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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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CURRENT ECONOMIC SITUATION  
AND PROSPECTS  
OF  
HONG KONG

September 15, 1967

Asia Department

CURRENCY EQUIVALENTS

US \$1.00	=	HK \$5.714
HK \$1.00	=	U.S. \$0.175
HK \$1,000,000	=	U.S. \$175,000

## PREFACE

This report is based on the findings of an economic mission, consisting of Messrs. C.J.A. Jansen and Mark Cherniavsky, which visited Hong Kong in November 1966. It was completed before political disturbances broke out in Hong Kong in May 1967, and no attempt has been made to change the conclusions in the light of these developments.

However, information which has recently become available suggests that, as seen at the end of July, the immediate effects of these disorders on Hong Kong's economic situation have been small. Industrial production and exports continued throughout July at substantially higher levels than in the previous years. Trade with Mainland China has dropped and some diversion of re-export trade has occurred; however, tourist receipts do not seem to have been seriously affected. During the months of May and June the public withdrew substantial amounts from bank deposits but this did not create serious difficulties for the banks which were in a fairly liquid position at the time. Moreover, most of the money so withdrawn seems to have been converted into Hong Kong currency notes, while actual capital outflow apparently was small. It appears that withdrawal of deposits slowed down in July. The adverse effect on government revenue has so far been small.

It is yet too early to assess whether and to what extent the disturbances have affected the long-term prospects for growth of the economy.

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## BASIC DATA

(FY 1966 = 1 April 1966 - 31 March 1967)

<u>Area:</u>	398 sq. miles	
<u>Population:</u>		
Mid-1966	3.7 million	
Rate of growth (1960-65)	3.3% per year	
(1964-66)	1.9% per year	
Population density (per sq. mile)	9,400	
<u>Political status:</u>	British Crown Colony	
<u>Gross National Product:</u>		
(Rough estimates)		
1965, at market prices	HK\$11 billion	
Rate of growth, current prices		
Average 1960-65	14.2%	
1965	13.9%	
Per capita GNP, 1965	about US\$500	
Growth rate 1960-65, real terms	about 12%	
<u>Gross Domestic Product:</u>		
(Rough estimates)		
1965, at market prices	about HK\$11 billion	
Average 1963/65 at factor cost	about HK\$9 billion	
Rough estimate of industrial origin:		
Agriculture, forestry, fishing	2%	
Manufacturing	33%	
Construction	8%	
Transportation and utilities	7%	
Other services	49%	
<u>Per cent of GDP at current market prices:</u>	<u>1965</u>	<u>1960-65</u>
(Rough estimates)		
Gross investment	29	27
Gross savings	20	12
Import surplus of goods and services	9	15
Government revenue	14.5	15.5
<u>Resource gap as per cent of investment:</u>	<u>1965</u>	<u>1960-65</u>
(Rough estimate)	32	55

Money and credit (million HK\$):

	<u>1965</u>	<u>Annual Rate of Change 1960-65</u>
Money supply	3,947	12.7%
Time and savings deposits	4,346	28%
Bank credit to private sector	5,525	25%
Rate of change in retail prices	no change	1.0%

Government finance (million HK\$):

	<u>FY 1966</u>
Consolidated revenue	1,736
Current expenditure	<u>1,142</u>
Government saving	594
Capital expenditure	<u>726</u>
Overall deficit	132

Public debt (US\$ million):

	<u>March 1966</u>	<u>March 1960</u>
Debt outstanding	13.8	17.1
	<u>FY 1966</u>	<u>FY 1960</u>
Annual debt service	1.0	0.5
Debt service ratio (as % of export earnings)	0.8%	0.7%

Balance of payments (US\$ million):

	<u>1965</u>	<u>Annual Rate of Change 1960-65</u>
Exports, f.o.b.	879.7	11.9%
Re-export, f.o.b.	<u>263.0</u>	7.0%
Total exports, f.o.b.	1,142.8	10.6%
Imports, f.o.b.	1,451.3	8.9%
Trade balance	-308.5	3.5%
Net invisibles (rough estimate)	130.0	5.9%
Balance on goods and services (rough est.)	-178.5	1.9%

Commodity concentration of domestic  
exports (textiles and garments)

1966  
52%

High degree  
of diversifi-  
cation within  
textiles and  
garments  
sectors.

	<u>September 1966</u>	<u>December 1960</u>
Gross foreign exchange reserves (US\$ million)	886.4 (or 6 months' imports)	466.0 (or 5½ months imports)
<u>IMF position (US\$ million):</u>		
Hong Kong is not a member of IMF.		
<u>External financial assistance (US\$ million):</u>	<u>Average 1961-1966 disbursements</u>	
Grant aid from U.N. (refugee aid) and U.K.	0.3	
<u>IBRD and IDA operations:</u>		
None.		

## SUMMARY AND CONCLUSIONS

1. The economic expansion of Hong Kong during the 1960's has been very impressive. The overall growth rate in real terms has been around 12-14 per cent a year. With this growth rate Hong Kong has been able to absorb an enormous influx of population from the mainland and still increase per capita income, virtually eliminate unemployment and greatly improve housing conditions. Population has gone up from about 1.7 million in 1950 to 3.8 million today. Yet per capita GNP has risen to a level of over US\$500 compared with probably US\$200-250 in the early 1950's. In spite of an uneven income distribution, the standard of living of the broad mass of the population has improved visibly and the appalling poverty of the immediate post-war years has disappeared. There is no longer an unemployment problem. The housing shortage has been alleviated by a large volume of housing construction in the public and private sectors. Another serious deficiency, the water shortage, has been overcome by the construction of fresh water reservoirs and an agreement with China for the provision of water. With some of its pressing problems thus solved or at least diminished, Hong Kong has attained a certain amount of prosperity.

2. Industrialization has dominated post-war economic development. After the communist take-over on the Mainland entrepot exports to China came to an end, but with the large influx of refugee labor and managerial talent and Hong Kong's extensive commercial and financial connections abroad, industrial production chiefly for exports, started to expand rapidly. It was accelerated by the qualities of Hong Kong's entrepreneurs and the large highly literate labor force, willing to work hard and for wages that are low in comparison with those in the industrial countries of the West. Also of help were the efficiency and sound financial policies of the government, low taxes, and freedom from business and financial controls.

3. When industrial development started most industrial inputs were imported. Now, however, a large and growing proportion of semi-manufactures is produced in Hong Kong. There is thus a continuing increase in the proportion of domestic value added per export dollar. Simultaneously there has been a switch from lower grade, inexpensive products to more sophisticated higher value products and a growing diversification over the entire spectrum of light industrial production.

4. Most other economic activities - transport, construction, trade, other services - followed suit. Tourism and the entrepot trade, however made independent contributions to the growth of the economy. Although entrepot trade has grown more slowly than domestic exports and has not regained its pre-war importance, its total value (US\$320 million in 1966) is considerable. Tourist expansion has been spectacular due to the attraction of Hong Kong's duty-free shopping and beautiful setting.

visitors now number about half a million a year. At times the growth of the economy has been accompanied by speculative overtones, especially in construction. Residential and commercial building and the construction of transportation and power projects and fresh water reservoirs reached a peak in 1963-1964. After financial difficulties early in 1965, the building boom cooled down.

5. The success of Hong Kong's industrialization and export expansion is shown by the growth of domestic exports (over US\$1 billion a year) at a much more rapid rate than world trade. Most exports go to the developed world and in fact Hong Kong is the leading developing country in supplying the developed world with labor-intensive manufactures, i.e. those industrial commodities in which less developed countries may have a comparative advantage. In this respect it is far ahead of such a large country as India. Hong Kong's entrepreneurs have shown remarkable ingenuity in finding new opportunities for effective competition and thus kept up the thrust of export expansion in spite of rising wages, increased competition and restrictive import practices abroad.

6. The industrialization of Hong Kong is not guided by any master plan or policies of tax exemptions, tariff protection, low-interest loans or other subsidies. Government encouragement has been indirect and largely non-selective: low business taxes; efficient negotiations of quota restrictions with foreign governments; establishment of a trade promotion center; efficient certification of the non-communist origin of Hong Kong products. And in the background, of course, there have been all along the major elements which have kept up confidence in the Hong Kong scene: the Colony's strong reserve position, sound financial and monetary policies, generally adequate expansion of infra-structure facilities by the government and the public utilities companies.

7. The development of the economy would not have been possible without foreign resources. Just after the war Hong Kong was impoverished. A large inflow of foreign capital helped to set the industrialization process going. In later years, capital inflows have continued to play an important role. Much of it has stemmed from Chinese political and economic misfortunes elsewhere in South East Asia. Part is in the form of medium-term suppliers' credits and direct investments from other sources. In recent years the current account deficit which used to be as much as 20 per cent of GNP has been declining and the inflow of outside resources although still considerable is thus becoming smaller.

