of equal treatment for all enterprises, without subsidies or special inducements to attract new establishments and without initiation of any special protective measures to support industries or firms in difficulties because of competitive or managerial problems, has served Hong Kong well. Perhaps this policy is the keystone in the realization of an economic climate that has favored outstanding growth and the flexibility to meet new challenges. It has always enabled Hong Kong's business community to realize quick advantages from economic recovery in their principal markets.

The Chinese people are basically the same everywhere. The economic and political system under which they live either deters them, or makes it possible to realize their potential. With a deep and ancient culture, and an innate feeling of superiority, they nevertheless realize the need for western technology, management expertise, and money.

There are no import tariffs, with revenue duties levied only on tobacco, alcoholic beverages, methyl alcohol, and some hydrocarbon oils. (Tax is also payable on first registration of motor vehicles, except franchised buses.)

Manufacturers were given two tax incentives in 1982: the initial allowance on new plant and equipment was increased from 35% to 55%, and the initial and annual allowance on industrial buildings is

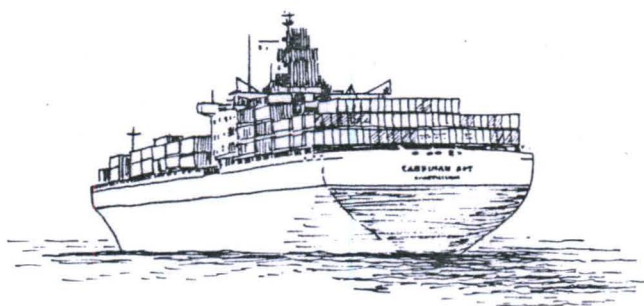
Self Help

The people of Hong Kong have taken full advantage of the opportunities offered them to become self-supporting and prosperous through their own efforts.

The high productivity achieved in Hong Kong's manufacturing industries provides ample and well-known testimony to the skill and dedication of the industrial labor force. Less well-known is the transformation of poverty-stricken refugees into independent farmers who have reclaimed once-barren hillsides.

The miracle of Hong Kong has been extended to rural as well as urban areas through the catalytic effect of government cooperation with private imagination and initiative. The Kadoorie Agricultural Aid Association (KAAA), Loan Fund, and Experimental and Extension Farm have been instrumental in creating a viable rural economy as an integral part of Hong Kong's industrial success.

Working independently for their own individual benefit — and the greater benefit of the whole community — Hong Kong's farmers have fully justified the faith of the Kadoorie brothers who conceived the program and have given it their unfailing support for more than 30 years.



now based on the purchase price and not the actual cost of construction.

Light industries, mainly producing consumer goods, predominate. As indicated in Table 1, about 72% of the total industrial workforce is employed in the textile, clothing, electronics, plastic products, toys, watches and clocks, electrical products, and photographic and optical industries. Clothing and textiles comprise Hong Kong's largest industrial sector, but non-consumer electronics, which require relatively high levels of technology, are gaining rapidly in significance.

Other important light industries produce travel goods, handbags and similar articles, metal products, jewelry, drugs and medicines, beverages, food products, footwear, furniture, smaller wood and rattan articles, paper and glass products, wigs, and an almost infinite variety of miscellaneous articles.

The "China Connection" is critical to the future of Hong Kong's industrial growth, particularly for such labor-intensive sectors as textiles and garments. Given continuation of present PRC policies, labor-intensive operations will tend to move to the lower-cost nearby special economic zones (SEZs), or other locations in Guangdong province, while

Hong Kong will remain the center for finishing and marketing. Some labor-intensive operations have already begun to move to such lower-cost countries as the Philippines and Sri Lanka, although the SEZs and the availability of new sites (and some surplus labor) in the New Territories will tend to reduce any significant outward movements. Hong Kong has too many locational, technical, and managerial advantages to lose its regional industrial primacy. The ability to "upgrade" products is characteristic of both Hong Kong's progressive entrepreneurs and its talented workers.

Heavy and Service Industries. The manufacture of machinery, machine tools and their parts provides support to other local industries and also contributes to Hong Kong's export trade. Among the more important products are blow and injection molding and extrusion machines for the plastic industry, power presses, lathes, shapers, drilling and polishing machines, printing presses, textile knitting and warping machines, and electroplating equipment.

Hong Kong shipyards build a variety of vessels and provide competitive repair and maintenance services for the shipping industry. The Kwai Chung Container Terminal, which handled the equivalent of 1.55 million 20-foot containers in 1981, together with its complementary repair and manufacturing facilities, also enhances Hong Kong's position as the leading port in Asia.

The aircraft engineering industry has a worldwide reputation. It provides maintenance, overhaul, and repair facilities for most of the airlines operating in Asia.

The present status and recent trends of Hong Kong's principal industrial groups are analyzed in more detail in the appendix.

Table 1
HONG KONG'S MAJOR INDUSTRIES, 1982

Industry	Number of Factories	Percent	Employment	Percent	Export Value (US\$ Mn)	Percent
Clothing and Textiles	13,230	28.1	349,538	40.8	5,579	40.8
Electronics	1,305	2.8	85,946	10.0	1,599	11.7
Plastic Products	3,369	7.2	39,532	4.6	407	3.0
Toys and Dolls	2,244	4.8	51,716	6.0	1,447	10.6
Watches and Clocks	1,810	3.8	45,414	5.3	1,227	9.0
Electrical Products	1,183	2.5	36,992	4.3	797	5.8
Photographic and Optical	160	0.3	6,327	0.9	156	1.1
Sub Total	23,301	49.5	615,465	71.9	11,212	82.0
Other Industries	23,788	50.0	240,672	28.1	2,463	18.0
All Manufacturing Industries	47,089	100	856,137	100	13,675	100

Size of Units

The typical manufacturing establishment in Hong Kong, in nearly all industry groups, is relatively small and specialized. Table 2 provides examples that indicate the absence of concentration and the extent of competition (September 1982).

Shipping

The Hong Kong-owned fleet comprises about 1,600 vessels with an aggregate dead weight tonnage (DWT) of 61.5 million, over 9% of the world total. Yet the importance of both ownership and operation of these ships is reduced by the fact that

most of them are built elsewhere, pay no taxes in Hong Kong, engage in trade between third countries, and seldom even enter the Hong Kong harbor.

The industry appears to be near the low point of the traditional cycle, and is burdened by a massive oversupply of ships of many types. Nevertheless, the high cost of fuel and new safety requirements are making older ships obsolete, so that there will be strong incentives to scrap them as soon as scrap prices improve. As world trade recovers, the demand will rise to meet a declining supply.

Tankers have been in oversupply for some time, but bulk cargo carriers are in better demand. Order books are relatively full, although charter rates are falling. Container ships are in demand as container

Table 2
UNIT SIZE AND EMPLOYMENT

	Number of Establishments	Average Employment	Total Employment	
			Number	Percent
Food				
Bakery products	496	13	6,692	0.8
Other	641	19	11,867	1.4
Textiles				
Bleaching and dyeing	319	41	13,196	1.5
Cotton knitting	343	14	4,967	0.6
Cotton spinning	44	220	9,681	1.1
Cotton weaving	354	45	15,939	1.9
Embroideries	290	10	2,949	0.3
Knitwear from yarn	1,621	25	39,826	4.7
Woollen knitting	418	11	4,557	0.5
Other	1,602	13	20,473	2.4
Garments (except knitwear from yarn)	7,348	30	220,267	25.7
Handbags	889	15	13,417	1.6
Footwear	554	13	7,327	0.9
Wooden furniture	1,325	6	7,941	0.9
Paper boxes	873	8	7,144	0.8
Printing, job	2,247	8	18,302	2.1
Plastic toys	1,735	25	43,511	5.1
Other plastic products	3,369	12	39,532	4.6
Metal toys	287	19	5,310	0.6
Electrical appliances	492	36	17,814	2.1
Electronics	1,305	66	85,946	10.0
Watches and clocks	1,361	28	38,358	4.5
Transport equipment				
Aircraft repair	2	1,994	3,988	0.5
Shipbuilding and repair	98	105	10,262	1.2
Jewelry	738	12	8,830	1.0
Others	18,338	11	198,041	23.2
Total	47,089	18	856,137	100

traffic is still expanding, despite the trade recession. The Far East trade utilizes about 60% of all containers, and the proportion is likely to grow as China increases its use of such ships. In 1981 China handled only 50,000 ton equivalent units (TEUs), against Hong Kong's 1.3 million. Chinese ports are expected to handle over 700,000 TEUs by 1985.

The Hong Kong shipping industry in general is still in sound financial condition, and will be able to take full advantage of the recovery when it comes. Owners generally concentrate on long-term charters, financing being secured against predictable income through a vessel's useful life. Most charters are "bare boat," relieving the owners of operational and crewing problems. The ships usually fly "flags of convenience" rather than British registry — there is no separate Hong Kong registry.

Foreign Investment

The importance of foreign investment in Hong Kong's manufacturing industry is indicated by Tables A, B, and C in the Appendix as provided by the Industry Department of the Hong Kong Government. Direct overseas industrial investment aggregates some US\$1.16 billion, excluding the accompanying interest of Hong Kong investors which totalled the equivalent of another US\$330 million.

Electronics investments accounted for 37% of the foreign total, textiles and garments 12%, and building and construction materials 11%.

Investments of U.S. firms account for some 47% of this manufacturing total (US\$540 million), followed by Japan's 30%, and the U.K.'s 6%.

Total direct investment of U.S. firms in Hong Kong aggregated some US\$1,969 million in 1980, also by far the largest foreign national total. The following tabulation indicates the sectoral distribution of these investments and their estimated share of the total overseas investments in Hong Kong:

	US\$ (Million)	Share (Percent)
Manufacturing	\$ 330	16.7
Chemical and Allied Products	(95)	
Electronic and Electrical	(39)	
Others	(196)	
Petroleum	198	10.1
Trade	524	26.6
Banking	210	10.7
Financial Institutions	377	19.2
Other Industries	330	16.7
Total	\$1,969	100.0

A strong currency, above everything else, makes Hong Kong valuable to China.

This total represented an increase of US\$229 million over 1979.

In addition to direct investment, U.S. portfolio investments in Hong Kong securities aggregated some US\$2,454.

(At the same time, Hong Kong's direct investment in the United States was estimated at US\$50 million, and portfolio investment US\$4,535 million.)

The Labor Force

Hong Kong's work force of some 2.5 million (1.6 million males and 900,000 females) is engaged in a considerable diversity of occupations:

	Percent
Manufacturing	36
Trade, hotels, and restaurants	22
Community and personal services	11
Construction	9
Transport, storage, and communications	8
Finance and business services	5
Agriculture, fisheries, and mining	1
Government services	7
Others	1
	100

The unemployment rate has declined from 4.5% of the labor force in 1976 to 3.7% in 1981, but by the end of 1982 had risen again to 4.2%.

The indices of total monthly payrolls (September 1982 compared with previous year) increased 8.4% in manufacturing; 17.0% in wholesale and retail trade and restaurants and hotels; and 30.2% in finance, insurance, real estate, and business services. The nominal indices of payroll per person engaged in manufacturing increased 14.5%, in trade 10.3%, and in services 15.6%, but in real terms the increases were less: 4.9%, 1.2%, and 6.0%, respectively.

Days lost through work stoppages due to labor disputes increased from 5,000 man-days in 1976 to 21,100 in 1980, but declined to 18,000 in 1982.

Labor Relations. In recent years there has been a steady improvement in working conditions and terms of employment through an extensive program of labor legislation. In 1981 alone 26 items of legisla-

tion were enacted to provide higher standards for the safety, health, and welfare of workers.

The Employment Ordinance provides a comprehensive code of employment which governs the payment of wages, termination of employment contracts, and operation of employment agencies. The monthly wage ceiling for non-manual employees was raised in 1981 from HK\$3,500 to HK\$6,000. Among other benefits, the law provides statutory holidays with pay, sick leave, sickness allowance, rest days, and seven days of annual leave with pay for most employees. Statutory protection against anti-union discrimination and severance payments for redundant workers are also provided.

As a dependent territory, Hong Kong is not a member of the International Labour Organization (ILO), and is not called upon to ratify any International Labour Conventions which set international labor standards. The United Kingdom, however, makes declarations — after full consultation with the Hong Kong Government — on behalf of Hong Kong with regard to the application of conventions it ratifies.

There is no statutory minimum wage rate, prevailing levels resulting from the interplay of supply and demand. Rates are usually calculated on either a time — hourly, daily, or monthly — or an incentive piece-work basis. The normal pay period is 10 or 15 days (except for monthly employees). Most semi-skilled and unskilled workers in manufacturing industries are piece-rated, but daily rates are also common. Monthly-rated industrial workers are usu-

Chinese businessmen's diversification outside of Hong Kong is only following the pattern of western investors, who are already diversified.

ally employed in the skilled trades or in technical and supervisory positions. Men and women receive the same rates for piece work, but women are generally paid less when working on a time basis.

Many employers provide workers with subsidized meals or food allowances in addition to their statutory entitlements. Attendance bonuses and free medical treatment are also common. A Lunar New Year bonus of one month's pay or more is traditional and almost obligatory. Some of the larger firms provide free or subsidized accommodation and transport.

No child under 15 years old may be employed in an industrial undertaking, but children 13 or older may be employed in non-industrial establishments, subject to certain exceptions and protections. Young people (15 to 17) and women are permitted to work a maximum of eight hours a day, six days a week; young people cannot work overtime, and that for women is limited to 200 hours per year. Special permission is needed for employment of women on night shifts.

Trade unions have the legal status of corporate bodies by a system of registration; once registered, they are immune from certain civil suits. Many of the employees' unions are affiliated with either the

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Hong Kong's Economic Development

Trade is the life blood of Hong Kong. It is possible to trace the history of Hong Kong almost entirely by its trading development. There is little doubt that from the outset in 1841 trade has been the backbone of Hong Kong's development.

In the early days, Hong Kong's trading activity went through a lengthy and progressive era when it was largely dependent on a growing entrepôt trade and its complementary shipping, banking, and insurance facilities. It was really not until the post-war period — the early 1950s — that Hong Kong began to develop as a manufacturing- and exporting-based economy. In broad terms it has pursued this path ever since.

There have been many changes in the manufacturing industry, and the types of articles manufactured, since the 1950s. In general, these changes have moved Hong Kong from the fairly basic plastic

flowers era, through the wigs and cheap rubber shoes era and the lower end of the textile industry, up to the present stage with the manufacture of high technology equipment, high fashion garments, and so on.

During this period, apart from its manufacturing base, Hong Kong has also developed into a major international financial center, and tourism has become a major industry.

All of these changes have broadened the base of Hong Kong's economy and in the process turned Hong Kong, with a population of about 5-1/2 million people, into one of the top twenty trading areas in the world.

DUNCAN R. Y. BLUCK
Chairman
John Swire & Sons (H.K.) Limited
Hong Kong

Hong Kong Federation of Trade Unions or the Hong Kong and Kowloon Trades Union Council.

The Labour Department services are equipped to deal promptly with labor matters raised by local employers and employees. It initiates labor legislation and ensures that Hong Kong's obligations under international conventions are observed. Machinery is provided for special conciliation, voluntary arbitration, and boards of inquiry for settling trade disputes.

A Labour Tribunal, part of the Judiciary, provides a quick, inexpensive, and informal method of adjudicating certain types of disputes with a minimum of formality.

A Local Employment Service provides free placement services from 15 offices, linked by a facsimile system, throughout Hong Kong. A Special Register provides assistance to graduates of overseas and local universities and job seekers with post-secondary or professional qualifications. A Selective Placement Service assists handicapped persons find employment.

An ordinance controls contracts entered into in Hong Kong between overseas employers and manual workers proceeding overseas for employment. The employment of domestic helpers recruited from overseas is also regulated and protected. Profit-making employment agencies must be licensed before beginning operation.

Other Labour Department activities include career advisory services, industrial safety, worker health, improving the occupational, physical and mental well-being of workers, and compensation in respect of accidents and occupational diseases.

The Hong Kong Vocational Training Council provides a comprehensive system of manpower training geared to the developing needs of Hong Kong's economy. Industry training boards deal with the needs and problems of 10 major industries, and commerce training boards handle manpower training in six major commerce and service sectors. Six committees examine problems common to all or several industry or commerce sectors — apprenticeship, instructor and other training, translation, etc. Sites to house two training complexes have been reserved to implement industry-wide training schemes. Two sectoral training schemes are already functioning successfully.