8. The future of the economy depends in the first place on developments in the major export markets and the continued ability of Hong Kong's businessmen and labor force to produce light industrial export products at competitive prices. Since the total level of labor-intensive exports to the developed world is still quite small, it is likely that Hong Kong's exports will continue to grow faster than total imports of the developed

countries. If the rapid expansion of world trade is kept up, Hong Kong's future growth rate may not be much less than the 13 to 15 per cent of recent years. A world trade slowdown would of course adversely affect Hong Kong's rate of progress.

9. Future growth requires a shift in the industrial structure from rather small-scale, family-directed operations to bigger production units. This shift would be facilitated by improvement of technical and commercial education, the establishment of a long-term credit institution and certain infra-structure investments. The domestic savings rate has risen in recent years, but it is almost certain that a sizable inflow of foreign resources will continue to be needed. Most of this money will have to come from private sources and Hong Kong should therefore be careful to preserve its attractive investment climate. There is always of course some atmosphere of uncertainty about Mainland China, but Hong Kong has managed to thrive in spite of this and, barring major political changes, should continue to do so.

10. The Hong Kong government faces no serious financial problem in the immediate future. The budget for 1967/68, which is based on conservative revenue estimates, shows a minor deficit. However, as often in the past, the outturn may well be a modest overall surplus. The outlook for the longer-term depends on economic developments in Hong Kong and its major export markets and on the level of the government's development spending (including certain current expenditures such as for education). If economic conditions were to become less favorable and if government at the same time felt that, in the interest of future development, a higher level of public expenditure were necessary (as may be the case), larger deficits might occur. Under adverse economic conditions the scope for additional taxation or local borrowing to finance these deficits would be limited and in that case government might need to borrow from outside sources. The government has sufficient financial strength to borrow in foreign capital markets, but success of possible borrowing efforts would, of course, also depend on whether the conditions of these markets had meanwhile improved. With a very low level of present debt service and a high level of reserves and of prospective foreign exchange earnings, Hong Kong has ample creditworthiness for borrowing on conventional terms. As against the risk of political disturbance created by Mainland China, any Bank loans to the Colony would have the guarantee of the United Kingdom.

## I. BACKGROUND

1. The British Crown Colony of Hong Kong lies on the Southern Coast of China, 100 miles south of the Tropic of Cancer. The territory covers about 400 square miles and has a population of 3.8 million people, mostly concentrated on the highly urbanized Hong Kong Island and Kowloon peninsula which were ceded to Britain in 1842 and 1860. The New Territories, acquired on a 99-year lease expiring in 1998 account for the bulk of the land area. They are mostly in use for agriculture and are less densely populated. Except for its natural harbor, location on commercial routes, and scenic beauty, Hong Kong has few natural resources. Known mineral resources are small, much of the land is too hilly for cultivation and since there is hardly any natural water storage and rainfall is erratic, there is a continuous problem of providing sufficient water for the needs of the population and industry.
2. Hong Kong was acquired by Britain to serve as a foothold in her trade with China. In order to encourage the entrepot trade Hong Kong was given free port status and economic activity was from the beginning subject to a minimum of government regulation. By the end of the 1930's Hong Kong had become an important port with a diversified entrepot trade. Banking and commercial activities were highly developed and had a marked international orientation.
3. The second world war and the communist take-over on China's mainland marked the beginning of a re-orientation of Hong Kong's economy. The U.N. embargo on exports to mainland China in 1951 was a blow to the entrepot trade and led to a sharp recession. Meanwhile, however, manufacturing activity had started to expand under the impetus of refugee capital and managerial talent from mainland China and a tremendous influx of labor. During the 1950's and 1960's industry has become the dominant factor in Hong Kong's economic growth instead of the entrepot trade which did not regain its pre-war importance. A measure of the pace of the economic expansion is that, despite the continuation of immigration after 1950, unemployment has disappeared. Although population more than doubled since 1950, per capita GNP has risen to about US\$500. It was probably only US\$200-250 in the early 1950's. Except for the major cities of Japan, Singapore is the only Asian city with a comparable standard of living. Income distribution is uneven, but even in the lower income groups the appalling poverty of the immediate post war years has disappeared.
4. The organization of the Government of Hong Kong has remained practically unchanged since the war. There is no elective office or franchise. The Colony is administered by a Governor, appointed by the British Crown, who acts with the advice and assistance of an Executive and Legislative Council. These bodies consist of members ex officio and appointed members, some of them leading persons in Hong Kong's economic and social life. There is thus sharing of government authority with members of the community, but not in the way of parliamentary democracy.

The political sentiment of the population is mainly expressed in membership of the trade unions which are either Nationalist Chinese or Communist oriented. Open expression of political convictions by the population consists chiefly in peaceful manifestations during national holidays. There are no political parties and there is no overt expression of popular sentiment towards obtaining political independence or elective government. The advantages of the status quo are probably well realized by Hong Kong's people, independently of their political convictions, and there appears to be little inclination to endanger a situation which has brought full employment and prosperity.

5. From the side of Mainland China there have been few indications other than vocal ones of impatience with the preservation of colonial rule close to its border. The probable reason is that the existence of Hong Kong in its present form is useful to Mainland China. Hong Kong is China's largest source of foreign exchange because of her imports from China of food (almost half of Hong Kong's total requirements), inexpensive manufactures and water, and the remittances by overseas Chinese to relatives in Mainland China through the Hong Kong banking system. Hong Kong also provides Mainland China with one of its main contacts with the rest of the world and thus serves as a convenient source of information. The uncertainty about Hong Kong's political fate in the short run is perhaps not much worse than in many other countries in the region. Major changes however are bound to occur in the long run. By the end of the century, the New Territories will revert to Chinese rule barring the unlikely event of an extension of the lease. The viability of Hong Kong as a separate entity will then be affected - a large part of the population and productive facilities including almost all fresh water storage will by then be located in the New Territories.

6. It is not easy to distinguish the effect of the political uncertainty on economic development. In view of the high growth rates of the past fifteen years, it clearly has not slowed down development. The expiry of the lease is still far away, well beyond the horizon to be adopted for most investment decisions. The short-run uncertainty, however, must play a role in investment decisions, if not of the Government, certainly in those of the private sector. This accounts in part for the insistence of Hong Kong's financiers on short pay-back periods, not more than three or four years, although the difference in this respect with other countries in the region is perhaps smaller than is often thought. However, a factor which does lead to a typical difference in the provision of investment funds is the absence of foreign aid which in countries like Korea and China (Taiwan) has permitted a substantial amount of long-term lending for the expansion of the infrastructure and for industrial projects. Hong Kong has received almost no assistance of this nature.

## II. ECONOMIC EXPANSION IN RECENT YEARS

### Dimensions of Economic Growth

7. The rapid rate of economic expansion which prevailed almost without interruption since the early 1950's continued and probably even accelerated during the 1960's. The behavior of various economic indicators suggests that the overall growth rate of the economy must have been extremely high.

TABLE 1: Indicators of Economic Growth 1959-1965

	<u>Annual Growth Rate</u> <u>(in per cent)</u>
<u>Industrial Production</u>	
Domestic exports (accounting for most of industrial output)	13.2
Power consumption	16.5
Industrial wage rate	7.6
<u>Tourism</u>	
Number of visitors	19.4
<u>Other Services</u>	
Government current expenditure	12.8
Bank loans outstanding	25.0
<u>Investment</u>	
Private building	24.5
Equipment	13.3
Government capital expenditure	21.0
<u>Prices</u>	
Retail price index	0.5

Source: Hong Kong Government Statistics.

8. There are no official estimates of Hong Kong's national accounts. In order to obtain a better picture of recent economic development, the mission made rough approximations of some macro-economic magnitudes (see Table 2 and Appendix). In view of the lack of time and information available to the mission these estimates are of course tentative. Their purpose is to illustrate the growth process and clarify some relationships in the economy. The estimates suggest an overall growth rate of around 14% a year in current prices and, since there has been little price change, well over 10% in real terms. In evaluating this extremely high growth rate it should be kept in mind that in most countries the overall growth rate is weighed down by the usually lower growth rate of agriculture. This is not the case in Hong Kong because its agricultural sector is very small.

9. While the available statistical information makes it possible to obtain at least an approximation of the growth rate of production, it is difficult to assess the expenditure pattern of the economy. In Hong Kong's laissez-faire type economy information about financial flows, both internal and external, is very limited. Although net invisible earnings are known

to be large it can be safely conjectured that the overall deficit of the Colony on current account must be very high in view of the large trade deficit (HK\$1,500-2,000 million a year during the 1960's, on average more than 20% of GNP). Thus it appears that capital inflow from abroad must account for a large proportion of the financing of domestic capital formation. This inference is consistent with the general knowledge that non-residents' participation in real estate and industrial financing is large and that non-residents are the source of a large proportion of the Colony's HK\$8 billion of banking deposits. From the mission's expenditure estimates summarized in Table 2 (which really are rough approximations) it appears that a shift has occurred during the 1960's towards reduced dependence on the inflow of foreign capital. Capital formation in both the private and public sectors during these years increased much faster than GNP. At the same time, an analysis of the trade balance and of certain information about invisible earnings indicates that the current account deficit must have increased much slower than GNP. This trend appears to have continued during 1966. Thus dependence on foreign resources, while by all accounts still large, has been on the decline and domestic savings apparently have come to account for a much larger part of the financing of domestic capital formation.

TABLE 2: Rough Mission Estimates of the  
Growth of Production and Expenditure  
(in current prices)

	<u>Average 1960/1962</u>		<u>Average 1963/1965</u>		<u>Annual Growth Rate</u>
	<u>HK \$ M</u>	<u>% of GDP</u>	<u>HK \$ M</u>	<u>% of GDP</u>	
<u>Production</u>					
Agriculture and Mining	200	3	200	2	-
Manufacturing	2,050	33	3,100	34	15
Construction	400	6	750	8	23
Transportation and utilities	450	8	650	7	13
Other services	3,100	50	4,550	49	14
GDP (factor cost)	6,200	100	9,250	100	14
		<u>% of GNP</u>		<u>% of GNP</u>	
<u>Expenditure</u>					
Investment	1,550	24	2,800	28	22
Consumption (Residual)	6,050	93	8,200	85	11
Current account deficit	1,100	17	1,300	13	6
GNP (market prices)	6,500	100	9,700	100	14
Savings (Residual)	450	7	1,500	15	49

### Employment, Wages and Productivity

10. The expansion of the economy has been accompanied by a spectacular increase in employment. The mass unemployment of the early 1950's has disappeared. The 1961 population census showed that unemployment had dropped to 2 per cent of the labor force and since then unemployment must have further declined. Many industries are experiencing an acute labor shortage and in the last few years the Labour Department has been recording a substantial number of unfilled vacancies. The labor situation was alleviated in the early sixties when poor harvests in Mainland China were followed by an increase in the number of refugees to over 140,000 in 1962. After 1962, however, the Chinese authorities virtually put an end to the outflow of refugees. The immigration more than compensated for the temporary decrease in the number of new entrants to the labor force caused by the small number of births during the war and early post-war years. At present the situation is changed and the effect is felt of the high birth rates of the fifties. The number of persons reaching the age of 15 has increased from about 40,000 a year at the beginning of the decade to around 80,000 at present.

11. Notwithstanding these large increases in the labor force (several times larger than the number of workers reaching retirement age), labor has become scarce in Hong Kong and many manufacturing enterprises are short of skilled and unskilled workers. The situation has led to a rapid rise in wage rates, about 8 per cent a year on average during the sixties with some signs of acceleration during the last two years. For the economy as a whole, the rise in wages has been somewhat smaller than the rise in output per worker. From a rough approximation of the increase in the labor force since 1961 it would seem that output per worker increased annually by 10 per cent on average. Wages have thus been increasing slower than productivity but the margin was narrowing in the most recent years.

12. This aggregate notion of wages and labor productivity does not indicate the difference in the rate at which changes in productivity are occurring in different sectors. In view of the lack of production and employment statistics it is difficult to get an accurate picture of the process. One of the most important industries, the cotton spinning and weaving industry, has made large investment to re-equip with modern machinery and is probably leading in the productivity increase. Modernization is also taking place in the more advanced sections of the garments and electrical equipment industry. Generally the trend is towards production in bigger units. One indication of the speed with which this is happening is that the number of employees in registered industrial establishments (establishments with more than 20 workers and all establishments using power driven machinery) is growing almost three times faster than the labor force as a whole. However, much of Hong Kong's labor is still engaged in small production units or as home workers. The productivity of this group is almost certainly increasing much slower than wage rates. To the degree small-scale operations become unprofitable labor will become available for a further expansion of better organized, more capital intensive production.

13. The importance of increasing productivity ahead of the increase in wages is highlighted by a comparison with wages in other Far Eastern countries. At present, Hong Kong's wages are about half the level in Japan but much higher than in two increasingly more important competitors, China (Taiwan) and Korea. Exports of these countries in 1966 amounted to respectively US\$563 and US\$255 million as compared with US\$1,003 million by Hong Kong. As in Hong Kong, the main impetus in the export growth of these countries is derived from increased manufacturing production, mostly of light industrial products. The following figures are based on statistical publications of the respective countries and give average daily wages in the manufacturing industry including fringe benefits such as free meals, year-end bonuses, etc. The figures refer to 1965.

Average Daily Wage in Manufacturing Industry  
(in US \$)

Korea	\$ 0.77
China (Taiwan)	\$ 1.24
Hong Kong	\$ 2.04
Japan	\$ 4.16

14. Hong Kong's main comparative advantage - cheap, intelligent and hard working labor - will be increasingly challenged by its Far Eastern competitors, China (Taiwan) and Korea. The labor force in these countries shows many of the favorable characteristics of Hong Kong labor, but unlike Hong Kong they will not be faced with a labor shortage in the foreseeable future. And in contrast with Hong Kong, industry in these countries has the advantage of a larger domestic market, and, for approved industries, subsidized long-term credit and tax exemptions.

Manufacturing

15. We noted the impetus to industrialization provided by refugees from Mainland China who provided ample labor at wages which were low by international comparison, and industrial entrepreneurs from Shanghai and other industrial cities in Eastern China. These entrepreneurs frequently brought capital equipment, their skilled workers and managerial staff. Since then an impressive and ever increasing group of local entrepreneurs and managers has appeared on the scene and the achievements of this group has perhaps been the dominant factor in the success of Hong Kong's industrial sector. Another factor were Hong Kong's commercial and financial connections with the outside world resulting from her entrepot trade which helped in finding markets for the products of the new industries. A stable government which together with private utilities companies took care of expansion of the infrastructure but exercised a minimum of bureaucratic interference with the establishment and operation of enterprises and levied low taxes on business was another factor favoring industrial growth. Finally an important factor has been the large inflow of foreign private capital in Hong Kong which was mentioned before (see Para 9). Throughout the post-war period

industrial growth has been encouraged by this inflow which often took place in conjunction with foreign know-how and management.

16. The pace of post-war industrialization is measured by the fact that domestic exports increased from almost nothing to US\$1,003 million in 1966. During the same period there was an increase in the number of registered industrial undertakings from almost 1,000 in 1947 to 9,500 in 1966. The number of employees in these undertakings increased from 50,000 in 1947 to almost 400,000 in 1966. In addition to this there is a large but gradually declining number of workers in small, unregistered firms. Taking the 1961 population census as a yardstick present industrial employment may amount to about 650,000 or about 44 per cent of total employment.

17. The most important among Hong Kong's industries are the textile and garment industries which accounted for 52 per cent of Hong Kong's exports in 1965. The expansion of the industry was accompanied by a rising proportion of modern equipment in the industry and output per spindle and loom have increased steadily and part of the industry is now semi-automated. The knitting and garment sections of the industry have expanded especially fast. During the last decade garment exports have been rising at a rate of almost 20 per cent a year.

18. In the early post-war years the proportion of domestic value added in the total sales value of the textile industry was low. Exports consisted of unfinished fabrics produced from imported yarns. The garment industry used imported materials. At present the industry has a full range of spinning and finishing facilities. Imports of yarn have become insignificant because weavers and knitters use locally produced yarns. A large part of the fabrics production is finished locally. Quality also improved. As with other export products that were to follow, the textile industry started out at the low quality side of the market. Fabrics and garments are now in the medium to high quality range. The use of synthetic fibers is growing.

19. The switch towards sophisticated higher value products has allowed the Hong Kong textile industry continued expansion in spite of quota restrictions applied since the early 1960's by its major buyers - the U.S.A., the U.K. and a few European countries. Although the restrictions have encouraged efforts to diversify markets the share of the United States and the United Kingdom in Hong Kong's textile exports remains high. The trend towards higher value of production is demonstrated by the fact that the value of textile exports to the United States is increasing significantly faster than the 5 per cent increase in volume allowed by the quota restrictions.

20. Besides textiles and garments there is an almost endless variety of other light industrial products made in Hong Kong, partly produced under licensing agreements with foreign firms and sometimes with equity investment

of non-residents. The most important among these industries by number of workers employed and export value are the plastics, metal products and electrical equipment industries. The plastics industry produces a large number of household and domestic articles. Especially successful are plastic flowers and plants. The plastics industry uses Hong Kong produced machinery and die moulds which are also exported. The variety of products in the light metal industry is also large. Most of the products are for household use: flashlights, enamelware, watch bands and cases, vacuum bottles, cutlery, etc. In many of these products there has been a steady improvement in quality. Development has been most rapid in recent years in the production of electrical and electronic equipment. The production of transistor radios is now at an annual rate of about 9 million sets a year, to a large extent by establishments in which U.S. firms have a majority interest. About half of the parts are imported but the proportion of domestically produced parts is increasing. The assembly and production of condensers, transistors and other parts for use by the electronics industry in the United States is another dynamic section of this industry. This section consists almost entirely of subsidiaries of American firms. Employment generated by these assembly plants is large but the domestic value-added proportion is low, reportedly not more than 7 per cent or 8 per cent of the export value. In view of the fast rising labor cost the scope for further expansion of this particular activity is probably quite limited. Besides these products the industry produces a large variety of electrical equipment: fans, motors, hairdryers, transformers, air conditioners. Many of these articles are produced under licensing agreements with foreign firms and to a varying degree they are making use of imported components. On the whole the tendency is however for an increase in the proportion of domestically produced parts.