Training of craftsmen and technicians through apprenticeship programs is provided for 38 designated trades. Courses of instruction for apprentices, normally on a part-time day-release basis, are provided at the Hong Kong Polytechnic and various technical institutes. ■

Trade and Commerce

THE DIRECTION AND LEVEL of Hong Kong's export trade are very much influenced by economic conditions and commercial policies of major overseas markets. In 1981 some 61% of all domestic exports went to the United States and the European Economic Community. The importance of the U.S. market for all product groups is particularly noteworthy. The close relationship between U.S. economic trends and Hong Kong's prosperity is apparent — roughly double that between Hong Kong and the EEC, and far greater than that of all other countries combined.

During 1982 bilateral agreements which cover Hong Kong's exports of cotton, man-made and woollen textiles to members of the EEC were renegotiated for a period of four years, from January 1983. The new arrangements — as with those pertaining to other countries (notably the United States) — provided for reduced quotas and minute growth rates in sensitive categories, but will permit forward planning in Hong Kong's largest industry. It can be expected that increased competition for major markets will ensue, however, as other newly-industrializing countries — whose exports are also restricted in many cases — attempt to upgrade their products to the generally higher standards already achieved by Hong Kong's establishments.

Total merchandise trade in 1981 amounted to HK\$260,537 million (US\$46,583 million), an increase of 24% over 1980. Imports increased 24% to HK\$138,375 million, domestic exports by 18% to \$80,423 million and re-exports (mostly from China) 39% to \$41,739 million. Domestic exports and re-exports together were valued at HK\$122,163 million, an increase of 24%.

During 1982 trade continued to grow, but at much smaller rates: total trade by 3.7%, domestic exports by 3.2%, imports by 3.3%, and re-exports by 6.3%.

Despite the unfavorable economic conditions prevailing in Hong Kong's major export markets, Hong Kong's industries — with relatively few exceptions — have been able to maintain levels of activity that speak highly for Hong Kong's adaptability and productivity. The government's policies and facilities are designed to encourage, not restrain, industrial development. Hong Kong's continuing success can only be considered highly enviable in comparison with the conditions that prevail nearly everywhere else. This record augurs well for the future.

Imports

Hong Kong is almost entirely dependent on imported resources to meet the needs of its nearly 5.5 million population and diverse industries. *Raw materials and semi-manufactured goods imports* represent 40% of total imports (HK\$56,444 in 1982). Principal items imported were fabrics of man-made fibers; watch and clock movements, cases and parts; iron and steel; woven cotton fabrics; plastic molding materials; and transistors, diodes, semi-conductors and integrated circuits.

Consumer goods imports, valued at HK\$38,614 million, constituted 27% of total imports in 1982. They included clothing; radios, television sets, gram-aphones, records and tape recorders; diamonds;

watches; jade and precious stones, ivory, jewelry, goldsmiths' and silversmiths' wares.

Capital goods imports amounted to HK\$19,943 million, or 14% of the import total. They consisted mainly of transport equipment, electric components and parts for machines, electrical machinery, other industrial machinery, and office machines.

Foodstuffs imports were valued at HK\$16,785 million, representing 12% of total imports. The principal items were fruit, fish and fish preparations, vegetables, and meat preparations.

Some HK\$11,107 million of mineral fuels, lubricants and related materials were also imported during 1982, representing 8% of total imports.

Japan, the traditional leading source of Hong Kong's imports, was displaced by China during

Table 3
PRINCIPAL IMPORTS BY COUNTRY AND COMMODITY

	1982 (HK\$ millions)	1981	Increase/(Decrease) Percent
Country			
China	32,934.9	29,509.7	+11.6
United States	15,459.2	14,441.8	+7.0
Japan	31,539.9	32,129.9	-1.8
United Kingdom	6,891.6	6,282.9	+9.7
Macao	1,211.5	886.7	+36.6
Belgium and Luxembourg	1,504.1	1,256.6	+19.7
Australia	2,265.8	2,004.6	+13.0
Italy	2,037.6	1,846.0	+10.4
Canada	1,119.9	894.8	+25.2
France	1,943.2	1,827.8	+6.3
Thailand	1,981.4	1,833.8	+8.0
Republic of Korea (South Korea)	4,557.5	5,494.7	-17.1
Commodity			
Articles of apparel and clothing accessories	6,463.6	5,226.4	+23.7
Miscellaneous manufactured articles	6,297.6	5,337.8	+18.0
Other transport equipment	2,172.8	1,597.8	+36.0
Fish, crustaceans and molluscs, and preparations thereof	2,766.8	2,007.4	+37.8
Vegetables and fruit	4,158.1	3,705.4	+12.2
Meat and meat preparations	2,024.0	1,630.6	+24.1
Electrical machinery, apparatus and appliances, and electrical parts thereof	10,441.7	9,930.6	+5.1
Thermionic, cold cathode and photo-cathode valves and tubes, photocells, transistors, etc., and parts thereof	(5,036.2)	(4,412.5)	(+14.1)
Electrical machinery and apparatus	(1,732.8)	(1,645.4)	(+5.3)
General industrial machinery and equipment and machine parts	3,545.7	3,121.5	+13.6
Crude animal and vegetable materials	2,034.0	1,679.9	+21.1
Telecommunications and sound recording and reproducing apparatus and equipment	4,899.5	6,121.7	-20.0
Radio-broadcast receivers (including receivers incorporating sound recorders or reproducers)	(994.1)	(1,138.3)	(-12.7)
Telecommunications equipment, parts, and accessories	(2,439.1)	(2,754.4)	(-11.4)
Photographic apparatus, equipment and supplies and optical goods, watches and clocks	8,367.9	9,503.1	-11.9
Watches and clocks	(6,317.8)	(7,442.9)	(-15.1)

1982. The United States ranked third, followed by Taiwan, Singapore, Britain, the Republic of Korea (South Korea), and the Federal Republic of Germany (West Germany).

Table 3 indicates the national origin and commodity distribution of Hong Kong's principal imports in 1981 and 1982.

Imports from China (HK\$32,935 million) included textiles and related products; petroleum and petroleum products; live animals chiefly for food; vegetables and fruit; meat and meat preparations; fish

and fish products; iron and steel; and construction materials.

Imports from Japan (HK\$31,540 million) were principally of textiles and related products; watches, clocks, and photographic equipment; electrical machinery; road vehicles; telecommunications and sound equipment; iron and steel; paper products; and general and specialized machinery.

Imports from the United States (HK\$15,459 million) were principally electrical machinery; office equipment; vegetables and fruit; non-metallic min-

Table 4
PRINCIPAL EXPORTS BY COUNTRY AND COMMODITY

	1982	1981	Increase/(Decrease)
	(HK\$ millions)		Percent
Country			
United States	31,223.4	29,200.2	+6.9
China	3,806.3	2,924.2	+30.2
Japan	3,166.9	2,939.7	+7.7
Australia	2,831.7	2,710.2	+4.5
Canada	2,636.9	2,355.2	+12.0
Singapore	1,964.5	1,732.0	+13.4
Sweden	1,164.6	1,013.0	+15.0
Saudi Arabia	1,248.7	1,225.7	+1.9
France	1,507.2	1,483.3	+1.6
Taiwan	1,027.1	960.8	+6.9
Nigeria	893.4	1,281.5	-30.3
United Kingdom	7,186.6	7,709.7	-6.8
Commodity			
Miscellaneous manufactured articles	15,588.6	13,234.6	+17.8
Plastic toys and dolls	(6,303.4)	(5,185.2)	(+21.6)
Jewelry, goldsmiths' and silversmiths' wares, and other articles of precious or semi-precious materials	(1,367.2)	(1,208.3)	(+13.2)
Artificial flowers	(888.6)	(894.5)	(-0.7)
Plastic flowers	(320.9)	(364.8)	(-12.0)
Others	(567.7)	(529.7)	(+7.2)
Articles of apparel and clothing accessories	28,823.8	28,288.0	+1.9
Electrical machinery, apparatus and appliances, and electrical parts thereof	6,054.5	5,811.7	+4.2
Transistors and diodes	(549.1)	(506.4)	(+8.4)
Household type, electrical and non-electrical equipment	(2,728.0)	(2,996.6)	(-9.0)
Telecommunications and sound recording and reproducing apparatus and equipment	5,672.0	5,618.0	+1.0
Radio-broadcast receivers of all kinds	(3,575.3)	(3,920.5)	(-8.8)
General industrial machinery and equipment, and machine parts	380.1	298.1	+27.5
Power generating machinery and equipment	222.8	172.9	+28.9
Miscellaneous edible products and preparations	285.8	226.7	+26.1
Fish, crustaceans and molluscs, and preparations thereof	497.8	442.0	+12.6
Photographic apparatus, equipment and supplies and optical goods, watches and clocks	8,147.9	8,100.7	+0.6
Watches and clocks	(7,167.7)	(7,104.3)	(+0.9)
Office machines and automatic data processing equipment	2,269.6	2,702.2	-16.0
Electronic components and parts for computers	(1,694.4)	(2,125.6)	(-20.3)

eral manufactures; tobacco products; general industrial machinery; transport equipment; artificial resins and plastic materials; textile fibers; photographic apparatus, optical goods, watches and clocks; organic chemicals; and specialized machinery.

Exports

Analyses of Hong Kong's major domestic commodity exports are included with the tables on pages 50-53. They are summarized, including country of destination, in Table 4.

Re-exports through Hong Kong by country of destination and commodity are indicated in Table 5. They increased substantially in both 1981 and 1982, to 35% of all exports. The principal countries of origin were China, Japan, the United States, and Taiwan, while the largest re-export markets were China, the United States, Indonesia, and Singapore.

Re-exports to China (HK\$7,992 million) consisted principally (44%) of textiles and related products,

and various machinery and equipment items. Those to the United States (\$5,615 million) were mostly articles of apparel and clothing accessories (25%), miscellaneous manufactured articles, jewelry, electrical apparatus, and vegetables and fruit.

Re-exports to Indonesia (HK\$4,615.2 million) were mostly (37.9%) road vehicles, while those to Singapore (HK\$3,648.1 million) were much more diversified: photographic apparatus, watches and clocks, electrical equipment, vegetables and fruit, and non-metallic manufactures.

International Commercial Relations

Hong Kong's external commercial relations are conducted by the Trade Department, within the framework of a basically free trade policy. The rules of the General Agreement on Tariffs and Trade (GATT) are fully adhered to, and virtually the only trade restrictions are those required by

Table 5
PRINCIPAL RE-EXPORTS BY COUNTRY AND COMMODITY

	1982	1981	Increase/(Decrease)
	(HK\$ millions)		Percent
Country			
United States	5,614.6	4,784.8	+17.3
Saudi Arabia	940.7	582.5	+61.5
Republic of Korea (South Korea)	1,699.4	1,400.7	+21.3
China	7,992.0	8,044.2	-0.6
Indonesia	4,615.2	4,272.4	+8.0
Singapore	3,648.1	3,243.0	+12.5
Taiwan	2,661.7	2,419.6	+10.0
Philippines	1,484.5	1,294.0	+14.7
Macao	1,587.8	1,406.9	+12.9
Federal Republic of Germany (West Germany)	685.2	624.1	+9.8
Nigeria	911.3	1,073.1	-15.1
United Kingdom	655.2	908.0	-27.8
Commodity			
Articles of apparel and clothing accessories	3,021.0	2,196.7	+37.5
Miscellaneous manufactured articles	2,412.2	1,954.4	+23.4
Electrical machinery, apparatus and appliances, and electrical parts thereof	3,419.7	3,069.3	+11.4
Non-ferrous metals	731.7	514.3	+42.3
Crude animal and vegetable materials	1,564.8	1,249.1	+25.3
Vegetables and fruit	1,127.7	931.5	+21.2
Office machines and automatic data processing equipment	946.8	705.7	+34.2
Fish, crustaceans and molluscs, and preparations thereof	761.9	555.8	+37.1
Manufactures of metal	1,132.1	960.2	+17.9
Travel goods, handbags, and similar containers	532.3	341.6	+55.8
Telecommunications and sound recording and reproducing apparatus and equipment	1,697.3	2,123.3	-20.1
Metalliferous ores and metal scrap	306.0	605.9	-49.5

international obligations. Most prominent among such restrictions are those on textile exports to most major trading partners as negotiated under the Multi-Fibre Arrangement (MFA).

Generalized preference schemes are operated by most developed countries to promote the export of goods manufactured by developing countries (LDCs) by including provisions for duty-free or low-tariff entry of products from beneficiary LDCs. Finland is presently the only developed country that excludes Hong Kong from such preferences, although some Hong Kong products are also excluded from the schemes operated by Australia, Austria, Japan, Norway, Switzerland, and the United States. Hong Kong has consistently made it clear that its industry seeks no special advantages, but only wants treatment similar to that accorded to its close competitors.

Import and export licensing formalities are kept at the minimum consistent with Hong Kong's international obligations.

With Hong Kong's dependence on the export of manufactured goods, mostly made from imported materials, and on the substantial re-export trade, a certificate of origin system is maintained to meet requirements of overseas customs authorities. The Trade Department issues these certificates and accepts responsibility for safeguarding the integrity of the entire system. Five organizations* have been approved by the government to issue certificates of origin.

Britain abolished Commonwealth preferential rates of duty from July 1, 1977, but eight Commonwealth countries continue to grant such rates to Hong Kong products. The value of goods covered by such preferences was HK\$9 million in 1982.

About 46% of Hong Kong's domestic exports are covered by certificates of origin of one type or another, of which 35% are government-issued.

The *Customs and Excise Department* has the immediate responsibility of inspecting factories and consignments connected with certificate applications, import/export licenses, trade declarations and manifests.

An Investigation Branch investigates alleged frauds and is responsible for consumer protection against false trade descriptions and marks. It also investigates possible infringements of industrial design copyrights.

The *Trade Department* is responsible for the conduct of overseas commercial relations, certification of origin, and export and import licensing, including textiles and reserved commodities. On matters of policy the Director of Trade relies on advice from the Trade Advisory Board and the Textiles Advisory Board, through the Secretary for Trade and Industry.

The department's work is assisted by four overseas offices of the Hong Kong Government — in Brussels, Geneva, Washington, and London. They represent Hong Kong's commercial relations interests on a day-to-day basis and provide information on international developments which may affect Hong Kong.

The *Industry Department* is comprised of four divisions:

- The *Environment and Resources Division* handles a wide variety of issues affecting the industrial sector. The Division maintains close liaison with local trade and industrial organizations in representing their views to relevant government departments. Among specific subjects dealt with are the monitoring of raw materials supplies (in particular fuel and other essential oil products), the provision of adequate infrastructural facilities including the smooth movement of freight within and outside Hong Kong at equitable freight rates, and examining the effects of environmental legislation on industry.
- The *Industrial Development Division* is responsible for policy aspects of industrial investment promotion, including the formulation of an overall promotion strategy. It coordinates promotion programs with industry and trade organizations, and advises the government on industrial land matters.
- A *Promotion Consultancy Division* provides comprehensive information about Hong Kong to potential investors and assists them in evaluating and establishing manufacturing projects in Hong Kong. Overseas industrial promotion offices have been established in Japan (Tokyo), the United States (San Francisco), Continental Europe (Frankfurt), and the United Kingdom (London).
- The *Science and Technology Division* comprises the Secretariat for the Industrial Development Board which advises on the provision of industrial support facilities and technical back-up services, transfers of technology, and research and development; an Electrical and Electronics Standards Measurement and Calibration Laboratory which provides calibration service to both the public and private sectors; a Standards Branch responsible for the administrative aspects of product standards, qual-

*The Hong Kong General Chamber of Commerce, Indian Chamber of Commerce, Federation of Hong Kong Industries, Chinese Manufacturers Association, and the Chinese General Chamber of Commerce.

ity certification services, and accreditation of testing laboratories; a Weights and Measures Branch responsible for updating current legislation on weights and measures and subsequent implementation; and an Exhibition Centre Branch responsible for the management of an overseas consultancy for the planning of an international exhibition center in Hong Kong.

The Trade Development Council is a statutory body responsible for promoting and developing international trade, with particular emphasis on Hong Kong's exports. Its chairman is appointed by the Governor, and the other 16 members include representatives of major trade associations, leading businessmen and industrialists, and two senior government officials. The Council's staff is active in organizing major international projects and carries out an extensive trade development program. Staff members are stationed in 19 other cities throughout the world.