### Tourism

21. A sector which is making an increasingly important contribution to Hong Kong's economic growth is tourism. The geographical location of Hong Kong as the main stopover between Japan and South East Asia, its beautiful scenery and the attractions of a large duty-free shopping center have favored the development of tourism. Hotel facilities have been expanded in step with the number of visitors and ancillary services - terminal facilities, restaurants, local transportation - are well developed. Overseas visitors numbered approximately 450,000 in 1966 and military personnel on leave (including U.S. service personnel stationed in Vietnam) almost another 200,000. Most visitors arrive by air. The increase in the number of visitors during the 1960's has been at a yearly rate of over 18 per cent. Political tension in the area, and the disparity between Pacific and Atlantic air fares are probably among the factors which have led to a lower growth percentage of 10-12 per cent in 1965 and 1966.

22. Average expenditure per visitor is high and foreign exchange earnings from tourism have become an important source of foreign exchange earnings. A recent survey indicates that expenditure per visitor amounts

to US\$250 for an average stay of less than five days. Somewhat over half of this amount appears to be spent on shopping, much of it consisting of imported commodities. Gross foreign exchange earnings from tourism, taking into account the expenditure by armed forces on leave, may have amounted to about US\$160 million and the domestic value added may have amounted, roughly estimated, to perhaps 60 per cent of this amount, or some 5 per cent of Hong Kong's GNP.

### Construction

23. Along with the expansion of the economy there has been a very dynamic performance of the construction sector. A large part of the construction was undertaken by the Government. Deviating from its usual stand regarding private sector activities, government has assumed major responsibility in providing housing. The tremendous population increase of the late forties (see Stat. App. Table 2) led to a large number of squatters and homeless people. By the mid-fifties the government had embarked on a major effort to settle these people in low-cost multi-storey blocks, which were interspersed with factory blocks, markets, schools and other amenities. Altogether 1.1 million people, about 30 per cent of the Colony's total population, has been settled in government financed housing but despite this achievement the number of squatters is still estimated at half a million and a substantial number of people is still housed in slums. Private sector housing construction assumed major significance in the 1960's together with other building construction such as office buildings and hotels. These activities have led to the redevelopment with modern structures of Hong Kong Island's waterfront and the construction of a large number of luxury and semi-luxury apartment buildings on the Island and in Kowloon. These activities were to a large extent financed with bank credit. After banking difficulties in early 1965 banks became more cautious in their lending for real estate development (see also Para 38). Since then the private building boom has cooled down. Currently there is still an over-supply of new office space and expensive apartments. Private building construction remained at a lower level throughout 1966.

24. The scarcity of land is one of Hong Kong's most obvious problems. The population density is extremely high, even in comparison with other Asian cities. Around the harbor on the Island and on Kowloon the density is about a quarter of a million people per square mile and in the newest of the government's housing estates density is even higher. Building space has been increased by land reclamation of about 3,000 acres from the sea. Within Hong Kong and Kowloon most space has been taken up and plans have therefore been made for the construction of three new towns in the New Territories, each eventually housing one million people. The first of these towns is under construction and has already a population of over 200,000.

25. In addition to activities in the field of housing, the Government also undertook a large volume of construction to provide administrative buildings, schools, parking garages, roads and other facilities for growing

traffic needs in the city and the New Territories. The most important of all public works activities however have been the reservoir schemes to provide sufficient fresh water to the Colony. With an irregular rainfall and no natural fresh water expanse of any size either under or above ground, Hong Kong has had an almost continuous water shortage which made restrictions on the use of water a part of daily life for the last thirty years. The construction of new reservoirs and an agreement with China to supply water from the nearby East River made an end to the shortage and 1965 was the first year without restrictions on water use. In addition to these schemes, the construction of the Plover Cove Scheme, a 30 billion gallon reservoir obtained from a dammed-in sea arm, is nearing its completion. The resulting increase in water supplies will be sufficient to meet water requirements until the early 1970's when further additions to the Colony's water works should be completed.

#### Transportation and Utilities

26. The foundation of Hong Kong in the 19th century was based on the presence of a deep natural harbor. At present cargo movements amount to 10 million tons per year. Most in- and out-going cargo consists of small consignments permitting about 70 per cent of cargo to be moved by lighterage. Low harbor dues, inexpensive and experienced port workers and a fast turn around (queuing for berths is exceptional) make Hong Kong an attractive harbor which is contributing greatly to Hong Kong's economic development. Another major channel of communications with the outside world is Kai Tak Airport. During the 1960's the number of passengers has tripled and the volume of airfreight is increasing at an even faster rate. The runway, protruding into the harbor on filled-in land, is on the short side and the forthcoming introduction of larger subsonic jets will necessitate extension of the runway and enlargement of terminal facilities. Ground transportation in Hong Kong is provided by private bus and tramway companies and two ferry companies which maintain connections between Hong Kong and Kowloon. Private interests have obtained a franchise and a measure of Government support for the construction by 1970 of a vehicle tunnel under the harbor. The rapid increase in the number of motor vehicles and the resulting congestion of Hong Kong's city streets have led the Government to initiate a feasibility study of a mass transit system.

27. Most of Hong Kong's public utilities are privately owned. This is the case for the provision of electricity, gas, telecommunications and all public transport except for the railway to the Chinese border and the international airport. The water works system is owned by the Government. In the past, several public utilities tended to finance expansion largely from the reinvestment of current earnings, but public control instituted in more recent years has put a limitation on the level of profits.

28. Electricity consumption has increased at a rate of 16.5 per cent during the 1960's. Present installed capacity is close to 800 MW. Expansion projects on hand will lead to a doubling of capacity in the next few years and further expansion beyond that stage. This expansion of capacity is being financed with a considerable amount of foreign equity participation. The telephone company is considering a major expansion scheme.

### III. BALANCE OF PAYMENTS AND FOREIGN TRADE

#### Introduction

29. Information about Hong Kong's balance of payments is very sketchy. In fact, the only areas in which there is regularly recorded statistical information are merchandise trade, which has shown large and persistent overall deficits, and the foreign reserves of the government and the banking system which in most years have shown substantial increases. Little is known about other elements in the balance of payments although it is possible to make guesses, on the basis of partial evidence, of certain current invisible transactions such as receipts and payments on account of international transportation, insurance, tourism, banking services and defense expenditure by the United Kingdom in Hong Kong.<sup>1/</sup> In line with the importance of the service sector of the economy and its international orientation, these estimates result in a favorable balance. Because of the size of the trade deficit, the current account as a whole, however, shows a large deficit. The mission's estimates for the sixties are summarized in the following table. Due to the lack of statistical information, these estimates are tentative and provide only a rough approximation.

TABLE 3: Balance of Payments Developments

	Average 1960-1962		Average 1963-1965		Annual Growth Rate
	HK\$ M	% of GNP	HK\$ M	% of GNP	
Imports, f.o.b.	5,702	88	7,686	78	10
Exports, f.o.b.	3,041	47	4,429	45	13
Re-exports, f.o.b.	1,044	16	1,339	14	9
Trade deficit	1,617	25	1,918	19	6
Services balance	545	8	666	7	7
Current Account					
Deficit	1,072	16	1,252	13	5
Capital Account					
(inc. remittances)	1,354	21	1,682	17	8
Increase in reserves	282	4	430	4	

Source: Trade data: Customs Returns; other data: rough estimates by mission (see Appendix on National Accounts).

30. The most important development shown in Table 3 is that, chiefly as a result of rapid export growth, the trade and current account deficits have declined as percentages of GNP. However, the current deficit still constitutes a very large proportion of total available resources. Almost

<sup>1/</sup> See Appendix on National Accounts, p. 4.

nothing is known about the financing of this deficit. Except for some relatively small projects sponsored by the U.K. government, Hong Kong has not received official foreign aid. Almost all of the financing of the current account deficit and the increase in foreign reserves is thus covered by the inflow of private capital and foreign remittances. Possibly between one-quarter and one-third of this total amount was in the form of increases in bank deposits of non-Hong Kong residents. It is not possible to estimate even roughly how the remainder was financed. There is substantial direct investment in real estate and manufacturing by outsiders, while certain medium and larger scale manufacturers are receiving suppliers' credits from abroad. On the other hand, it is known that Hong Kong interests are making investments abroad and are also extending short-term trade credits. The capital account as a whole is thus a mystery; the only clearly evident fact is that Hong Kong continues to exert considerable attraction on many different types of outside investors, sufficient to finance a net capital inflow which by all accounts is very large.