The Export Credit Insurance Corporation (ECIC), a specialist government-owned insurance agency, protects exporters against the possibility of non-payment for goods or services supplied abroad on credit terms. With a capital of HK\$20 million, the ECIC liabilities are guaranteed by the government to the extent of HK\$2,500 million (US\$400 million). Risk protection includes both commercial and political/economic causes of loss. Operating on a commercial basis, the ECIC covers its costs and losses by premium earnings. A credit assessment and control system are additional functions of the ECIC. It is the only government-owned export credit insurer in the world to enjoy reinsurance facilities with one of the largest private reinsurance companies.

The Productivity Council is a statutory organization responsible for promoting increased industrial productivity. The council comprises a chairman and 20 members, all appointed by the Governor, representing management, labor, academic, and professional interests, as well as government departments closely associated with productivity matters. It is financed by an annual government subvention and fees earned from services provided.

The Council's executive arm is the Hong Kong Productivity Centre which provides technology, industrial consultancy, computers, technical information, economic analyses, technology transfer, and other industrial development services. It also conducts a wide range of training programs in industrial technology, management techniques, and electronic data processing. The Centre is well prepared to meet the increasing demand for its services from both local and overseas investors. It is also called on frequently to undertake techno-economic

research projects for the government. A Small- and Medium-Industry Extension Advisory Service is being expanded to such related areas as energy conservation and recycling. The Centre is a member of the Asian Productivity Organization (APO), and is a participating member of TECHNUNET Asia.

Other Trade and Industrial Organizations include The Hong Kong General Chamber of Commerce whose membership exceeds 2,800 companies. In addition to trade promotion and industrial development activities it is approved to arbitrate commercial disputes. The Federation of Hong Kong Industries has special interests in improving industrial design and packaging. It also provides testing, inspection, certification, and related services. The Chinese Manufacturers Association, with 2,200 members, promotes new product development, conducts technical training programs, encourages new investments, and provides a range of testing and inspection services.

The Consumer Council, a statutory body, protects and promotes the interests of consumers of goods and services.

Trade Marks and Patents. Trade Marks are registered under an ordinance based on the United Kingdom Trade Marks Act. Every mark, even if already registered in Britain or any other country, must satisfy all the Hong Kong requirements before it is registered. Nearly 40,000 marks are on register.

There is no original grant of patents in Hong Kong, but any grantee of a U.K. or European patent may, within five years from the date of its grant, apply for Hong Kong registration. Privileges and rights continue for as long as the patent remains in force in the United Kingdom.

Companies. Records are kept of all companies incorporated in Hong Kong and of all foreign corporations that have established a place of business in Hong Kong. Companies incorporated overseas must register certain documents within one month of establishing operations in Hong Kong.

Trading Channels

Most of Hong Kong's imports of consumer goods (from countries other than China) are handled by a small number of trading companies, some of which are based in London instead of Hong Kong. Exports of manufactured goods are to a considerable extent also in the hands of the same trading firms, although Hong Kong manufacturers affiliated with foreign firms often export to their parent companies through their own channels. Other exports are handled by agencies established by major buyers. A number of small traders deal in special lines. ■

The Asia Connection

The Asia-Pacific Region

HONG KONG'S LOCATION is central and strategic for conducting business with the vast area extending from Japan and Korea through the ASEAN countries of Southeast Asia to Australia and New Zealand. The 11 countries* in this region (excluding North Korea, China, and Vietnam) have nearly doubled their share of the world's economic activity since 1970. They now account for about 12% of the world total GDP, and 15% of world exports. Per capita GNP growth (in US dollars) has been equally impressive.†

Much of this strong economic performance was the result of world economic growth and the opening of markets through tariff reductions and removal of quota restrictions. World demand for commodities improved the terms of trade of the primary resource-rich Philippines, Malaysia, and Indonesia. Other countries — Japan, Korea, Taiwan, Hong Kong, and Singapore — without natural resources responded by producing vast quantities of consumer goods for western markets. Regional exports to the industrialized countries rose at an average compound annual rate of 24%.

The region's governments have maintained an institutional framework favorable for investment, both domestic and foreign. The populations have shown important qualities of energy and social discipline. The savings rate (26%) exceeded that for the OECD, and a remarkable 27% of the GNP has been invested, while external debt has remained well below the international average. The region has become a major focus for international bankers seeking safe lending opportunities.

The outlook for world growth in the 1980s is much less positive: interest rates remain high, large government deficits abound, the terms of trade of developing countries — including oil exporters — are discouragingly low, and various forms of pro-

tectionism are being threatened. Slower world growth will certainly affect prospects for Asia-Pacific trade expansion.

The region's governments and entrepreneurs have, however, demonstrated their continuing ability and flexibility to adapt to changing circumstances. Low debt levels allow access to international capital markets to make needed adjustments. Local manufacturers have learned how to avoid the full impact of protectionism by changing products and markets.

Other regional assets include emerging economic maturity. With an aggregate population rapidly approaching 500 million, abundant natural resources, proximity to markets with high potential, increasingly high literacy rates, and expanding technical and managerial skills, the possibilities exist for much larger intra-regional trade flows — already some 30% of exports. Transport and telecommunication advances will further enhance the trade potential.

The impressive growth of various service industries — finance, technology, tourism, and the export of skilled labor to the Middle East and Africa — will complement and supplement the visible production and export of goods.

The economic importance of the region is not yet well enough understood by its western trading partners. Much remains to be done to develop such an awareness — both political and economic. The industrial western nations have not realized the full potential that exists in the Asia-Pacific countries for their own industries, and hence for their national well-being. The development of more mature concepts of real self-interest in all countries is an urgent necessity — not only for the Asia-Pacific group but throughout the industrialized and developing world.

Meanwhile, their recent records indicate that countries of this region have the ability to outperform virtually any other. Hong Kong can hardly fail to benefit under these circumstances.

Hong Kong and China

By far the best and most efficient port on the south China coast, Hong Kong handles almost twice the total volume of Guangdong ports (for China trade only). It was the entrepôt for some 11% of China's exports and 9% of China's imports in 1981 and the proportion grew to 11.2% and 11.4%, respectively, in 1982. China-Taiwan trade is largely conducted through Hong Kong — to the extent of about US\$470 million in 1981.

*Japan, South Korea, Taiwan, Hong Kong, the Philippines, Malaysia, Thailand, Singapore, Indonesia, Australia, and New Zealand.

†In 1981 Australia had \$10,724 (compared with \$2,821 in 1970); Japan \$9,669 (\$898); New Zealand \$7,414 (\$2,214); Singapore \$5,292 (\$981); Hong Kong \$4,747 (\$809); Taiwan \$2,573 (\$388); South Korea \$1,637 (\$268); Malaysia \$1,637 (\$371); the Philippines \$781 (\$192); Thailand \$748 (\$167); and Indonesia \$572 (\$75). By comparison, the United States had \$11,134 in 1981, and \$2,748 in 1970.

Hong Kong provides an estimated 25-40% of China's foreign exchange earnings, about 90% of the investment in SEZs, and some 60-70% of the total foreign investment in the People's Republic. Its services to China also include technical advice for hotels and other joint ventures of many kinds.

Rear support facilities for South China Sea oil operations include shipping, shipbuilding and repair, and oil rigs. The airport provides frequent passenger and cargo services to every major world and PRC city. Telecommunications, legal, financial, and other services are scarcely equalled anywhere.

The Hong Kong commercial infrastructure and China expertise for firms new to China could only be duplicated after substantial investment and development in China. The legal/political framework is hospitable to investors and entrepreneurs. Living standards and all types of urban facilities are extremely attractive to expatriates.

By commodity, Hong Kong's major exports to China in 1982 were textile yarn (25% of the total), telecommunication and sound recording (16%), and photographic apparatus (7%).

Major products imported into Hong Kong from China (1982) were textile yarn (18% of the total), apparel items (14%), petroleum and petroleum products (7%), live animals for food (6%), and fruits and vegetables (5%).

China Resources Company handled almost all Hong Kong trade with China until a few years ago, but now has competition from trading companies set up by Chinese provincial governments under the state's new decentralization policies. Trade with Guangdong and Fujian provinces is handled by their own companies. Several other provinces and Shanghai are also represented in Hong Kong. Private trading companies are now able to arrange trade deals directly with Chinese corporate entities. China Resources, however, still monopolizes trade in certain designated commodities, including ore and minerals.

China's Hong Kong Investment

Since 1978, when Hong Kong's governor, Sir Murray MacLehose, visited Beijing for the first time since 1949, Deng Xiaoping advised him to assure Hong Kong's business and financial executives that they could "put their hearts at ease" although affirming that the Hong Kong "question" would ultimately be settled in an appropriate way.

Since then, and despite China's insistence that the treaties of 1840, 1860, and 1898 — upon which Britain's administration of Hong Kong is based — are "invalid", the People's Republic has invested sev-

eral billion dollars in the territory both directly and through local intermediaries. Its principal trading arm, China Resources Company, has built a number of large warehouses, a modern commercial and office complex, and operates the general agency that markets Chinese gasoline and diesel fuel to Hong Kong service stations.

Subsidiaries of the China Merchants Steam Navigation Company, owned in Beijing but with headquarters in Hong Kong, construct and repair ships, manufacture machinery, and operate a fleet of cargo vessels — some with Panamanian or Liberian registry. Another Beijing enterprise has concentrated on real estate development, until 1982 the most profitable economic activity in the territory.

Perhaps the most visible of China's investments in Hong Kong (although owned by "friendly" Chinese companies and people rather than by the Chinese government) is the China Products group of stores. It includes large downtown department stores in Hong Kong's Central District and in Kowloon, and small neighborhood outlets. These stores are stocked with made-in-China clothes, cameras, household appliances and utensils, handicrafts, antiques, and a plethora of other merchandise items, generally (but not always) catering to the most price-conscious customers.

The Bank of China (BOC) has long held a respected and important position in Hong Kong's financial community. The bank's capital was increased to HK\$3.3 billion in 1981. Its imposing granite headquarters, alongside the Hongkong and Shanghai Bank building, is about to be replaced by an even more imposing structure on the site of a demolished British barracks building and parking lot. The BOC is a member of the Committee and Consultative Council of the Hong Kong Association of Banks.

Besides its role in bringing Beijing money into Hong Kong, the BOC and a number of sister banks pay premium interest rates to attract depositors. They have opened over 210 branches in Hong Kong, second only to those of the Hongkong and Shanghai Bank, which is essentially the territory's Central Bank. The two banks cooperate in a number of ways, to their mutual interest and benefit. One example is the Hongkong and Shanghai Bank's underwriting projects within China which the BOC guarantees.

The 13 Chinese banks in Hong Kong include nine mainland-incorporated banks and four locally-incorporated institutions, the major shares of which are held by residents of China. The Bank of China guides the planning and competitive strategy of the other Chinese banks. Their principal function is to tap foreign exchanges in the local market to fund

various economic projects undertaken in China. The BOC obtains an estimated 40% of its total requirement of foreign currencies in the Hong Kong market.

During the past few years the Communist banks have also become increasingly active in Hong Kong

real estate development and in lending in the international capital market. They are upgrading their participation in the interbank market by increasing their role as major lenders of the Hong Kong dollar to fund the foreign incorporated banks in Hong Kong. Continuing expansion of their branch net-

Hong Kong as an Asian Regional Headquarters

Hong Kong's uniqueness lies in the fact that it offers a whole cluster of circumstances which combine to create an ideal environment for effective decision-making in international investment. The spectacular growth of Asian economies in recent years has meant that it has been essential for international investment counsellors — like G.T. Management Limited — to monitor developments in the region at close hand. For this purpose Hong Kong still offers numerous advantages in comparison with other Asian financial centers, both as a business base and as a place of residence for the staff of multi-national companies:

- Geographical location at the crossroads of the East Asian Pacific rim.
- Time zone; on virtually the same time as the markets from Japan to Australia, and operating during hours when business cannot be done in Europe or North America.
- Sensitivity to developments in overseas markets; with imports and exports together totalling over 180% of Hong Kong's GDP, the economy is acutely sensitive to changes in trading conditions elsewhere in the world.
- British legal system means that Hong Kong contracts and other documents are internationally recognized and enforceable.
- Cultural environment of Hong Kong is sufficiently British to provide a wide range of leisure activities attractive to expatriate employees (sports clubs, artistic and cultural events, newspapers, radio and TV, etc.).
- English-speaking local labor force.
- Self-regulatory environment in the financial markets, typified by the "Code on Unit Trusts," supervised by a committee consisting of staff from the Office of the Commissioner for Securities and representatives from the industry.
- Low tax areas with a minimum of special concessions to particular types of business.
- Requirements for immigration pose no problem for a company wishing to employ skilled expatriates.

- Communications facilities in Hong Kong are excellent, with direct dialling for international calls and data communication, rapid installation of phone systems or new lines, and minimal restrictions on the type of telephone equipment that may be used.
- Access to financial information greatly facilitated by the presence of a large number of banks, brokerage houses, and money and bond market dealers.
- Absence of foreign exchange controls means that optimum currency decisions can be taken in an unconstrained environment.
- Lack of controls on local investors (in contrast to Japan or Australia) provides greater depth for overseas brokers setting up in Hong Kong.

Looking to the future, some of these factors — such as Hong Kong's geographical location and its place in the global timezone — will obviously not change, irrespective of any other changes in the way Hong Kong may be administered beyond 1997. However, as long as the most important of these elements remain basically unaltered — e.g., the legal system, the excellence of communications, the tax system, and the relatively unfettered environment for financial institutions — G. T. Management will continue to maintain its Asian headquarters in Hong Kong. No doubt other financial institutions will make their decisions based on similar criteria. Hong Kong's pre-eminence as a financial center rests on the fact that many institutions from many different countries, all acting independently, have found this combination of factors favorable to the expansion of their business. Although some of these factors may be highly intangible, that does not make them less real. At G.T. we believe that a broad range of freedom within a well-established British legal framework is far superior to a regime of tight controls with a few artificially-created areas where concessions are permitted.

DAVID H. FITZWILLIAM-LAY
Managing Director
G.T. Management (Asia) Limited
Hong Kong

works and diversification of their business will further strengthen their position. The 13 banks have joint computer services, enabling depositors to withdraw savings from any bank or branch if he is a depositor in one of them.

China certainly wants to increase its stake in Hong Kong, not just from the food it sells and the remittances it receives from immigrants, but also in Hong Kong's business, finance, and property interests. It is investing rather than conquering — as Japan has learned to do since World War II. Hong Kong may well be the key — and the model — in the creation of an East Asia co-prosperity sphere for China. Perhaps it is incidental that China is starting from a socialist rather than a capitalist base. Certainly the pragmatic Chinese — as the overseas Chinese have demonstrated for many decades, and even centuries — can and do adapt to the circumstances with which they are faced.

Communist China may not approve of Hong Kong's capitalist, free market philosophy and ways of doing business, but it is quick to participate in them and yields to none in being profit-oriented.

Many astute Hong Kong leaders — both private and public — are known to view these Chinese investments in Hong Kong, and the assurances they imply for the future, as among the best guarantees that China's leaders mean what they say about their desire to maintain Hong Kong's profitable viability. It is increasingly to China's own financial interest for them to do so — not just as a source of western technology, but as an efficient way of conducting trade and earning foreign exchange to further the Four Modernizations programs, or as a reassurance to the world of their commitment to the open door policy of friendly cooperation and mutual benefit.

If one believes in China as a nation with a future, one must also believe in the future of Hong Kong. Certainly the Chinese themselves seem to believe that the future of both are inextricably entwined.

In the other direction, of course, many Hong Kong industrialists and financiers are deeply involved in China — both in the SEZs and elsewhere.

Offshore Oil

China's Nanhai (South China Sea) covers an area of more than 2 million square kilometers. Three large oil and gas basins have been discovered: at the Zhujian (Pearl) River estuary, Beibu (Tonkin) Gulf, and Yinggehai (off Hainan Island) on the northern continental shelf of the South China Sea.

Exploration has revealed that the three basins have thick sedimentary rocks and oil shales. Within

the designated zones — totalling 250,000 sq km — there are some 340 sources of oil. About a dozen of them are each over 100 sq km in area. Chinese and foreign geologists believe that China has excellent prospects for oil and gas exploitation in the South China Sea.

In the early 1960s, China's petroleum and geological industry began to survey the Nanhai area to determine its oil and gas potential. In the 1970s, they made a more extensive geophysical study covering an 80,000 km-long seismic surveying line. The Ministries of Petroleum Industry and Geology drilled 20 test wells in the Zhujian River estuary, the Beibu Gulf, and Yinggehai areas and found oil of good quality in half of them.

Capital and advanced technology is necessary for extracting offshore oil. In order to tap the offshore oil potential as quickly as possible, in 1979 the Chinese government decided to accept foreign advanced technological help and investment. Agreements on geophysical prospecting of the South China Sea and the south Yellow Sea were signed with more than forty companies (from twelve countries). In 1980, agreements were concluded with companies from two countries to probe part of the Bohai Sea and the Beibu Gulf areas. Early in 1982, the State Council drew up the "Regulations of the People's Republic of China on the Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises," providing legal protection for such ventures. This document protects not only China's sovereignty and economic interests, but also the rights and interests of foreign companies.

A joint geological survey, covering an 87,000 km-long seismic line since 1979, has played an important role in determining the location of China's oil and gas resources in the South China Sea continental shelf. The first test well (a joint China-France project) was drilled in June 1982 in the Beibu Gulf. This well is now producing 640 tons of crude oil and 127,000 cubic meters of natural gas daily. Public bidding for international participation in the exploitation of continental shelf oil resources is now in progress.

A new oil base — the South China Sea Oil Base — has been set up in Zhanjiang, a major port and communication center on the Leizhou Peninsula in South China. The Litang-Zhanjiang Railway links the city with China's interior.

Several multi-story buildings have been constructed along both sides of the Guangzhou-Zhanjiang highway, which runs through this 200-hectare base area. They contain the office of the South China Sea Offshore Oil Exploration Com-

China's modernization program can only be built on the confidence of the people, and that requires consistency of the government's policies and actions over time. The risks of investment in China, as seen by western investors, are largely based on differences in political philosophy. They are nevertheless likely to be less than the risks in some other East Asian countries.

mand, a well-equipped geological research institute and laboratory, a computer center, a special harbor, a heliport, a machine repair plant, a supply depot, a guest-house, and living quarters for workers.

A technical school has also been set up in Zhanjiang. It has already trained 400 professional workers in oil drilling and extracting, electromagnetic surveying, and other subjects including English.

Other bases have also been established in Sanya and Beihai, while supply bases have been set up at nearby Liusha in Xuwen County, and Tiandu near Hainan Island's Yulin Harbor, and Shekou in the Shenzhen SEZ.

Development of these offshore oil resources is particularly important for China, as the northeastern onshore fields are reaching maturity. Offshore reserves, variously estimated between 4 billion and 20 billion tons, are highly significant both for potential foreign exchange earnings and for domestic energy requirements of the modernization program.

Two producing fields in the Bohai Gulf are already being exploited by joint ventures with Japanese interests, but the more important prospects are in the Yellow and South China seas. Nearly 50 companies from 13 countries have participated in the seismic survey which cost upward of US\$100 million. Half of the companies involved were American. The China National Offshore Oil Corporation (CNOOC) is responsible (under the Ministry of Petroleum Industry) for negotiating and signing the exploration and production contracts that will spawn service and supply contracts with wide-ranging impacts on Hong Kong, Singapore, Japan, and elsewhere. Hong Kong, however, is in a particularly strategic position to profit because of its ability to raise the large financial requirements involved — US\$2.5 billion a year or more — and geographic proximity to the drilling areas.

A number of Hong Kong firms are already involved through their ability — either directly or as agents — to provide specialized equipment and skilled personnel for offshore construction, as well as financial support services. Hong Kong dockyards are well positioned for maintenance and repair of all

types of vessels and rigs. Local engineering and technical capabilities are augmented by various cooperative arrangements with leading U.S. and European firms.

The adjoining Shenzhen SEZ is a further asset for Hong Kong, both as a supply base and a convenient access to the related facilities and administrative functions in China's Guangdong Province. Regulations stipulate that foreign contractors must have support bases within China, but there are limits to Chinese capabilities which can best be overcome by collaboration with Hong Kong firms.

Financing Needs. It has been estimated that exploration and drilling activities initiated in 1982 will require at least US\$10 billion by 1985, and another US\$10 billion by 1990. The mature Pacific Basin banking community can manage funding packages or syndications itself, virtually eliminating the need for participation in regional projects by the more traditional western banking centers.

The People's Bank of China (PBOC) — the central bank and also a large commercial bank — is becoming involved in independent loans and considers loan applications in a manner increasingly consistent with regular commercial banking practices.

The Bank of China (BOC), China's sole foreign exchange bank, is almost always involved in the nation's borrowing activities. It can be the actual borrower, and guarantees, approves or acknowledges other debt transactions. The BOC is not subjected to borrowing or lending limitations, and its overseas branches (including Hong Kong) conform to local regulations of the host countries. It is free to participate in syndicated loans for third parties. The BOC's foreign exchange monopoly may end, however, in view of the interest expressed by China's trading corporations and ministries in establishing their own banks.

China's Finance Ministry is considering the establishment of a special financial subsidiary to route World Bank funds. Meanwhile, the only bank under its direct control is the Construction Bank, which receives grants from state planning authorities and disburses them for the ministry and State Council.

Foreign Participation. It is too early to know whether the South China offshore fields will become another Middle East bonanza, or only a mid-sized area; oil companies can hardly afford not to investigate whether opportunities are presented for their consideration. In the case of China, resources must be sufficient to enable them to accept some inevitable delays in recovering their investment and expenses.

With regard to foreign companies interested in the secondary-role service and supplies, a joint venture has been announced whereby Chinese financial

and development organizations will cooperate with some foreign enterprises in building a major oil port on the Nanshan peninsula, east of Hong Kong. Control of such bases, when they are built, will be vested in the South Sea Petroleum Corporation (SSPSC), a subsidiary of the CNOOC, in association with Guangdong provincial authorities. The accent is on preference for the use of materials, equipment, and facilities available in China — provided they are competitive.

Hong Kong — at the very least — could serve as a “tertiary” base, providing finance, banking, supplies, and communications. Ideally placed for all such activities, its enterprises are in a strategic position to cooperate with international support service companies to provide the facilities and other requirements not available in China. Further, the international companies with experience in the technique of design and project management (planning, cost engineering, procurement, contract admin-

istration, computerized controls, etc.) will be in a particularly favorable position for profitable participation in the development of China's oil production, refining, and marketing potentials.

Seabed jurisdictional disputes have already emerged in the Yellow East and South China seas, and their solution cannot be delayed indefinitely. China is preparing to explore undisputed coastal areas first, in cooperation with foreign companies. As soon as full-scale drilling begins, Beijing may well turn its attention to geologically promising areas on the basis of the doctrine of “natural prolongation” of the mainland's continental shelf.

Japan, Korea, Taiwan, the Philippines, and Malaysia will certainly take vigorous exceptions to exploration that impinges on their interests. Overlapping claims to the seabed's riches may well cause major jurisdictional and political problems before the end of the 1980s. Joint development will be difficult to negotiate, but may be the only solution. ■

Hong Kong: A Bridge to Asia

On several occasions I have presented my views concerning the future of Hong Kong to international business and financial executives, under the auspices of SRI International. I am grateful to have this opportunity to express them again.

Hong Kong, a free trading port, is a communication center and an important bridge between East and West. It provides a most convenient liaison and service center, and is also important in raising capital. Hong Kong offers the best terms in banking, insurance, transportation, entrepôt, and capital-raising functions and services. Its experience in fostering economic, commercial, and cultural cross-fertilization between East and West has given Hong Kong an important role in the cooperation between China and the rest of the world.

Hong Kong's investments in China provide a model and precedent for the economic cooperation of different economic systems.

China has much to learn from the West — a high level of efficiency, economic management systems, and scientific development. The Four Modernizations not only concentrate on technological advancement, but, more importantly, are concerned with modernizing management skills. Their essence lies in fostering economic and cultural exchange with the whole world — much of the exchange being through Hong Kong.

When a certain state of development is reached in China's Four Modernizations, when the economic development and the standard of living in Hong

Kong, Shenzhen, and Guangzhou are very close, and when there is less need for Hong Kong as a bridge between East and West, the status of Hong Kong may conceivably be different. But that day is a long way in the future.

The Chinese economy is going through a phase of pragmatic progression. During this period, China is adopting an open door trading policy and has demonstrated that it is being very careful to safeguard Hong Kong as it is. Since the early 1950s, when I started operating in Hong Kong as a businessman, I have learned one lesson: the greater the confidence, the greater the reward. I have a lot of confidence in the future of Hong Kong.

In the mid-1970s, a number of major companies and individuals in Hong Kong began to branch out overseas in an effort to diversify their investments. But the return on such investments does not compare with that from investments in Hong Kong itself, even under today's conditions. As new investors pour into Hong Kong from different parts of the world, yesterday's investors, who went overseas, have also returned.

Closer economic ties between China and the West will make world peace more secure. Sun Hung Kai and many other Hong Kong companies pledge their best efforts to accomplish this important task.

FUNG KING-HEY
Chairman
Sun Hung Kai Securities, Ltd.
Hong Kong

Hong Kong's long-term future is not at risk — there are too many pluses.

The Future

The 1997 Question

THE FUTURE OF HONG KONG as a whole is inextricably linked to the solution of the 1997 lease-expiration date. It would not be possible for Hong Kong to exist without the New Territories, an integral part of the economy and polity.

While denying their validity, China implicitly recognizes the treaties, since it has not challenged British rule and cooperates with the administration in many ways. Chinese leaders have repeatedly stated they will respect private investment (Article 31 of the new Constitution allows for such a possibility), and that investors may "set their hearts at ease." Yet they are still completely vague about the many questions of administration when "China reasserts its historical rights when the time is ripe."

The questions must be resolved sooner rather than later if Hong Kong is not to suffer from the miasma of uncertainty. Hence, the importance of the negotiations now underway between China and Britain cannot be gainsayed; they are essential to the economic prospects of Hong Kong.

The two main possibilities are that China will — or will not — agree to a continuation of some form of British administration beyond 1997. It is widely felt that the question of sovereignty is already settled in China's favor, but administrative responsibility is less clear. Will a figurehead Chinese governor be appointed after a Chinese flag is raised? How much autonomy and self-government would Beijing permit? Will China in fact make an early decision, and if so will Deng Xiaoping's successors in fact honor any agreement that he may make?

From Hong Kong's point of view the obviously preferable solution — lacking the possibility of a continued *status quo* — would be a promise of self-administration and preservation of the present socio-economic system. If all British regulations effective at the termination of British rule continued in force (at least for a specified period of time), and importantly that the Hong Kong dollar will continue to enjoy its fully convertible status, then the damage of a political change would be minimized.

China's sensitivities could be satisfied, and Hong Kong's important role in China's economy could continue without abatement.

The announcement of a satisfactory solution would have an immediate and positive effect — on stock market and property values, on both domestic and foreign investment, and on the Hong Kong dol-

lar's exchange value. The importance of Hong Kong's position in international finance would be confirmed, and trade relations between China and Hong Kong would accelerate — to the great benefit of both. The Shenzhen SEZ would develop more rapidly, with increasing amounts of Hong Kong capital and the establishment of more foreign businesses (including banks).

A Chinese takeover, without such assurances, would have immediately adverse effects, no matter what efforts were made to moderate the impact. A concerted effort would doubtless be made — both in China and by Hong Kong government and commercial interests — to mitigate the decision. Many Chinese entrepreneurs, with memories of their previous travail in Shanghai, would doubtless seek opportunities elsewhere.

China's present leadership is not the same as it was in the initial stages of the Liberation period, or of the Cultural Revolution disaster. There can be

Insofar as Hong Kong's future is concerned, some of us old China hands are being given credit for being able to predict the unpredictable.

This, of course, is impossible, but it does not prevent us from presenting an unbiased opinion on this important subject.

Today, Hong Kong no longer stands as the outpost of a colonial empire but rather as a neutral point of contact or, if you wish, as a fluid flywheel, able to take up the stresses between two different ideologies, those of communism and democracy, and two different civilizations, those of the East and of the West.

In an uncertain world, the ability of its people to live and let live, to understand the value of human contact, is a good augury in this period of rapid change.

Hong Kong is here because it is needed; consequently, I look forward to the future with optimism.

— THE LORD KADOORIE, C.B.E., LL.D., J.P.
Chairman
China Light & Power Company, Ltd.
Hong Kong

little serious question that the Chinese people support the present regime, and welcome its opening to the world. They will continue to support the regime as long as it gives evidence of performing in their interests. Hong Kong's future will indeed be a crucial indication of the leadership's positive intentions.

The large numbers of overseas Chinese, refugees from poverty who have been seeking — and have found — a brighter and more individualistic future for centuries, throughout Southeast Asia, in faraway America and elsewhere, provide cogent evidence of the adaptability of the Chinese race. They value national traditions, and family, but in the final analysis such considerations are not incompatible with progress. Hong Kong's leavening influence on the Chinese economic, social, and political system — regardless of the outcome of the present negotiations — can hardly be other than positive, from both western and Chinese points of view.

The resolution of the 1997 issue is important to the long-range prosperity and progress of Hong Kong. The pragmatic Chinese know they have too much to lose by jeopardizing Hong Kong's future. The western industrialists and investors who value their relations with China must also have confidence in Hong Kong as the premier entry into that market. The 1997 solution — whatever it may be — will lay large uncertainties to rest, and hence be positive in the long run. The Capitalist west — no less than the Orient — can thrive only on political stability and the confidence it generates. With confidence there can always be necessary flexibility and adjustments to meet the contingencies ahead.

Hong Kong's Usefulness

In the final analysis, Hong Kong's continued existence and prosperity depend not on any treaty, but rather on its economic usefulness to the world at large. It is much more useful, for example, than such other relatively small areas as Liechtenstein and Monaco, for several reasons:

- Location at the natural transportation hub for East Asia, possession of the best natural harbor on the China coast, and easy land and river transport to the population centers of southern China
- Efficient government, with a legal system based on 19th century British law
- Free port, with hardly any restriction on the movement of either goods or funds
- Minimal regulation of business activity, worked out in consultation with business interests, and seldom costly or onerous
- Low taxes, with no import or export duties

The Chinese are very pragmatic, and very patient. They will tolerate a longer-term development process than westerners. We must be optimistic that the Chinese will be logical, and realize it is in the West's interest to work with them in fulfilling their political and economic ambitions — for our mutual advantage.

- Talented, hard-working, and productive labor force, including many escapees from neighboring societies that offer few rewards
- The China connection — a new source of vitality and growth
- Ample scope for individual initiative and economic progress.

Nevertheless, the Hong Kong business environment is changing:

- The territory has become much more crowded, from 3.9 million in 1970 to 5.3 million in 1982. Greater affluence, more automobiles, more pollution of air and water, and higher crime rates are bringing a higher — but still modest — level of government regulation, a trend likely to continue.
- The public sector is playing a larger role — the government budget has already risen from 18% to 24% of GDP in five years. A massive public housing program will ultimately provide homes for half of the population, and other services are being added.
- Dependence on Britain will continue to decline, regardless of the outcome of the treaty issue.
- The attitudes of people are changing as the "revolution of rising expectations" comes to Hong Kong. Signs of political awareness and dissent are more noticeable — and the government is listening.
- The business community is no longer dominated completely by the British "hongs." The free enterprise system has spawned many wealthy and clever Chinese who dominate key economic sectors.

These changes, however, have not — and probably will not — altered the essential character or attractiveness of Hong Kong.

Pragmatism and common sense will eventually prevail to reinforce the advantages of Hong Kong's competitive price structure, productive and efficient labor force, standards of quality, and strategic position vis-à-vis the China market and the Asian region generally. These factors provide adequate stimuli and assurances that Hong Kong's continued diversification and growth will not be in jeopardy. ■

China's Special Economic Zones

CERTAIN AREAS in Guangdong and Fujian provinces have been designated as special economic zones (SEZs) to promote and facilitate foreign and overseas Chinese investment. In addition to their development potentials, the zones provide a "laboratory" or means by which the Chinese Government can observe and understand the capitalist system's ability to contribute to the economic progress and general wellbeing of the concerned regions. Unlike many such zones in other countries, which are confined largely to industrial production or processing for export, activities of the SEZs near Hong Kong range from primary production (agriculture) to real estate development, commerce, industry, and various kinds of service industries, notably tourism.