### Imports

31. The importance of merchandise imports for Hong Kong's economic life can hardly be exaggerated. The Colony's production of mineral and agricultural commodities being of minor significance, over 90% of all foodstuffs and almost all raw materials have to be imported. During the sixties there has been, however, a gradual decrease in the ratio of retained imports to GNP. This important trend is in line with the increase in domestic value added as a proportion of certain exports, noted elsewhere in this report (see Paragraphs 18 - 20). As shown in Table 4, retained imports dropped from 79 to 72% of GNP (as estimated by the Mission) and the proportion may have declined to less than 70 percent in 1966. Although the amount of import substitution implied by these figures is impressive the dependence on imports remains of course quite high in comparison with almost any other country. As a result of economic growth, there has also been a change in the composition of imports. The preponderance of foodstuffs and other consumer goods in the total import bill has become less and the relative importance of production-oriented imports, especially of capital goods has risen. As economic growth goes on a further relative decline in the outlay on imported foodstuffs and other imported consumer goods will occur.

TABLE 4: Growth of Retained Imports <sup>1/</sup>

	Average 1960/62		Average 1962/1965		Annual growth rate 1963/65 over 1960/62
	HK \$ Million	%	HK \$ Million	%	
Foodstuffs	1,314	25.6	1,702	24.4	9.0
Other consumer goods	1,023	20.0	1,342	19.3	9.5
Consumer-oriented imports	2,337	45.6	3,044	43.7	9.2
Fuels	225	4.4	261	3.7	5.1
Raw materials and semi-manufactures	2,154	42.0	2,994	43.0	11.6
Capital goods	405	7.9	670	9.6	18.3
Production-oriented imports	2,784	54.3	3,925	56.3	12.1
Total retained imports	5,121	100.0	6,969	100.0	10.8
% of GNP (rough estimate)	79%		72%		

Source: Department of Commerce and Industry; estimates by mission

<sup>1/</sup> These figures (except the figures for imports as a percentage of GNP) are based on an end-use analysis of imports by the Department of Commerce and Industry. In this analysis, retained imports are defined as the difference between imports c.i.f. and re-exports f.o.b. Since this definition does not correct for the mark-up by the local entrepot trade, retained imports are under-estimated, probably by 5-8 per cent.

32. While the importance of raw materials in the local import bill has increased slightly, there has been a significant change in the composition of these imports. This change is related to the pattern of industrial development of Hong Kong which is leading to increased domestic production of semi-manufactures. As a result, the imports of yarns and textile fabrics have become of minor significance while the imports of raw cotton and wool went up. Another important event has been the increase in the imports of building and construction materials which rapidly gained in importance in accordance with the sharp increase in construction activity.

33. The origin of imports is widely diversified. Over half of total imports comes from a large number of Asian countries including about a quarter from Mainland China. Imports from this country cover about half of the Colony's food imports and further consist of inexpensive textiles, other manufactured consumer goods and a certain amount of construction steel. It is interesting to note the extent to which Chinese exporters have been able to penetrate Hong Kong's domestic market for inexpensive manufactures. For instance, garment imports from China increased from HK\$36 million in 1962 to HK\$87 million in 1964, and in the

first eight months of 1966, these imports amounted to HK\$59 million. A large part of the remainder of food and raw materials imports comes from other South East Asian countries. Most of the semi-manufactures and capital goods imports are supplied by Japan, the United States and the United Kingdom.

#### Domestic Exports

34. Domestic exports have been expanding during the 1960's at an impressive rate of 13.4 per cent. Certain developments in Hong Kong's exports are analyzed in Table 5. The composition of exports remains heavily concentrated on textiles and garments which together account for over half of total exports. The diversification and increase in domestic value added within this broad category has been mentioned before. The success of new export items such as electrical equipment and miscellaneous manufactures (largely plastic articles, wigs, etc.) is reflected in the very high growth rate of exports of these articles.

35. On the whole, exports have increased much more rapidly than total world trade and thus Hong Kong's share of world trade is on the increase. Almost all of the increase in exports was directed to markets in the developed world. Hong Kong's share in imports by these countries has been increasing during the 1960's by 8 per cent per year. In view of the fact that total imports of the developed countries during these years increased at an unusually rapid rate, this is a remarkable achievement. However, the overall share of Hong Kong in import markets in the developed world is still quite small, just under half of one per cent. In contrast with this very encouraging performance, Hong Kong's exports to less developed countries did not even keep pace with the more sluggish increase in total imports by these countries and as a result Hong Kong's aggregate share in those markets dropped slightly. The attempt of many developing countries to develop their domestic manufacturing industries and the imposition by these countries of import restrictions due to balance-of-payments difficulties are the reasons for this drop. Notwithstanding the small size of Hong Kong's overall share in world trade, resistance against a further penetration of certain markets led to the earlier mentioned restrictions on textiles. The Government has tried in the negotiation of restrictive agreements with foreign governments to obtain maximum scope for diversification within the industry and increase in value added per unit of product. The continued remarkable increase of textiles exports to the United States, the United Kingdom and other countries applying the import restrictions indicates that these efforts have been successful and that the management of the textile industry has apparently been flexible enough to use this opportunity for increased export earnings. Diversification into other markets and products, however, remains of vital importance to Hong Kong's export growth. Action to find new markets and otherwise promote exports led to the establishment in 1966 with government support of an export promotion board with several offices abroad. The government is also lending support to an export credit insurance scheme meant to alleviate the financial risks in export transactions.

TABLE 5: Domestic Exports Expansion

A. Composition of Exports

	Average 1960/62		Average 1963/65		Annual Average Growth Rate 1963/65 over 1960/62
	HK \$ M	% of Total	HK \$ M	% of Total	
Textiles	604	19.9	730	16.5	6.5
<u>Clothing</u>	<u>1,006</u>	<u>33.1</u>	<u>1,592</u>	<u>35.9</u>	<u>16.5</u>
	1,610	52.9	2,322	52.4	13.0
Electrical equipment	35	1.2	211	4.8	8.0
Manufacture of metal	125	4.1	146	3.3	5.3
Footwear	116	3.8	158	3.6	10.9
Miscellaneous Manufacture	453	14.9	834	18.8	2.3
Others	<u>703</u>	<u>23.1</u>	<u>758</u>	<u>17.1</u>	<u>2.5</u>
Total domestic exports	3,042	100.0	4,429	100.0	13.4

B. Hong Kong Exports and World Trade (US \$ Million)

1. Total Hong Kong exp.	532	775	13.4
Total World imports	125,500	159,700	8.4
2. Hong Kong exp. to dev. countries	349	579	18.3
Total imp. of dev. countries	95,100	124,900	9.5
3. Hong Kong exp. to less dev. "	183	197	2.5
Total imp. of less dev. "	30,400	34,800	4.6

C. Destination of Exports and Market Shares

Exports to:	Destination of Exports (in percent of total exports)		Import Share * (HK exports as % of total imp.)		Annual Growth Rate of Import Share
	1960/62	1963/65	1960/62	1963/65	
U.S.A.	25.2	29.1	0.81	1.11	11.2
U.K.	20.6	20.5	0.86	1.03	6.3
Other dev. countries	<u>19.6</u>	<u>24.6</u>	<u>0.16</u>	<u>0.17</u>	<u>2.2</u>
All dev. countries	65.4	74.2	0.37	0.46	8.0
All less dev. "	34.6	25.8	0.62	0.58	-2.0
Total	100.0	100.0	0.43	0.49	4.6

Source: Hong Kong Trade Statistics; IFS

\* Import share here defined as the share of Hong Kong exports in each country's total imports, e.g. the share of imports from Hong Kong in total U.S. imports rose from 0.81% to 1.11%. The annual growth rate of the import share implied by these figures is in the last column.

#### IV. MONEY AND BANKING

##### Introduction

36. Hong Kong's monetary system is based on the automatic exchange of sterling for Hong Kong dollars by three banks 1/ authorized to issue currency notes. These banks pay sterling into an Exchange Fund, owned by the Government, and receive in return non-interest bearing certificates of indebtedness. The banks are authorized to issue Hong Kong dollars to the equivalent of their holdings of certificates of indebtedness. The certificates can be redeemed from the Exchange Fund at any time at the request of the banks. This arrangement is basically similar to the colonial exchange system employed in other parts of the British Commonwealth. The rate of exchange has been fixed at sixteen Hong Kong dollars to one pound sterling. 2/ Transactions in sterling take place through authorized foreign exchange banks at this rate. Transactions in other currencies are not subject to regulations and a free exchange market could thus be established with great attraction to many investors in and outside the area. The position of the Hong Kong dollar in this market is strong because of the Colony's sound monetary and fiscal regime and the large volume of reserves. The foreign reserves of the Government and banks (see Statistical Appendix, Table 17) amount to the value equivalent of six months of imports.