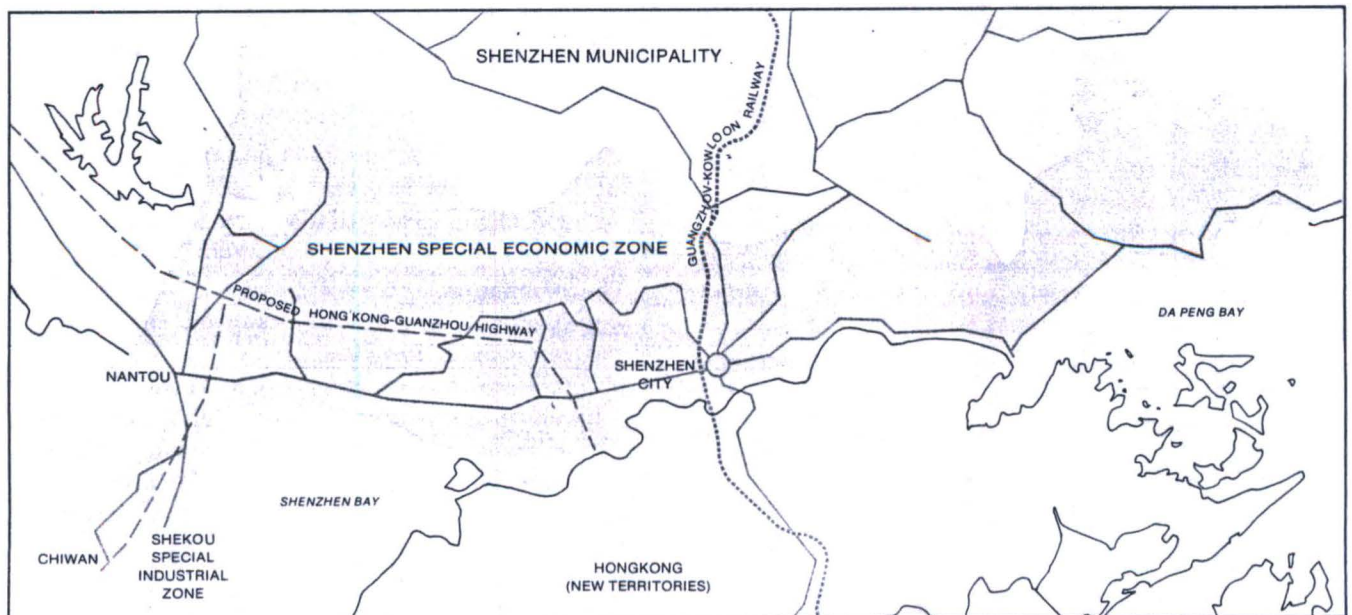
Hong Kong can and does contribute capital, financial services, marketing expertise, and modern management techniques to the SEZs — all of which are necessary for the successful development of the zones. The zones reciprocate by helping Hong Kong overcome its shortages of low-cost land for capital-intensive heavy industry, and the low-cost labor required for small industries. Economic cooperation between Guangdong and Fujian provinces and Hong Kong will consequently be beneficial to each.

General principles enunciated by the Fifth National People's Congress in August 1980 (Article 1) stated that the special zones were designed to develop external economic cooperation and techni-

cal exchanges in order to promote the socialist modernization program. In the special zones — Shenzhen (Shumchun) adjoining Hong Kong's New Territories; Zhuhai near Macao; Shantou (Swatow) also in Guangdong; and Xiamen (Amoy) in Fujian Province — "foreign citizens, overseas Chinese, compatriots in Hong Kong and Macao and their companies and enterprises are encouraged to open factories or set up enterprises and other establishments with their own investment or undertake joint ventures with Chinese investment, and their assets, due profits, and other legitimate rights and interests are legally protected."

Enterprises and individuals in the special zones must, of course, abide by the laws, decrees, and regulations of the PRC, including those pertaining specifically to the zones as enacted by provincial authorities. A Guangdong Provincial Administration of Special Economic Zones provides unified policies and management for that province's SEZs. Shenzhen and Zhuhai, with respective areas of 327.5 and 653 square kilometers, are far larger than the other two; Shenzhen is the most important and advanced. Xiamen, with 2.5 sq km and Shantou (1.6 sq km) will essentially be for export processing.

The special zone investors are offered a wide scope of operations under favorable and stable conditions, including developed sites. Land-leveling projects and various public utilities — such as water supplies, drainage, power, roads, wharves,



communications, and warehouses (godowns) are undertaken by the provincial administration, often with foreign capital or technical participation.

Shenzhen (Shumchun) includes Shekou, a one sq km industrial center whose development has been entrusted to the China Merchants Steam Navigation Co. Ltd. (H.K.), an establishment of the PRC government, for development. An urban center, called the Futian Area, will cover some 30 sq km; there will be a 6 sq km center for science, cultural, and educational undertakings; a 16 sq km commercial center (Luohu); and redevelopment of the 2.4 sq km original Shenzhen "old town," to include commercial, tourist, manufacturing, and recreational facilities. Additional specialized agricultural, mining (gravel quarry), industrial, and recreational areas have been designated throughout the zone and will be developed according to a long-range plan.

Shenzhen town, the nodal point of the economic zone, is one of the important gateways to China; it is 110 km south of Guangzhou and 30 km north of Kowloon. Shekou's coastal location (25 km west of Shenzhen town) on Houhai Wan (Deep Bay) and Chiwan across from the New Territories, is easily accessible by sea and land. It is the only good port site in the economic zone, so that in future export commodity flows can be carried either by sea (to Hong Kong for transshipment or directly overseas), by rail, or by the fast-improving road network. (A dual expressway, now being surveyed, is planned to reach Guangzhou by about 1985.)

Geographic proximity and kinship relations between Hong Kong and Shenzhen provide a stimulus to the latter's development unmatched by the other SEZs. It has the greatest appeal to both foreign and overseas Chinese entrepreneurs, as evidenced by the considerable growth that has already occurred despite infrastructural deficiencies that are only now being overcome. Shenzhen itself is well endowed for development resources, from agricultural land, plentiful areas available for construction with minimal displacement, and sufficient underlying granites and sandstones to support a sizeable construction industry. Rivers charge a number of dams and reservoirs that provide sufficient water for irrigation, industrial, domestic, and recreational uses. The additional attraction of hot springs increases the potential for holiday resorts and tourism in general.

The stage is being well set for the new economic plans and system designed to change a predominantly agrarian region to a modern industrial zone that will complement and extend Hong Kong's varied attributes. From a modest start as recently as

Hong Kong and the Shenzhen SEZ should be integrated, for their mutual advantage, but hopefully under Hong Kong's leadership and administrative system.

1980, emphasizing small- to medium-scale intermediate processing plants requiring limited capital, Shenzhen has increasingly attracted, and is gaining the confidence of, larger entrepreneurs from Hong Kong and overseas.

Investors wishing to open factories or undertake various economic activities will be issued licenses of registry and land use after approval of their applications. They can open accounts and deal with foreign exchange matters with the Bank of China or other established banks in the zone. Insurance policies are also available in the usual way. Products of the enterprises can be sold in international markets, or (with special approval) in the PRC domestic market. Applicable customs duties are payable for Chinese sales.

Labor. The enterprises can be operated independently, and foreign personnel employed for technical and administrative posts. Local workmen can be employed according to business requirements, and their employment terminated under provisions of the individual labor contracts. Local employees are also free to submit their resignations, as provided in the contracts. Scales and forms of wages (including incentive provisions), award methods, labor insurance, and various state subsidies to the Chinese staff members, are included in the contracts. Safe and hygienic working conditions are required.

While labor service companies have been set up in Shenzhen (and the other SEZs) to assist in recruiting and training workers and staff members, the enterprises themselves may select and hire suitable candidates. Those recruited may undergo a three to six month probation. The employment ages are 16 and above. Labor service fees are payable in person at negotiated rates. Average annual increases of 5-15% are normal. Fees are distributed 70% directly to the employee, 5% to subsidize welfare costs, and 25% for social labor insurance and state subsidy compensation.

Wage scales may follow piece-rate systems, or payment by the hour, day or month, as appropriate. Enterprises follow a six-day week and eight-hour day, the rate for special or overtime work being fixed separately. Rest, holidays, and other leaves are as stipulated. Dismissed workers employed for at least one year are entitled to one month's basic

wage for each year of service, those on probation receive an additional half month if terminated, and one month supplement is paid for less than one year's regular service.

The Guangdong Administration for SEZs is responsible for the development plan approval of investment projects, allotment of land, coordinating relations with other government agencies, providing staff and workers needed, protecting the rights and interests of labor, conducting appropriate educational, cultural, health and other public welfare facilities, and maintaining law and order.

A special Shenzhen Development Company has been established by the province to raise funds, operate enterprises or joint ventures, act as sales or purchase agents, and provide appropriate other services for investors.

In order to provide better communication between the zone authorities and the Central Government in Beijing, and to ensure efficient operation of the zones, a special office has been established in the State Council. It is staffed with economists and foreign trade experts who will examine major and costly projects, but does not supersede the provincial authorities' responsibilities.

Land. All developed and undeveloped land resources (including offshore) are administered by the Shenzhen municipal government in accordance with the approved development plan. Authorized units and individuals have the right to use land, but not to own it. All forms of land leases and sales — open or disguised — are forbidden, as is impairment of underground resources.

The duration of land use agreements, decided in consultation, varies with the size and actual needs of the investment or enterprise. Maximum lengths (in years, subject to renewal) are:

- Industrial use — 30
- Commercial use — 20
- Marketable housing — 50
- Educational, scientific, technological, and medical — 50
- Tourism — 30
- Crop raising and animal husbandry — 20

Charges vary according to location and purpose, in RMB (yuan) per square meter per annum, as follows:

- Industrial — 10-30
- Commercial — 70-200
- Marketable housing — 30-60
- Tourism — 60-100

- Crop raising and animal husbandry — as negotiated in individual cases.

All rates are subject to adjustment every three years, the margin of fluctuation not to exceed 30%.

Educational, cultural, scientific and technological, medical, and social welfare institutions receive preferential treatment. Non-profit and exceptionally advanced technology enterprises are exempt from land charges.

Land charges may be paid in full in advance, or within two years free of interest, or annually at an interest rate of 8%.

Public utilities within the allotted land are the responsibility of the enterprise. Residual effluents are treated and disposed according to relevant government regulations.

Income Taxes. The income tax rate levied on enterprises in the special zones is 15% — substantially lower than the progressive rates applicable to foreign investments elsewhere in China, and comparable to the favorable rates applicable in Hong Kong. Enterprises with investments of US\$5 million or more, and those involving higher technologies or having a longer cycle of capital turnover, are given special preferential treatment.

Industrial Development

The various forms of financial participation available to investors have been designed for individual needs. The principal ones include:

- Sole proprietorship, with complete investment responsibility.
- Joint ventures, in which China and investors share obligations, responsibilities, and profits, as agreed.
- Cooperative production, especially for agricultural and land development, also with a division of responsibilities and limited (five to seven years) contract periods.
- Intermediate processing, in which China provides the basic facilities and charges a processing fee.
- Compensation trade, especially for "important" industries (to the Chinese economy), in which investor-provided inputs are deducted from production costs over a period of years.

Compensation trade is normal in the PRC, but until now has been much less important in Shenzhen than sole proprietorships and cooperative production agreements, which together account for some 90% of the total investment (although only 11% of the agreements).

Agriculture. The area's (more than 300 sq km) fertility and location near the large Hong Kong market provide ample scope for agricultural, animal husbandry, and fisheries projects. The Hong Kong and other foreign investors are essentially business-oriented, however, and have been reluctant to commit substantial sums to such projects. Transportation remains a problem in some parts of the zone. Substantial growth will likely continue to come from local farmers and the communes.

Mining. A joint-venture quarry provides construction materials to Hong Kong and for local use. Two others are planned.

Manufacturing. Most of the manufacturing industries are attracted by the substantial land and labor resources provided in the zone, with the further advantage of such promotional incentives as low tax rates, land and utility costs, and wage rates. Large-scale and space consuming enterprises, particularly for export products, are finding Shenzhen a viable alternative to Hong Kong. Basic light industries, including textile and clothing, electronics and light metals were among the first to enter Shenzhen, while those requiring more advanced technology (motor vehicle assembly, printing, containers, machine repair) also have considerable potential. Their growth depends on the infusion of Hong Kong technology and management techniques, as well as capital.

Industrial land use planning and development is more advanced in the Shekou Industrial Zone than elsewhere in the SEZ. Sites have been made available for steel, containers, construction metals, nuts and bolts, industrial gases, and spare parts manufacture, and also for land reclamation and a new deep-water wharf. Light industry is represented by foodstuffs, confectionery, and milling. Commercial, chemical, tourism, and residential areas are also delineated and are under priority development. It will, however, specialize in heavy, capital-intensive and space-consuming industries.

As the zone's urban industrial population continues to increase, the demand for housing, services and further infrastructural improvements will also accelerate. From a projected urban population of 250,000* in 1985 to 400,000 in 1990 and a possible one million by 2000, expansion of present housing and other amenities will be a critical and urgent requirement for maintaining and improving the zone's present relatively favorable environment.

China is essentially stable, and is becoming much more flexible in its attitudes toward the West. This is foreseen as a long-term trend if present initiatives are successful.

Otherwise many of the projects for which contracts have been concluded are likely to be deferred or even transferred to other possible locations.

The industrial land being developed is expected to create about 87,000 basic jobs, plus another 58,000 in service and tertiary industries. The impact of those jobs on China will be considerably greater than their numbers suggest, in view of the higher wages anticipated — about midway between Hong Kong's and the general industrial wage level in China — and the secondary economic and social benefits realized.

Project Costs and Benefits

It has been estimated that the SEZ program in Shenzhen will cost the PRC government about 4.7 billion yuan (US\$3 billion), plus US\$2.4 billion for machinery and equipment provided by foreign investors. The expected foreign exchange revenue from this investment will be in the order of US\$5.2 billion annually at projected capacity. (The Shenzhen SEZ will account for more than half of the target sum of foreign investment for all four economic zones. By mid-1982 it had attracted about US\$2 billion in 1,000 foreign investment projects.)

In addition to the employment and foreign exchange benefits anticipated, success of the SEZs will have a number of other positive effects on China. They will, for example:

- Provide valuable and far-reaching experience in utilizing foreign technology and management techniques, and in upgrading skills at all levels.
- Promote healthy competition among regions, in enterprise production and management, thereby expediting China's economic modernization.
- Demonstrate the favorable impact of incentive systems on individual and enterprise productivity.
- Stimulate the transfer of foreign technology and capital to other zones and regions concerned with enterprise initiation and modernization.
- Serve as experimental units in structural reform of the economic system to give greater emphasis to market factors.

*The Shenzhen municipality had an estimated total population of 320,000 in 1981, of which 84,000 (both urban and rural) were in the SEZ.

- Help achieve a better understanding, and hopefully acceptance, of western values amid all levels of the population without irreversible disruption of traditional Chinese cultural and social values.
- Provide valuable lessons in creating and coordinating integrated industrial complexes — as distinct from solely export processing zones — without damaging the local environments.
- Demonstrate to an often skeptical foreign investment community the benefits that can be obtained from participation in the development of a socialist society.
- Instill a pervasive sense of pride among the Shenzhen inhabitants in achieving uniquely higher living standards and hence providing a leadership role in China's modernization programs.

The good will engendered by more frequent contacts between relatively developed, capitalist Hong Kong and less developed, socialist China, through the Shenzhen corridor and its economic links with both, should have positive and beneficial effects in both directions. Mutual understanding results from economic, social, political, and technical relations

and their varied interactions to an extent not possible without such contacts and the friendships they engender. Firms that enter the China market through Shenzhen (or the other SEZs) will be in a particularly advantageous position, learning as they earn the fruits of friendship and trust which are so important to the Chinese — regardless of their political and social proclivities.

Incomes Taxes in China (except SEZs)

Income taxes are levied on the enterprise net income after deduction of annual costs, expenses, and losses from revenues. They are levied at progressive rates for the parts in excess of a specified amount of taxable income, as follows:

	Rate
Below 250,000 yuan	20%
250-500,000	25%
500-750,000	30%
750-1,000,000	35%
1,000,000 and above	40%

A local income tax of 10% of the same taxable income is also levied. Reduction or exemption from local tax may be agreed in certain cases because of low profits or small-scale production.