##### Monetary Developments

37. The expansion of the money supply accelerated from an average of 9% per year in the late 1950's to around 14% per year during the last five years. The ratio of money supply to GNP has been around 35% in recent years. This high percentage for a country at Hong Kong's level of development is partly due to the virtual absence of a non-monetized sector of the economy. A summary of major factors in the increase in the money supply is given in Table 6. This table shows that throughout the last decade the overall balances on Government account have led to a contractionary impact of the public sector on the money supply with the notable exception of 1965 and the first nine months of 1966 when Government incurred deficits. Far more important, however, in its effect on the money supply have been the increase in foreign reserves and the increase in bank credit to the private sector. The latter expanded at the phenomenal annual rate of 26% during the late 1950's and 20% during the last five years. A slowdown in monetary expansion has occurred after the banking difficulties of early 1965 which will be discussed in the following paragraphs. The expansion of private sector credit on a net basis stopped and only in the last months of 1966 did there occur a small expansion. Throughout the last

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1/ The Hong Kong and Shanghai Banking Corporation, the Chartered Bank and the Mercantile Bank.

2/ This is not strictly accurate. The IMF parity is sixteen dollars to one pound sterling, but in exchange transactions the rates are allowed to vary between Sh. 1 d 2-27/32 and Sh. 1 d 3-1/16.

decade the increase in private sector credit has been matched by an increase in fixed deposits by the private sector. The absorption of liquidity through increases in fixed deposits has been remarkable. During the last decade these deposits increased from only 16% to 120% of the money supply. In the Hong Kong context it is not possible to determine which portion of deposits is made by outside and which by local depositors. By all accounts the proportion of outside deposits is high, 50 to 60% of the total according to informed sources in Hong Kong. Undoubtedly, however, domestic deposits must have increased rapidly along with total deposits. As far as fixed deposits are concerned, this would be in line with the observation of a sharp increase in the savings rate during recent years (see Paragraph 9). Both the deposits by non-residents and those by local people testify to the high level of confidence in the Hong Kong banking system and the Hong Kong dollar.

### Banking

38. Commercial banking developed along with the growth of the entrepot trade and later of the export industries. This strong relation with foreign trade accounts for the well developed international contacts of the banking system. The banks are subject to few regulations but difficulties early in 1965 with some local banks which had invested heavily in real estate construction indicate that tighter control may be desirable. Prompt action by the Government and the leading banks helped to preserve confidence in the financial system as shown by the continued rapid growth of deposits. The banking difficulties, however, marked the beginning of greater caution in lending. The expansion of loans has slowed down and the liquidity of the banking system <sup>1/</sup>, which had gone down to 27.6% just before the banking difficulties (25% is the legal minimum requirement), has risen continuously to 34.9% at the end of the third quarter of 1966. The slowdown in the expansion of private sector credit since early 1965 has revived the discussion in Hong Kong about the establishment of an industrial bank. In the early 1960's, a committee set up by the Government concluded that existing financial institutions were able to cope with the demand for funds of all good industrial projects and that the absence of an institution supplying long-term industrial finance did not hamper sound industrial growth. The rapid expansion of manufacturing that followed and the accompanying expansion of bank lending to the private sector gave the impression that this judgment was substantially correct. However, since early 1965 the banks feel they have been too deeply involved in long-term financing. Although opinion is still divided, many industrialists, bankers and government officials now feel that the establishment of an industrial bank is desirable in order to supplement the supply of short and medium term credit from the commercial banks. The tendency towards more capital-intensive production will make the establishment of such an institution a matter of increasing importance. The Mission feels that, in view of the financial strength of the Government and the leading banks it should be possible to bring together sufficient resources to start such a bank from Hong Kong sources and with Government backing such a venture might also be able to attract significant resources from outside Hong Kong.

<sup>1/</sup> Liquid assets (cash and net claims on other banks) as a percentage of total deposits.

TABLE 6: Monetary Developments  
(in millions of HK dollars)

	1957/61	1961/1966 (Sept.)	1964	1965	1966 (Jan-Sept)
<b>A. Changes in the Money</b>					
<u>Supply</u>					
Increase in money supply	659.9	1,954.4	337.1	706.7	274.8
Per cent increase per year	9.0	13.9	11.6	21.8	10.7
<u>Factors</u>					
Increase in bank credit to private sector	1,632.6	3,265.0	1,021.8	730.5	267.5
Less: Increase in private time and savings deposits	1,462.1	3,280.8	929.8	377.0	720.9
Less: Other net liabilities	<u>130.9</u>	<u>110.6</u>	<u>-336.9</u>	<u>677.9</u>	<u>-114.9</u>
Net increase in bank credit to private sector	39.6	-126.4	428.9	-324.4	-338.5
Net increase in bank credit to public sector	27.4	-183.3	-145.1	128.9	77.0
Increase in foreign reserves	<u>592.9</u>	<u>2,264.1</u>	<u>53.3</u>	<u>902.1</u>	<u>536.4</u>
Total increase in money supply	659.9	1,954.4	337.1	706.7	274.8
<b>B. Money and G.N.P.</b>					
		(1961-65)			
Money supply as % of G.N.P.		34.7	33.6	35.9	
Private time & savings deposits (quasi money) as % of G.N.P.		35.4	41.1	39.6	
Money supply + quasi money as % of G.N.P.		70.1	74.7	75.5	

Source: Statistical Appendix Tables 14-17; further information supplied to mission.

V. PUBLIC FINANCE

39. The expansion of the economy and the tremendous population increase during the post-war period required a rapid expansion of public expenditures. As Table 7 shows, the pace was especially rapid in the early 1960's, but in subsequent years the rate of increase has been still very high. In contrast to most developing countries a large proportion of the expansion of the infrastructure is provided by private firms and is thus not a direct concern of the government. As mentioned before, this is the case with the provision of electricity and gas and most of public transportation and port facilities. On the other hand, however, strong demands on government funds are made to provide education, housing, medical services and fresh water for Hong Kong's fast growing population. Since 1950 current expenditures have risen at an annual rate of 13% and capital expenditures at 22%. Only in recent years has there been some slowdown in these growth rates. The share of capital expenditures in the total has risen continuously and amounted to about 40% of the 1966/67 budget and almost a quarter of total capital formation in the economy.

40. The government has been able to finance these fast increasing expenditures entirely from revenue until 1965 and in most years has added to its reserves. Government revenue amounts to about 15% of GNP which is not low for a country at Hong Kong's level of development. The urban character of the economy which facilitates revenue collection and the efficiency of the government's fiscal administration are the main factors in this very satisfactory performance. The government's achievement is the more remarkable since the structure of the economy imposes certain limitations on the raising of revenue not encountered in most other countries. In the first place, customs duties and excises play a relatively small role in the total fiscal effort despite the fact that total foreign trade amounts to around 135% of GNP. The maintenance of a free port puts difficulty in the way of imposing duties on all but a few commodities such as liquor, tobacco, petroleum products and a few others. Thus the Government has only limited scope to exploit a tax field which is almost the mainstay of public finance in many other open economies. In the second place, there is in Hong Kong little leeway for increasing the rate of direct taxes on corporations and individuals lest Hong Kong's attraction on investors be diminished. Last year these taxes were raised from 12-1/2% to a maximum rate of 15%. In view of the fact that the Hong Kong Government unlike many other developing countries does not provide fiscal incentives or subsidies to foreign investors it may not be feasible to increase this rate very much more without reducing Hong Kong's attractiveness for foreign investors. However, even at the 12-1/2% rate which has remained unchanged for many years, the profits and earnings tax was one of the most dynamic elements in government revenue reflecting the favorable financial results of business during most of these years. The limitations in revenue collection have led the government to exploit intensively a variety of other sources of revenue which do

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1/ For details on Public Finance in recent years see Statistical Appendix, Tables 9-12.

TABLE 7: Government Revenue and Expenditure <sup>1/</sup>

Average of three-year periods			
(in millions of HK dollars)			
	FY	FY	FY
	1957/58/59	1960/61/62	1963/64/65
Consolidated revenue	579	1,004	1,451
Current expenditure	385	595	860
Current surplus	195	409	591
Capital expenditure	174	371	614
Overall balance	21	38	-23

Annual growth rate over preceeding three-year period		
Consolidated revenue	20	13.1
Current expenditure	15.6	13.1
Current surplus	28	13.1
Capital expenditure	29	18.3

Percent of GNP <sup>2/</sup>		
Consolidated revenue	15.5	15.0
Current expenditure	9.2	8.9
Current surplus	6.3	6.1
Capital expenditure	5.7	6.3
Overall balance	0.6	-0.2

<sup>1/</sup> Fiscal years run from April to March

<sup>2/</sup> Revenue and expenditure on fiscal year basis and GNP (at market prices) on calendar year basis

Source: Hong Kong Government; estimates by mission.

not suffer from these limitations. The most important among these is a category of revenue which is aimed at appropriating for the government a slice of the high rental income of the Colony deriving from the scarcity of land. This includes the rates payable on real estate occupation, the sale of Crown land leases, and land rents. Other forms of the government's exploitation of what is in effect rent income are its efforts to raise revenue from parking meters and the exploitation of garages. Land sales became temporarily a major element in government finance during the speculative real estate boom of 1962-1964. At present income from this source is down to more normal proportions (4% of revenue as compared to 17% in 1962/63). A further important revenue source is the current surplus of government enterprises, favored by rate policies which maintain the water works, the post office, the airport and the railway on a self-supporting basis.

41. The picture of rapid revenue growth has changed slightly the last two years. In 1965/66 the revenue increase dropped to 7%, mainly due to the drop in land sales and a temporary slowdown in imports which kept revenue from customs duties at about the same level as the year before. Some other important sources of revenue, however, continued to show high growth rates partly because of the time lag in collection. Direct taxes continued to grow at a rate of almost 20% and the current surplus of government enterprises also increased sharply. On the whole, however, revenue collections increased slower than in past years. At the same time current and capital expenditures went up faster than before, the latter because of the coming to a head of the expenditure on a number of important projects. The overall result was, for the first time since 1960/61, a deficit of almost 10% of consolidated revenue which the government financed entirely from its reserves.

42. These less favorable results were the background for the government's cautious budget for 1966/67. A drop in the growth rate of revenue to 4% was forecast and increases in a few tax rates  $\frac{1}{2}$  were introduced to raise the total increase of public revenue to 10%. This was necessary to finance a continued large increase in current expenditure partly due to a raise in the salaries of public servants. Almost no increase, however, was foreseen in capital expenditure due to the completion or near-completion of the Plover Cove scheme and other large public works projects. The overall budget deficit was estimated at HK\$131 million, slightly less than the previous year. The final out-turn however was a surplus of HK\$12 million. Revenue collections have been much higher than anticipated in the budget and expenditure lower. Weather conditions caused a delay in public works in the first half of the fiscal year and public works expenditure is moreover experiencing the favorable effect of the let-up in the building boom on wages of construction workers and prices of building materials.

43. The drawdown of reserves in 1964 and 1965 was modest and was followed by a small increase in 1966. Government's accumulated foreign exchange reserves including those of the Exchange Fund at the beginning of 1967/68 amounted to about 130 percent of total expenditure forecast for the year. The government's financial position is thus strong.

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1/ Corporation and income tax were raised from 12 $\frac{1}{2}$ % to 15%; duties on tobacco and motor spirits were raised by about 20%.

## VI. PROSPECTS

### Growth Prospects of the Main Sectors

44. The future of the Hong Kong economy depends mainly on the demand for relatively labor-intensive high-quality manufactures in the developed world and on Hong Kong's ability to offer these goods at competitive prices. At present, the imports by developed countries of these products from less developed countries are still small.<sup>1/</sup> However, Hong Kong's exports of labor-intensive manufactures are the largest among underdeveloped countries, well ahead

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<sup>1/</sup> Cf. "Trade of the LDC's: Manufactures Point the Way" by Hal B. Lary in Columbia Journal of World Business, Summer 1966. The study is based on basic data for 1964 supplied by the Statistical Office of the U.N. The selection of labor-intensive products is by the author. The results of the study are summarized in the following table, which gives a striking illustration of two facts: (i) developed countries obtain only about 8.5 per cent of their total imports of labor-intensive products from less developed countries; (ii) over a quarter of the imports of these products from less developed countries come from Hong Kong.

Imports of Labor-Intensive Manufactures by  
Developed Countries from LDC's (1964)  
(Millions of US dollars)

	<u>Imports</u> <u>From all</u> <u>Sources</u>	<u>Imports</u> <u>From.</u> <u>LDC's</u>	<u>Imports</u> <u>From</u> <u>Hong Kong</u>
1. Textiles, carpets, clothing and other accessories	5,865	785	359
2. Other labor-intensive finished goods, mainly consumer items, excluding food	5,103	429	201
3. Selected food products and cigars	1,635	421	5
4. Selected materials for industrial use, mainly burlap, leather, wood products	3,651	623	4
5. Items of marginal labor intensity, including selected metal products, electrical goods and machinery	<u>11,017</u>	<u>97</u>	<u>49</u>
Total 1-5	27,271	2,355	618

even of a very large country such as India. Yet the penetration of developed markets is not very deep and there is an a priori possibility for a sizeable further increase in labor intensive exports.

45. As shown earlier Hong Kong has been able to raise the value of its textile exports faster than volume import restrictions in the developed countries would permit by diversification of production and a shift towards higher quality products. This trend is likely to continue. Because there is also scope for an increase in the domestic production of textile semi-manufactures, textiles and garments will probably remain for years to come, the most important of Hong Kong's manufacturing industries. At the same time it is also reasonable to expect a continuous expansion of other kinds of manufactured exports in accordance with past patterns. A factor that could have some unfavorable effect on export growth would be Britain's entry into the Common Market and the eventual loss of preferential treatment for members of the British Commonwealth. The proportion of exports directed to the United Kingdom has been dropping in recent years and amounted to 17 per cent in 1966. The impact of the long-expected entry in the Common Market would depend on the length and nature of a transitional arrangement, if any, for Commonwealth countries, but even at worst, the damage to Hong Kong's overall export performance will probably be not too great, because of Hong Kong's established trade relations with Britain and its ability to price its products competitively.

46. During the 1960's total imports of the developed countries (where over three-quarters of Hong Kong's exports are sold) have increased by about 9.5 per cent a year. During the same period Hong Kong's exports to those countries increased by 18.3 per cent. In spite of certain possible developments which may have an unfavorable effect on export growth, a continuation of this relation (i.e. Hong Kong's exports increasing much faster than developed countries' imports) seems likely. The main factor which determined Hong Kong's successful export performance, the intensive utilization under very able management of relatively low priced labor, still exists. Wages have increased fast in recent years, but the differential with developed countries where wages have also gone up rapidly may not have changed too much. Competition from other developing countries will become more intense as industrialization in these countries proceeds and a fuller utilization of their ample labor supply takes place. However, Hong Kong has the advantage of seasoned and resourceful management, well-developed financial and commercial services, and well-established overseas contacts. In these circumstances it is reasonable to expect sufficient diversification and efforts to further improve the quality of production. Under the assumption of continued economic expansion in the developed countries and a concomitant further rapid growth of their imports, Hong Kong may be able to realize export growth rates of approximately the same level as in the past (13-15 per cent a year). However, if business conditions in the developed world were to deteriorate considerably in the future, then Hong Kong's export position would be seriously affected.

47. The dependence on outside developments is equally strong in the case of the entrepot trade and a number of other service industries such as shipping, port activities, storage, insurance, international communications and banking. As far as the entrepot trade is concerned, it seems likely that the growth rate will continue to be lower than the growth rate of domestic exports but a continuation of past growth at 7-9 per cent a year seems as reasonable an assumption as is possible with all the uncertainties of the China trade. The demand for several other services is closely connected with the level of international trade and these activities will probably grow at about the same rate as international trade.

48. The prospects for the tourist industry are favorable. A factor of increasing importance is the number of visitors from Japan which is likely to increase further as incomes in Japan rise. The termination of the Viet Nam conflict would reduce the number of United States service personnel visiting Hong Kong, but this factor will probably be outweighed by a continuation of the trend towards an increase of Western and Japanese visitors to East Asia. After the temporary building surplus has been absorbed, the construction industry should resume its high growth rate, paced by a high level of housing construction and a number of projects in the transportation sector (see Paragraph 53).

49. The overall prospects of the economy thus seem favorable and further economic growth at a high rate is likely. The growth rate will probably not be less than 10 per cent and may approach the 13-15 per cent rates of the past. A serious slowdown in the economic growth of the developed world would of course adversely affect these prospects.

#### Requirements of Economic Growth

50. Barring a renewal of the inflow of immigrants the growth of the labor force during 1967-71 will probably be at a somewhat lower rate than in the past five years. The number of persons in the productive age groups (15-64 years) will increase by approximately 3 per cent per year. However increased prosperity will probably lead to a drop in the currently very high rates of participation in the work force. A somewhat lower growth rate for the economically active population, perhaps 2-2.5 per cent a year during the next five years, seems therefore likely. This compares with a growth rate of over 4 per cent a year during 1961-66 and an even higher growth rate in the 1950's. Realization of the economic growth potential discussed in the previous section will therefore depend even more than in the past on an increase in the productivity of labor. This has several implications. The level of training of the labor force will have to be raised; labor should shift to firms and occupations with high productivity; the capital-labor ratio will have to rise. In order to realize the growth potential it is also necessary that certain infra-structure facilities be expanded. The relationship of these requirements to economic growth is, in the short run, perhaps more tenuous than in most countries. In view of the dominant role of external trade conditions on Hong Kong's prosperity it is conceivable that the economy temporarily flourishes while education and infra-structure requirements are to a certain extent neglected. However, for the long run prospects, action in these areas is of great importance.