Enterprises in farming and other low-profit activities, scheduled to operate for 10 years or more, may be exempted from income tax in the first profit-making year and allowed a 50% reduction in the second and third years. Upon approval by the Ministry of Finance, a further 15-30% tax reduction may be allowed for 10 years after the expiration of the initial reduction/exemption period. Losses incurred in a tax year may be carried forward.

Taxes are levied annually and paid in quarterly installments.

A 10% income tax is payable and withheld on income obtained from dividends, interest (except government loans), rentals, royalties, and other sources in the PRC from foreign enterprises which have no establishments in China.

If a loan agreement is concluded by a representative office in China 15% of the interest income will be deemed as profit and tax will be levied on that amount. Otherwise, a 10% withholding tax will be levied on the entire interest.

Interest on loans extended to China by international monetary organizations is exempt from the tax, as is interest on loans provided at preferential rates by foreign banks to China's national banks. Loans made by commercial banks in connection with subsidized loans received from government banks, such as export banks, will also be exempt. ■

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Present Status and Recent Trends of Hong Kong's Principal Industrial Groups

Textiles and Clothing

Employing about 350,000 persons in 13,230 factories (41% of the total industrial workforce) and producing some 41% (US\$5,646 million) of domestic exports, textiles and clothing remain Hong Kong's largest industry.

Because of quota restrictions in Hong Kong's principal markets — the United States and Europe — the industry has been consistently upgraded to obtain additional value-added and hence higher export prices rather than larger volumes. This process has been so successful that Hong Kong now vies with Italy in supplying the bulk of high-quality fashion merchandise to sophisticated world markets. As the Asian leader in this regard, Hong Kong can expect increasing competition from Korea, Taiwan, and other East Asian textile producers who also must upgrade their products to survive in a world of protectionist quotas.

The spinning and weaving sectors experienced adverse market conditions in 1981 and 1982 as competition increased and market conditions remained sluggish.

Clothing, however, has maintained its growth trends and its earning capacity because of the ability to respond quickly to fashion and other market requirements, despite the quantitative restrictions imposed on fabric exports.

Yarn. Cotton yarn output declined to 127 million kilograms in 1982, compared with 129 million in 1981. Production of man-made fiber yarn and cotton/man-made fiber blended yarn was 25 million kg in 1982, compared with 39 million in 1981. Woollen and worsted yarn output, mostly for local use, maintained its 3.6-4.0 million kg level of recent years.

Weaving. About 90% of the weaving total (567 million square meters in 1982, against 616 million in 1981) was of cotton, the remainder being of various fibers and blends. While much of the fabric was exported in the piece, Hong Kong clothing manufacturers also use large quantities of locally woven and finished fabrics. Some 22,900 looms are in operation.

Knitting. Large quantities of knitted fabrics of all fibers are used by local clothing manufacturers, but exports aggregated 13 million kg in 1982 compared with 14 million in 1981. Cotton fibers account for about 80% of the export total, the remainder being man-made or blends.

Finishing is highly developed, and provides sophisticated support to the other textile sectors. The processes include yarn texturizing, multi-color roller and screen printing, transfer printing, pre-shrinking, permanent pressing, and polymerizing.

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Cooperation for Prosperity

Hong Kong has fortunately concluded an acceptable last-minute textile agreement with the EEC. Both know that export controls are favorable for Hong Kong, as import controls will sow the seeds of grievance and may bring forth chaos in member countries. Although quotas for the five sensitive categories were cut by 5% to 8%, and their annual growth rate restricted to 0.5%, the new agreement nevertheless affords Hong Kong's textile and clothing industry an indispensable stability for its exports to the EEC in the next four years.

The only good that the recession did for Hong Kong was to cool the over-heated domestic economy and return to more stable costs.

High interest rate increases and depressed markets combined with excessive property speculation gave rise to a strange situation locally. The risk involved in credit sales is escalating, but there is no other alternative if business is to be maintained. With world trends, local interest rates have fallen to

more tolerable levels, and the Hong Kong Dollar's record low exchange rate enhances the competitiveness of local exports in the short term.

We cannot depend on others to maintain Hong Kong. The livelihood of over five million people cannot be assured solely by *trade and finance*. Hong Kong people need *industry and enlightenment*. They should undertake some introspection and reflect carefully, with their eyes open to the real situation in the world. Self-reliance is most important. The old saying, "You scratch my back and I scratch your back," illustrates the true form of cooperation needed for lasting prosperity. The present is actually the most important moment for Hong Kong people to retrospect and act.

TSE-KAI ANN, C.B.E., LL.D.
Chairman
Winsor Industrial Corp. Ltd.
Hong Kong

Clothing manufacture is the largest sector of the industry, employing over 277,700 workers or some 32% of the industrial labor force. The value of domestic exports of clothing in 1982 increased to HK\$28,824 million, compared with HK\$28,288 million in 1981.

Despite their continuing importance, textiles and clothing cannot be considered to provide significant growth

opportunities under present or prospective market conditions. Their continued prosperity will increasingly depend on management's ability to anticipate and respond to market demands, to upgrade products (although the margin for this is already narrow), and to remain price-competitive through improvements in efficiency.

Electronics

The second largest employer (86,000 in 1,305 factories) and exporter (US\$2,531 million) among Hong Kong manufacturing industries, electronics increased its contribution to and impact on Hong Kong's industrial development in both 1981 and 1982.

The industry produces a wide range of products, including radios, computer memory systems, calculators, transistors, integrated circuits, semiconductors, pre-packaged electronic modules, television sets, smoke detectors, and regular alarm systems. The distinction between the electronics industry and others — notably toys and watches — is becoming increasingly difficult to define because of the widespread application of electronics technology to various consumer products.

Domestic exports of electronic products are divided between parts and components (27.4%) and consumer items (72.6%). Among the consumer items, watches and clocks accounted for 29.9% of the 1982 total, closely fol-

lowed by radios, 24.0%; recorders made up 3.0% of the electronics total, electronic calculators 2.0%, and other products 13.7%. Parts and components for computers amounted to 11.2% of the total electronic product export value, integrated circuits 3.6%, transistors 2.6%, and other 10.0%.

Major overseas markets (1982) were the United States (46.0%), the European Economic Community or EEC (22.5%, of which West Germany accounted for 7.2% and the United Kingdom 6.2%), China (4.9%), Canada (3.8%), and Australia (2.5%).

The United States provided 59.1% of the US\$460 million overseas investment in the industry, Japan 30.9%, the Netherlands 4.5%, and all others less than 6%.

The remarkable growth in the industry's exports is indicated by its 120% five-year increase, from US\$1.15 billion in 1978 to US\$2.53 billion in 1982. During these same years total domestic exports of all products rose 104%, from US\$6.78 billion to US\$13.84 billion. (US\$1 = HK\$6.00.)

ELECTRONICS EXPORT GROWTH BY PRODUCT LINES

Products (US\$ Mn)	1978	1979	1980	1981	1982
Total	1,151	1,726	2,288	2,648	2,531
Consumer Products					
Transistor radios	402	568	705	718	608
Calculators	69	98	83	57	51
Watches and clocks	210	439	684	752	757
Other (hi-fi equipment, tape recorders, etc.)	121	142	152	344	422
Parts and Components					
Computer components	121	141	262	379	282
Others (transistors, IC, radio, and TV parts)	228	338	402	398	411

Plastic Products

Closely following electronics as an employer of labor (89,000 in 5,055 factories in 1981), plastic products exports, while a substantial US\$1,342 million, were only half of the electronics total.

The principal products were toys (49.4%); TV games (13.3%); handbags, footwear, and clothing (13.3%); dolls (6.3%); table decorative articles (4.3%); artificial flowers

(3.5%); raw materials (2.9%); and packing bags and packaging articles (2.7%).

Major markets were the United States (42.7%), EEC (22.9%, of which the U.K. 9.6% and West Germany 5.1%), Australia (4.7%), Canada (4.0%), China (2.5%), and Japan (2.2%).

Overseas investment in the industry (US\$12 million) was predominantly from Japan (66.6%) and Switzerland (21.3%).

PLASTIC PRODUCTS EXPORT GROWTH BY PRODUCT LINES

Products (US\$ Mn)	1978	1979	1980	1981	1982
Total	773	1,025	1,161	1,342	1,454
Plastic toys and dolls (including TV games)	464	642	719	926	1,051
Handbags, footwear, clothing					
Handbags, wallets, purses	49	66	84	83	74
Footwear and slippers	50	56	64	76	64
Clothing and accessories	24	22	24	19	17
Artificial Flowers	78	80	75	47	1
Table Decorative Articles	44	55	61	58	52
PE Bags and Packaging Articles	23	34	40	36	53
Raw Materials	13	19	22	39	35
Miscellaneous					
Buttons	2	3	4	6	6
Furniture and parts	1	1	1	1	1
Office school supplies	4	7	9	10	12
Ornamental articles	3	5	8	14	11
Roller/venetian blinds	2	3	4	3	3
Sanitary/toilet articles	1	2	3	3	3
Others	15	30	43	21	71

Toys and Dolls

Employing 51,700 workers in 2,244 factories (1982), toys and dolls closely followed plastic products as an export earner; such sales amount to US\$1,519 million.

Toys accounted for 65.7% of the industry's export total, dolls 7.4%, TV and other games 19.0%, equipment for indoor games 5.5%, and carnival articles 2.4%. The toy total (65.7%) was composed of plastic toys without

motors (38.0%), plastic with motors (8.0%), and metal without motors (4.4%).

The United States accounted for more than one-third (35.4%) of the export market, followed by the EEC (20.2%, of which the U.K. 7.2% and West Germany 5.2%), Canada (4.5%), and Australia (2.6%).

Almost all (89.8%) of the US\$21 million overseas investment in the industry came from the United States, with the remainder mostly from Japan, Indonesia, and the United Kingdom.

TOYS AND DOLLS EXPORT GROWTH BY PRODUCT LINES

Products (US\$ Mn)	1978	1979	1980	1981	1982
Total	598	921	1,059	1,291	1,539
Dolls					
Plastic	48	72	81	85	82
Stuffed	2	3	3	4	3
Others	4	5	5	11	15
Doll clothing	8	14	14	18	13
Toys					
Plastic without motor	331	464	516	557	578
Plastic with motor	41	73	97	106	121
Metal without motor	34	50	72	106	67
Motors for toys	16	31	30	92	38
Others	23	35	33	37	194
Games					
Equipment for indoor games	24	110	143	51	83
TV games	43	34	26	178	291
Others	3	5	3	6	17
Carnival articles	21	25	36	40	37

Excerpts from the Financial Secretary's 1983-84 Budget Speech

(23 February 1983)

In 1982 the Hong Kong economy generally adjusted well to the world recession. The rate of inflation slowed down, land and property prices fell — though arguably too far and too fast — and the unemployment rate rose only moderately. With a relatively deflated internal cost/price structure and some spare productive capacity, the economy is well placed to benefit from a revival in export demand as economic recovery gets underway in Hong Kong's main markets.

Hong Kong's domestic exports and re-exports are expected to grow by 5% and 12%, respectively, in 1983 — or by 7% for total exports, in real terms. Net exports of services should increase by 2%; private consumption expenditures by 3%; both gross domes-

tic fixed capital formation and government consumption expenditure by about 6%. These growth rates in the components of final demand imply a 7% of goods imports.

On these bases, we foresee a GDP growth in 1983 of about 4% in real terms. If the world economy — and particularly the U.S. economy — recovers faster than we have assumed, 4% could well be a conservative estimate.

Hong Kong continues to face economic and financial problems most of which could not have been avoided. Nevertheless, the government will carry on calmly and steadily with long-term policies which are designed simply to improve the standards of life in Hong Kong. These standards do not

(Continued on page 55)

Clocks and Watches

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Hong Kong's clock and watch industry is one of increasing numbers of small factories (from 1187 in 1980 to 1360 in 1982), but employment has remained relatively steady at about 40,000 workers. (In addition, the consumer products group of Electronics includes some 500 factories classified under that heading.)

Domestic exports during 1982 were valued at US\$1,242 million. Complete watches accounted for 53.8% of the total (LDC/LED alone for 39.1%), and complete clocks 8.2%. Mechanical and electronic watches and clocks are produced, and a large variety of watch cases, dials, metal watch bands, assembled watch movements, and watch

straps. It is estimated that Hong Kong produces over 30% (in units) of the world production of finished watches, mostly in the lower price ranges. Japan is the main producer of middle-range watches, with Switzerland still dominant in the higher-price field.

Major markets were the United States (32.6%), EEC (19.7%, of which West Germany 6.4% and the U.K. 4.4%), Saudi Arabia (4.4%), China (3.7%), Canada (3.2%), Switzerland (3.2%), and Japan (3.1%).

Overseas investment in the industry (US\$64 million) is mainly Japanese (61.6%), followed by the U.K. (18.9%), Switzerland and Bermuda (7% each), and the United States (4.4%).

CLOCKS AND WATCHES EXPORT GROWTH BY PRODUCT LINES

Products (US\$ Mn)	1978	1979	1980	1981	1982
Total	488	778	1,123	1,269	1,242
Watches Complete	387	628	929	679	670
LED/LCD	184	384	562	521	486
Electronic other than LED/LCD	*	*	*	158	183
Others	203	244	367	1	1
Clocks Complete	30	48	60	84	102
Electronic	22	36	49	72	88
Electric	1	3	2	2	2
Others	7	9	9	10	12
Miscellaneous					
Watch and clockcases	36	41	51	57	49
Watch and clock movements	21	36	47	40	30
Others	14	25	36	409	391

* Not separately classified.

Electrical Products

Some 760 factories with 23,600 employees produce a wide variety of other electrical products whose aggregate 1982 export value was US\$882 million.

Such domestic equipment as fans (17.6% of the total), hair dressing apparatus (19.5%), and cooking apparatus (6.7%) made up some 52% of the industry's exports, with

power machinery and parts (23.6%), lighting articles and miscellaneous items accounting for the remaining 48%.

Major markets for electrical products include the United States (51.7%), the EEC (17.9%, of which U.K. 8.3%), Canada (3.9%), Australia (5.0%), and Saudi Arabia (2.4%).

Japan leads in overseas investment in the industry (51.7% of the total), followed by the United States (30.3%) and the Netherlands (9.5%).

ELECTRICAL PRODUCTS EXPORT GROWTH BY PRODUCT LINES

Products (US\$ Mn)	1978	1979	1980	1981	1982
Total	269	427	638	884	882
Domestic Equipment	140	215	352	535	455
Hair dressing apparatus	69	98	140	162	172
Fans	27	49	117	228	155
Cooking apparatus	19	24	47	72	59
Vacuum cleaners	6	9	8	10	11
Mixers/grinders	2	5	8	14	13
Others	16	30	32	50	45
Lighting Articles	44	65	82	82	69
Torches (flashlights)	23	29	34	35	32
Lanterns	16	25	29	32	27
Decorative sets	4	7	15	12	6
Portable lamps	2	3	4	4	4
Power Machinery and Parts	32	62	99	159	208
Miscellaneous	53	85	105	108	150

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Photographic and Optical

The seventh most important light industrial group, Photographic and Optical equipment, accounted for US\$172 million of domestic exports in 1982. They were produced in 160 factories with 6,300 employees.

Cameras (47.1% of export) and electronic flash units (15.7%) dominated the photographic product exports (75% of the group total), while spectacles and parts (19.2%

and telescopes (3.5%) were the most important items in the optical goods category (25%).

Major markets include the United States (42.8%), EEC (23.1%, of which U.K. 11.0% and West Germany 6.1%), Canada (3.9%), Japan (3.5%), Saudi Arabia (3.4%), and Singapore (2.7%).

Overseas investment in the group is predominantly (85.8%) from Japan, but Australia also has a significant (10.6%) share.

PHOTOGRAPHIC AND OPTICAL EXPORT GROWTH BY PRODUCT LINES

Products (US\$ Mn)	1978	1979	1980	1981	1982
Total	100	145	158	191	172
Photographic					
Cameras	39	55	55	83	81
Electronic flash units	14	22	23	29	27
Cine cameras and projectors	6	10	12	5	2
Parts and accessories	13	18	19	12	4
Others	9	11	14	16	15
Optical					
Telescopes	4	5	6	10	6
Spectacles and parts	13	21	25	32	33
Others	2	3	4	4	4

Table A
OVERSEAS INVESTMENT IN HONG KONG MANUFACTURING INDUSTRY
(Position as at 31 December 1982)

Country: All

Industry	Number of Establishments			Total Investment (HK\$ thousand)		Employment
	Wholly Owned	Joint Venture	Total	Excl. HK Interest	Incl. HK Interest	
Electronics	49	15	64	2 762 033	2 827 240	29 114
Textiles — Garments	24	36	60	394 284	507 305	13 076
Yarns and fabrics	6	11	17	418 975	619 436	5 065
Misc. made ups	9	9	18	63 061	91 642	2 093
Electrical products	14	18	32	477 791	553 826	8 333
Chemical products	18	5	23	483 927	486 196	1 300
Watches, clocks, and accessories	24	17	41	384 367	422 244	9 125
Food and beverages	3	16	19	386 713	513 693	3 169
Metal products	14	16	30	250 164	395 457	2 337
Toys	5	8	13	125 134	141 650	4 738
Building and construction materials	5	8	13	790 420	1 772 492	1 445
Printing and publishing	6	5	11	184 613	210 194	1 532
Non-electrical machinery	16	4	20	183 707	188 221	1 903
Transport equipment	2	2	4	154 527	169 556	1 834
Jade and jewelry	3	6	9	88 880	92 431	779
Plastic products	5	11	16	71 174	97 150	1 248
Optics and photographic	7	2	9	69 351	75 191	2 276
Metal rolling, extrusion and fabrication	1	3	4	44 571	92 764	1 090
Furniture and fixtures	1	4	5	14 149	18 831	442
Paper products	3	2	5	12 585	13 873	158
Leather products	3	4	7	7 558	13 919	388
Hair products	1	0	1	393	393	28
Miscellaneous	10	7	17	194 318	203 925	1 330
Total	229	209	438	7 562 695	9 507 629	92 803

Note: The figures exclude 50 companies which were known to have oversea interests but the particulars of which were not available.

Source: Industrial Data Branch, Industry Department

Table B
DIRECT OVERSEAS PARTICIPATION BY MAJOR INDUSTRY
(HK\$ Million)

Type of Industry	Direct Overseas Investment		Number of Establishments		Number of Employees	
	1982	1981	1982	1981	1982	1981
Electronics	2 762.0 (36.5%)	2 671.2 (38.0%)	64	57	29 114	27 676
Textiles and garments	876.3 (11.6)	868.8 (12.4)	95	87	20 234	19 242
Building and construction materials	790.4 (10.5)	189.7 (2.7)	13	10	1 445	985
Chemical products	483.9 (6.4)	502.8 (7.2)	23	21	1 300	1 312
Electrical products	477.8 (6.3)	525.1 (7.5)	32	29	8 333	8 878
Watches/clocks and accessories	384.4 (5.1)	399.5 (5.7)	41	35	9 125	8 864
Food and beverages	386.7 (5.1)	386.7 (5.5)	19	19	3 169	3 169
Metal products	250.2 (3.3)	250.2 (3.6)	30	30	2 337	2 337
Printing and publishing	184.6 (2.4)	184.8 (2.6)	11	11	1 532	1 538
Non-electrical machinery	183.7 (2.4)	178.7 (2.5)	20	19	1 903	1 853
Transport equipment	154.5 (2.0)	151.2 (2.2)	4	3	1 834	768
Toys	125.1 (1.7)	234.9 (3.3)	13	13	4 738	6 337
Others	563.1 (6.7)	809.4 (6.8)	73	83	7 739	7 270
Total	7 622.7 (100.0%)	7 353.0 (100.0%)	438	417	92 803	90 229

Note: (1) These figures exclude 50 companies which were known to have overseas interests but the particulars of which were not available.

(2) The figures represent cumulative totals. Therefore differences between year-end 1982 and year-end 1981 figures do not represent actual increases/decreases of overseas investment in 1982.

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Budget Speech (Continued)

reflect materialistic values only. While dependent on the disciplines dictated by free market forces, we will always remain sympathetic to the reasonable requirements of the disadvantaged and the poor. The government cannot change the laws of economics, and it is prudent in hard times to tighten our belts. We can do so and still continue on our course because we have ensured that a fair part of the windfall revenues arising from the extraordinary escalation of real estate prices in the past five years has been saved in public funds. The community has fiscal reserves available for prudent use to cover budget deficits for a time. Such use must be counter-balanced by additional indirect taxation designed to minimize the impact on the poor.

When the economies of our trading partners improve, so then will that of Hong Kong. We shall

then return to more conservative budgeting. Nevertheless, I do not see any renewed prospect of huge returns from land sales, though land prices will eventually rise when the present situation of gross oversupply in the property market eases. The scenario has in fact completely changed, and so must the budgetary pattern. Whether this change can be accommodated without resort to government borrowing is presently an open question. In the meantime deficits for two years can clearly be afforded. Let us now show the world the mettle of the people of Hong Kong.

JOHN H. BREMRIDGE, O.B.E., J.P.
Financial Secretary
Government of Hong Kong

Table C
DIRECT OVERSEAS PARTICIPATION BY SOURCE
(HK\$ Million)

Source	Direct Overseas Investment		Number of Establishments	
	1982	1981	1982	1981
United States	3 526.6 (46.6%)	3 061.8 (43.6%)	119	111
Japan	2 278.1 (30.1)	2 215.0 (31.5)	125	112
United Kingdom	448.5 (5.9)	486.3 (6.9)	49	43
Switzerland	200.8 (2.7)	193.0 (2.7)	23	20
Netherlands	189.9 (2.5)	186.4 (2.7)	8	7
Denmark	160.6 (2.1)	160.6 (2.3)	4	4
Australia	158.9 (2.1)	158.9 (2.3)	22	22
Singapore	124.2 (1.6)	123.7 (1.8)	17	15
Taiwan	96.1 (1.3)	94.7 (1.3)	24	23
France	75.5 (1.0)	75.5 (1.1)	5	5
Philippines	50.6 (0.7)	50.5 (0.7)	5	4
Federal Republic of Germany	43.5 (0.6)	38.3 (0.5)	25	22
Thailand	39.1 (0.5)	35.1 (0.5)	13	11
Others	170.3 (2.3)	143.3 (2.1)	47	43
Total	7 562.7 (100.0%)	7 023.1 (100.0%)	486	442

- Notes: (1) The actual total number of establishments is 438 at Dec. 31, 1982 and 395 at Dec. 31, 1981. The discrepancy reflects the fact that some companies are joint ventures involving more than one overseas interest.
- (2) The figures exclude 50 companies which were known to have overseas interests but the particulars of which were not available.
- (3) The figures represent cumulative totals. Therefore differences between year-end 1982 and year-end 1981 figures do not represent actual increases/decreases of overseas investment in 1982.



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TAGS: PGOV, HK, TW, CH, US

SUBJECT: JI PENGFEI'S REMARKS TO CODEL ADDABBO

1. (C) - ENTIRE TEXT.

2. IN AUGUST 24 MEETING WITH CODEL ADDABBO, STATE COUNCILLOR JI PENGFEI COMMENTED BRIEFLY ON BOTH HONG KONG AND TAIWAN. IN RESPONSE TO A QUESTION ON HONG KONG'S FUTURE,

JI SAID, "WE HAVE STATED OPENLY

CHINA'S POSITION IN THE PAST ON THIS ISSUE. AS GENERAL SECRETARY HU YAOBANG AND PREMIER ZHAO ZIYANG (AT THE SIXTH NATIONAL PEOPLE'S CONGRESS) HAVE SAID, WE WILL RECOVER SOVEREIGNTY OVER HONG KONG AND IT IS ONLY UNDER THIS PREREQUISITE THAT WE WILL SEE TO THE PROSPERITY AND STABILITY

OF HONG KONG. HONG KONG WILL

REMAIN A CAPITALIST, FREE, INTERNATIONAL MARKET. WE ARE PRESENTLY NEGOTIATING WITH BRITAIN AND THESE NEGOTIATIONS ARE STILL GOING ON. CHINA AND BRITAIN ARE NEGOTIATING HOW, AFTER CHINA RECOVERS SOVEREIGNTY, PROSPERITY AND STABILITY WILL BE MAINTAINED AND WHAT MEASURES SHOULD BE ADOPTED TO ACHIEVE THIS END. THESE NEGOTIATIONS HAVE JUST STARTED AND HAVE NOT YET TOUCHED ON THE ESSENCE OF THE QUESTION."

3. IN ANSWER TO A FOLLOW-UP QUESTION CONCERNING HONG KONG'S CONTRIBUTION TO CHINA'S ECONOMY, JI DOWNPLAYED HONG KONG'S ECONOMIC IMPORTANCE, SAYING IT WAS TOO SMALL TO PLAY AN IMPORTANT ROLE IN CHINA'S ECONOMIC CONSTRUCTION. HONG KONG WAS RATHER A POLITICAL QUESTION, A QUESTION OF SOVEREIGNTY. "WHEN THE TIME COMES, WE MUST RECOVER SOVEREIGNTY. OF COURSE, WE REALIZE THAT IT IS BENEFICIAL TO MAINTAIN HONG KONG'S PROSPERITY AND STABILITY. IF WE MAKE A MESS OF IT, IT WILL BE VERY BAD."

4. RESPONDING TO A QUESTION ON TAIWAN'S ROLE IN CHINA'S ECONOMIC CONSTRUCTION, JI SAID THAT THE ABSENCE OF ECONOMIC EXCHANGES BETWEEN TAIWAN AND THE MAINLAND MEANT THAT TAIWAN WOULD NOT CONTRIBUTE TO CHINA'S MODERNIZATION.

JI ADDED THAT "WE HOPE THAT THE TAIWAN ISSUE WILL BE SETTLED IN A PEACEFUL WAY. WHAT WE ARE DOING IS STRIVING FOR A PEACEFUL SOLUTION, BUT TAIWAN REFUSES TO COOPERATE. AND THIS INVOLVES THE POLICIES OF THE USG. I THINK THAT THE AMBASSADOR KNOWS THIS VERY WELL. HOWEVER, I WON'T SAY MORE ON THIS SUBJECT TODAY."

5. COMMENT: JI'S COMMENTS ON HONG KONG ARE LENT A SPECIAL PIQUANCY BY AFP'S REPORT THAT SAME DAY OF OFFICIAL CHINESE CONFIRMATION THAT JI HAS BEEN NAMED TO SUCCEED LIAO CHENGZHI AS HEAD OF THE HONG KONG-MACAO OFFICE (FBIS DW2406U8ZAUG83).

6. CODEL ADDABBO DID NOT HAVE THE OPPORTUNITY TO CLEAR THIS MESSAGE.

HUMMEL

BT

File: Hong Kong

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BY KML NARA DATE 6/21/12

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Hong Kong: A Geographic Brief

A Research Paper

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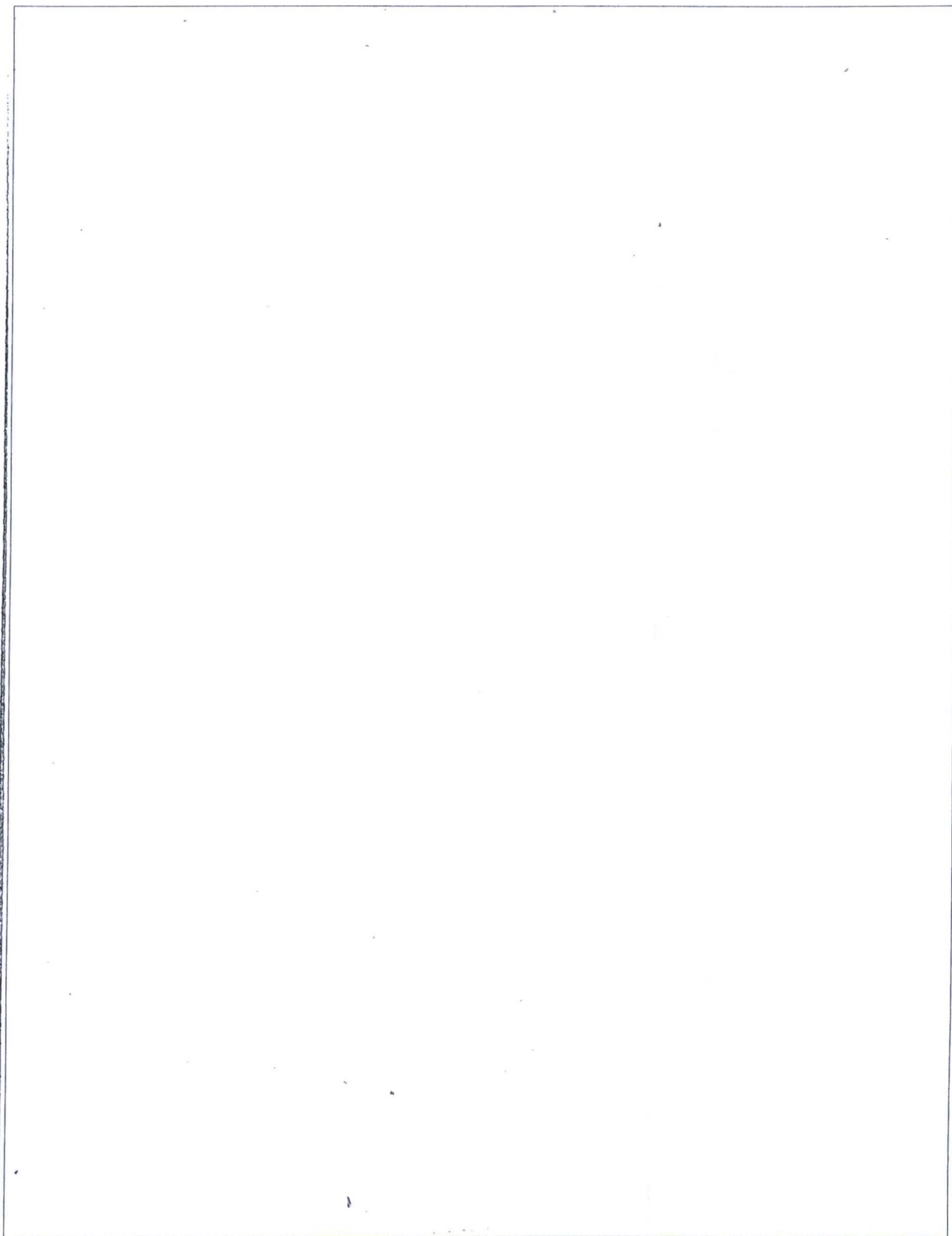
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Hong Kong: A Geographic Brief

A Research Paper

*Information available as of 1 September 1983
was used in this report.*

This paper was prepared by [] Office
of Global Issues. Comments and queries are welcome
and may be directed to the Chief, Geography
Division, OGI, []

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GI 83-10219
September 1983

Hong Kong: A Geographic Brief

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Expiration of Britain's lease on the New Territories in 1997 and British promotion of discussions on the matter have prompted Beijing to restate its demand for return of the entire British Crown Colony of Hong Kong, not just the New Territories. Although China is in an advantageous position either to isolate Hong Kong or to seize it by force, the likelihood of such action is small. China would be best served by maintaining the Colony as a center of commerce and finance; a hostile takeover would drive away capital and entrepreneurial talent and, at a minimum, temporarily undermine the Colony's role as an entrepot for southern China. Disruption of the vital linkages between the New Territories, Kowloon Peninsula, and Hong Kong Island—which would cripple the Colony—is in the interests of neither country. This paper discusses geographic factors underlying the ongoing Sino-British negotiations regarding the Colony.

Location and Area

The British Crown Colony of Hong Kong is situated on the southeastern coast of China at about the same latitude as Honolulu. It is only 130-kilometers southeast of Guangzhou (Canton), a municipality of 5.6 million people that is the center of China's populous southern region. Beijing, the capital of the People's Republic of China, lies 1,900 kilometers to the north. In contrast, London lies a straight-line distance of some 9,600 kilometers away, while sea routes between the United Kingdom and Hong Kong extend some 18,000 kilometers and take about 25 days to traverse by ship. Taiwan, seat of the rival Nationalist government, is midway between Shanghai and Hong Kong, and its closest major city—Kao-hsiung—is only an hour's jet flight from the Colony.

The Colony consists of three areas that Britain acquired from China during the 19th century. Hong Kong Island and the Kowloon Peninsula (along with Stonecutters Island) were ceded to Britain in perpetuity by treaties signed in 1842 and 1860, respectively. The New Territories, however, were only leased to Britain in 1898 for a period of 99 years. The three areas total 2,924 square kilometers, of which 36 percent or 1,062 square kilometers is land. The New Territories contain more than 90 percent of the Colony's land area in the form of 233 islands and a large tract that adjoins China. The boundary between China and Hong Kong is about 250 kilometers long. Only 30 kilometers of the boundary is on land—across the northern edge of the New Territories between Deep and Mirs Bays; the remainder extends across

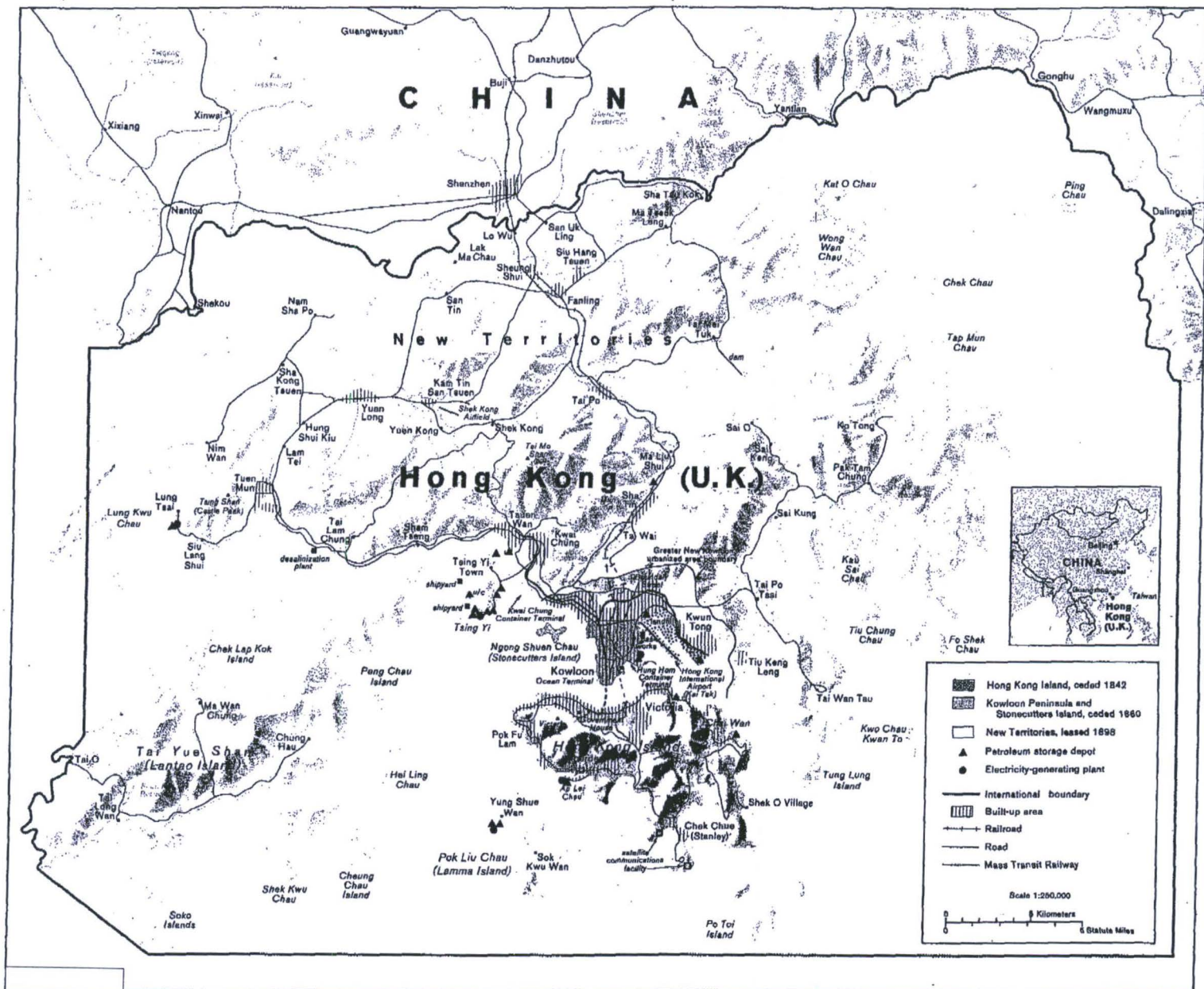
adjacent waters, along the shorelines of the two bays, and around the southwestern tip of Lantau Island. The terrain is dominated by steep, grass- and brush-covered hills and mountains that rise abruptly from the surrounding waters and reach nearly 1,000 meters above sea level at their highest point on the summit of Tai Mo Shan. Less than 15 percent of the Colony's land area is suitable for farming, and most of the agricultural land is in the vicinity of Yuen Long in the northwestern part of the New Territories (see map).

Since the end of World War II, when a starving Colony of 600,000 people emerged from Japanese occupation, Hong Kong has expanded its urbanized area and increased the functional interdependence of its ceded and leased parts. Factories, office buildings, and transportation facilities have replaced paddy fields and mud flats. Financial institutions, offices, and shops are concentrated in the north of Hong Kong Island and on the Kowloon Peninsula, and large installations are generally situated in the New Territories because of the greater availability and lower cost of land in that part of the Colony. Although once sparsely inhabited, the New Territories today include the heavily built-up New Kowloon area adjacent to the ceded Kowloon Peninsula, six suburban "new town" satellites, a variety of major industries and facilities, as well as a majority of the Colony's population.

The Colony's three parts—Hong Kong Island, Kowloon, and the New Territories—have become interdependent. The boundaries between the parts have had little practical effect, and investors have behaved as if the Colony would always remain under one jurisdiction. Hong Kong Island and Kowloon are dependent on the New Territories' industrial and transport infrastructure, and the New Territories and southern China are dependent—although to a lesser extent—on Hong Kong Island and Kowloon for the financial and other services that make the Colony useful as China's capitalist window on the world.

Distribution of Essential Infrastructure

Most large facilities critical to Hong Kong's economy are in the leased New Territories. The world's third-largest container port, major ship repair facilities, electricity-generating plants, and petroleum storage depots are concentrated in the New Territories along with vitally important water reservoirs and the Colony's small amount of agricultural land. Additional food and water come from China. Hong Kong International (Kai Tak) Airport—one of the busiest in East



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Asia—abuts the eastern end of the line between leased and ceded areas. The remainder of Hong Kong contains only fragments of the Colony's infrastructure—a single power plant, minor petroleum product storage facilities, and a small container handling terminal. Satellite communications facilities are located on Hong Kong Island. ☐

Kai Tak Airport. Hong Kong International (Kai Tak) Airport, one of Asia's primary transport centers, is built on land reclaimed from Kowloon Bay and sits astride a straight continuation of the Kowloon-New Territories boundary into the bay (see photo 1). International airlines provide service involving approximately 27,500 aircraft arriving at and departing from Kai Tak each year. Some 9 million passengers—nearly twice the population of Hong Kong itself—and 320,000 tons of air cargo pass through the airport annually to regional and global destinations. Kai Tak's maintenance facilities provide vital engine, airframe, and electronic systems repair and overhaul services. ☐

Container Terminals. The Kwai Chung Container Terminal (see photo 2) is a transportation facility comparable in size and importance to Kai Tak Airport. It is the third-largest such facility in the world—after New York and Rotterdam—and handled the equivalent of 1.56 million 20-foot containers in 1981. The much smaller Hung Hom terminal on the eastern side of the Kowloon Peninsula, capable of handling just a single ship and a few barges at a time, is the only container terminal within the area ceded to the United Kingdom (see photo 3). The Ocean Terminal at the tip of the peninsula also serves passenger and other ships. ☐

Shipyards. The Colony's ship repair and maintenance facilities have been modernized and relocated in recent years. The major shipyard on Hong Kong Island has been replaced by a housing development, and the Hung Hom shipyard in Kowloon is currently being demolished. These changes have paralleled the development of new facilities on the west side of Tsing Yi island by the owners of the demolished yards, Hongkong United Dockyards, Limited. China also has invested in ship repair facilities on Tsing Yi island designed to service its ships and offshore oil facilities. A series of offshore oil-drilling platforms was under construction in mid-1983 at the smaller yard of Euroasia, Limited, at the tip of the island.

Energy Supplies. Energy supplies in the form of electricity and petroleum are produced or stored primarily in the New Territories. Four of the Colony's five generating plants, including the newest on Lamma Island and at Castle Peak, are in the leased area. The ceded area contains only the Hok Un generating plant in Kowloon, and its operation depends on frequent replenishment of fuel supplies from depots in the New Territories (see map).

All major petroleum storage facilities are in the New Territories. The heaviest concentration of oil depots is on Tsing Yi island and near Tsuen Wan. Other large depots are opposite the seaward end of the Kai Tak Airport runway at Kwun Tong and on Ap Lei Chau adjacent to the power plant. Aside from the limited oil storage capacity at the Hok Un power plant, the ceded areas contain only two small storage facilities, both on the northeastern shore of Hong Kong Island. Together, these three facilities account for less than 3 percent of all oil storage capacity in the Colony. Another source of fuel is the gasworks near the airport in Kowloon. It provides both piped and bottled gas on the Kowloon Peninsula, using raw materials obtained from oil depots in the New Territories.

The concentration of both oil depots and electricity-generating plants in the New Territories places the remainder of the Colony in a dependent position. The fleets of buses, taxis, and private vehicles that serve Hong Kong Island and Kowloon are fueled at some 50 filling stations that are resupplied from depots in the New Territories. The subway system, now about two-thirds complete, relies heavily on electricity generated in the New Territories and on repair and maintenance facilities at the Tsuen Wan and Kwun Tong terminals in the New Territories. Dependence on facilities in the New Territories for repairs, however, will diminish toward the end of this decade when the Island Line

serving the populous north shore of Hong Kong Island is completed and maintenance facilities are installed at the Chai Wan terminal.

Food and Water Supplies. Hong Kong has devoted considerable effort to solving its water supply problem by building more and ever-larger reservoirs. These efforts culminated with construction in the New Territories of the massive Plover Cove and High Island Reservoirs, which make up the bulk of the Colony's water storage capacity (see photo 4). A desalination plant has also been built in the New Territories between the "new towns" of Tsuen Wan and Tuen Mun. Even with these facilities in operation, about one-third of the water consumed in the Colony today is piped in from China. It is expected that by the mid-1990s water from China will amount to about 60 percent of projected demand.

With less than 15 percent of its land area suitable for agricultural production—virtually all in the New Territories—Hong Kong must rely on imports to meet its food requirements. About 12 percent of the Colony's expenditures on imported goods are for foodstuffs—nearly half again as much as is spent on fuel. About one-half of all food imports on a value basis originate in China, which ships live animals and fresh produce daily. Special trains deliver foodstuffs from as far away as Beijing and Hebei Province in northern China. These shipments account for about 25 percent of China's annual sales to Hong Kong.

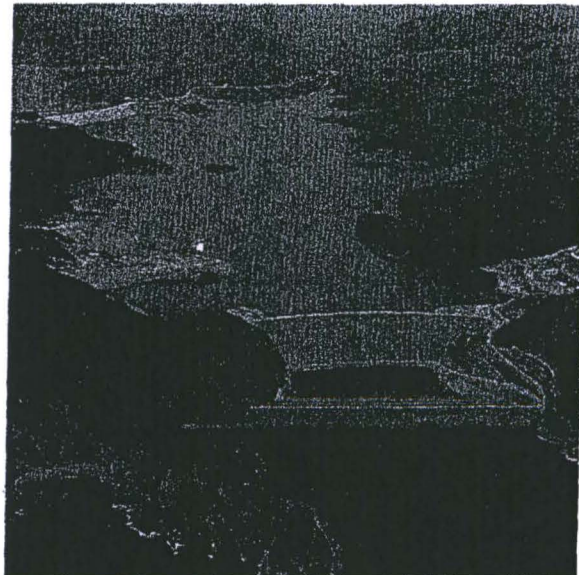


Photo 4. High Island Reservoir in the New Territories

Distribution of Population

Hong Kong's well-educated population includes a large number of people who have already fled Beijing's control at least once and who could attempt to do so again in the face of imminent takeover by China. The Colony's population as of mid-1983 was estimated at 5.3 million. Almost all of these people are of ethnic Chinese origin. More than 55 percent were born in Hong Kong, 40 percent in China, and the remainder in Southeast Asia and elsewhere. Only about 21,000 persons were born in the United Kingdom—less than one-half of 1 percent of the total. American-born individuals number fewer than 7,000 (see chart).

Of the estimated 4.16 million Hong Kong residents who have completed some course of education, more than 30 percent have gone beyond the lower secondary level (nine years) to acquire advanced training. Some 1 million have completed three to five additional years at regular or technical schools or in apprenticeship programs. An additional 270,000 have earned degrees or certificates from universities, colleges, or technical institutes.

Hong Kong Island and Kowloon house 40 percent of the population on less than 10 percent of the Colony's land area. Another one-third of the population lives in

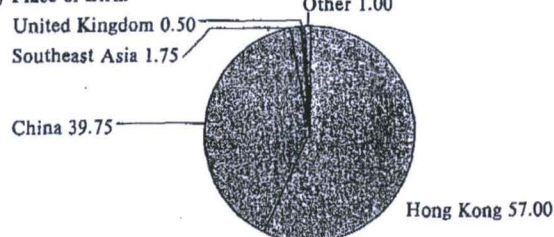
heavily urbanized New Kowloon, the area immediately north of Boundary Street—the dividing line between the ceded and leased areas—and extending from beyond the Kwun Tong subway terminus to the Kwai Chung Container Terminal. Of the remainder of the population, nearly three-fourths are concentrated in six "new towns" in the New Territories (see chart).

The concentration of population in a small part of the Colony results in severe crowding. Although Hong Kong's average population density is similar to that of Chicago and Philadelphia—about 5,000 persons per square kilometer—when the rural areas in the New Territories are disregarded, population density comes closer to the 25,000 persons per square kilometer found in New York's Manhattan Borough. In the most heavily settled districts, density exceeds 100,000 persons per square kilometer. This extreme congestion has been brought about largely through the construction of massive housing developments consisting of multistoried apartment blocks (see photo 5). Suburbs reach skyward in Hong Kong instead of spreading over the landscape—the direct result of there being little suitable land available for building.

Hong Kong Population Distribution, 1981

Percent

By Place of Birth



By Residence

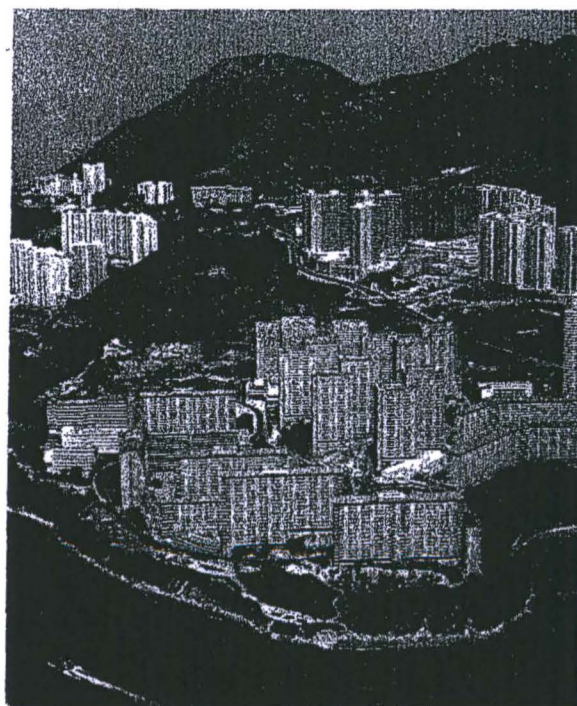
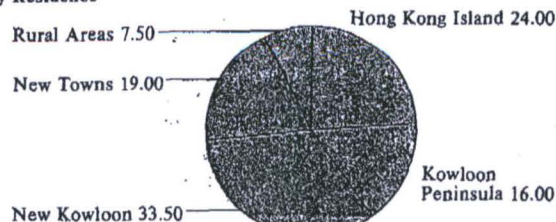


Photo 5. Hong Kong's largest public-housing estate—Wah Fu on Hong Kong Island

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