51. While general literacy is at a fairly high level, an expansion and improvement of technical and business education is necessary to give the labor force the skills required for the more sophisticated, larger scale production of the future. For this purpose secondary education needs to be expanded and adapted. Probably 50-60 per cent of the children between ages 12 and 17 are outside the secondary system. The Government's education policy is aimed at expanding and improving secondary education and establishing vocational schools for part of the children between ages 12 and 14 who at present do not receive secondary education. There is also need for an expansion of education at more advanced levels. While managerial and technical skills available in Hong Kong were of sufficiently high quality to meet the requirements of the first, relatively simple stage of industrialization, there is no doubt that the increasing sophistication of production will require a drastic increase in the university output of engineers, business economists and accountants. Expansion of instruction in engineering, business economics and accounting is planned or under consideration. These projects should be accorded high priority.

52. A further requirement for raising productivity is a gradual re-organization of Hong Kong's industry in the direction of larger, better organized units. In the after-war period industrial growth has been propelled by the opportunity of establishing a large number of enterprises based on Hong Kong's main comparative advantage, the abundance of inexpensive and hard-working labor. Relatively simple technology and small size of operation were often sufficient to achieve an outstanding production and export performance. The managerial and financial problems of industry could usually be solved within the frame of the traditional family-owned enterprise. As Hong Kong enters a more advanced stage of industrialization the scope for expansion on this basis will narrow. Labor has become short in supply, its price is rising rapidly and the main impetus of industrialization is moving from small production units (cottage industries, home workers) to larger establishments with a bigger investment per worker and access to better management methods and research. The gradual decline of small scale industries will release workers for employment in establishments with higher productivity. There is also ample scope for a flow of labor from primary industries and certain service industries to industrial and commercial activities with high productivity. As a result of this continuing redistribution of the labor force the number of workers available for activities with high productivity should increase much faster than the 2-2.5 per cent annual growth rate of the labor force as a whole. While the larger firms will therefore not face a labor shortage, there is no doubt that marginal firms will feel that they are unable to pay the rising costs of labor and be forced to amalgamate where this is possible or to liquidate. In part, changes in industrial structure can be expected to occur in the natural course of Hong Kong's economic evolution but they can be facilitated by public activities in the fields of infrastructure, longer term credit and training.

53. There is need for expansion in the fields of power, communications, and transportation. The power companies have embarked on expansion schemes which will allow a continuation of the smooth expansion of power consumption of the post-war era. In addition to the large current surpluses of the companies, there seems to be sufficient finance from outside sources to finance the implementation of these schemes. A large expansion scheme of telephone services which will allow a substantial improvement in the availability of telephone connections will probably also receive sufficient outside finance. In the transportation sector there are several major projects under consideration but sources of financing for some of these are less clear. The implementation of the long discussed toll tunnel for motor vehicle traffic across the harbor linking Victoria Island and Kowloon (total cost around US\$55 million) will be undertaken by a private company with some support of the government. It will go ahead as soon as outside finance on reasonable terms can be secured. An extension of the runway and terminal facilities of Kai Tak airport at a total cost of US\$20 million is needed to make the airport ready for the forthcoming introduction of larger subsonic jets. This project will be implemented by the government which is looking to outside sources for help in the financing. Major projects under consideration in the transportation sector which, however, have not yet been included in the government's expenditure forecast are the construction of a container port and of a mass transport system. The cost of the first phase of the containerization project is estimated at US\$22 million. The first construction phase of the mass transport system which will take several years will cost approximately US\$175 million. In addition to these projects, major road projects in the New Territories are under study. Land scarcity is a dominant factor in Hong Kong's economic life, but a large effort to open up the New Territories where land use is much more extensive could go a long way to alleviate the situation.

54. With the present state of information about capital formation in Hong Kong it is difficult to make a forecast of total future capital requirements or future capital availabilities. It seems reasonable to predict, however, that along with substantial increases in domestic saving there will continue to be large net inflows of capital so long as Hong Kong continues to maintain its attractiveness to foreign investors. In order to maximize the chances of obtaining sufficient outside capital, these qualities should be carefully preserved. The most important among them are: low taxes, freedom of international transactions on current and capital account, convertibility of the currency, a minimum of government interference with the establishment and management of private enterprise and provision of adequate infrastructure facilities. The awareness in Hong Kong of these requirements is strong and the likelihood that the government will change its policies in a different direction seems small.

55. A factor of increasing importance will be the availability of long-term capital. In the past the banks channelled considerable amounts of funds to manufacturing but the banking difficulties of early 1965 have made the banks more cautious, at least for the time being. Banking statistics indicate a slowdown in the rate of bank lending to industry since early 1965. In order to ensure that funds become available for Hong Kong's further industrialization, a domestic lending institution supplying medium- and long-term finance is desirable to supplement medium-term suppliers' credits and equity participation from abroad. The Colony and some of its largest banks could provide such an institution with a solid financial base which might also enable it to attract the interest of outside investors.

#### The Outlook for Public Finance

56. In the immediate future the government probably will not be confronted with a difficult financial situation. The budget for the current financial year (April 1967 - March 1968) shows an overall deficit (i.e. after allowing for capital expenditure) of only HK\$35 million or about 2 per cent of total expenditure. Since the revenue estimates are obviously over-conservative, it is most likely that the final outcome will be, as often in the past, an overall surplus instead of the forecast small deficit. The forecast overall rate of increase in revenue is only 3.7 per cent as compared with an average rate of increase of about 10 per cent a year in the past five years.

57. For the longer term the situation could well be different. Longer term fiscal developments depend partly of course on the future growth of world trade, but perhaps more importantly on the revenue and expenditure policies of the government. The government has prepared a five-year forecast of revenue and expenditures which covers the financial years 1966/67-1970/71. In the introduction to this forecast the government states that the forecast is based on the assumption that the active business conditions of the past few years will be well maintained and that exports will not be seriously affected by various external restrictions. The government recognizes, however, that the outlook has a large element of uncertainty because the economy is much affected by extraneous influences. In spite of this on the whole favorable view of future developments the forecast shows a marked slowdown in the growth of revenue and expenditures. For the five-year period as a whole a modest deficit is forecast, HK\$662 million or 6 per cent of prospective revenue from all sources. The break implied by the forecast with past growth rates is shown in the following table:

TABLE 8: Public Finance - Growth Rates <sup>1/</sup>

Annual rate of increase in per cent

	<u>Average 1964/66 over average 1960/62</u>	<u>Average 1968/70 over average 1964/66</u> (Government forecast) <sup>2/</sup>
Current revenue	14.4	7.6
Internal revenue	16.2	6.1
Duties	11.0	7.7
Total revenue	12.2	6.9
<hr/>		
Current expenditure	14.0	10.2
Education	16.4	9.4
Health	15.0	7.6
Welfare	9.2	13.9
Urban services	13.4	8.5
Personal emoluments	13.7	8.2
<hr/>		
Capital expenditure	17.4	2.4
Education	12.1	14.7
Health	-6	-3.5
Housing	14.0	-5
Waterworks	12.9	-11

<sup>1/</sup> Figures have not been adjusted for small changes in tax rates during 1960 - 1966.

<sup>2/</sup> For details on the Government's five-year forecast of revenue and expenditure see Statistical Appendix Table 13.

Source: Hong Kong Government.

58. As far as revenue is concerned, this forecast does not seem to be in line with the above-quoted expectation of continued rapid expansion of the economy and thus a rapid growth of the tax base. Internal revenue (which includes the important corporation and income taxes) was in the past quite responsive to economic growth and increased annually by 16-17 per cent at tax rates which remained virtually unchanged until 1966/67. For the future, however, the growth rate of internal revenue is estimated by the government at only 6 per cent. The growth rate of revenue from duties is also expected in the government forecast to drop sharply although there seems to be little reason to expect a lower growth rate in the import

(or local manufacture) of articles such as liquor and tobacco which account for the bulk of revenue from duties. The official forecast also shows a slowdown in the growth rates of other forms of revenue (licenses, fees, motor vehicle taxes, post office) which appears equally inconsistent with the expectation of rapid economic growth. If the Mission's expectation of future GNP growth at or near recent levels is correct, the revenue estimates would imply a shrinking of government revenue as a proportion of GNP, while in the past revenue has expanded as fast or faster than GNP without an adjustment of the tax rates.

59. The expenditure estimates in the government forecast are also on the low side. The growth rate of the most important element in current expenditure, personal emoluments, is to drop sharply according to the government forecast. Between 1960 and 1966 the number of government employees increased annually by over 4.5 per cent a year. In view of the prospective increase of government tasks in many fields resulting from the population increase and the growth of the economy, it is unlikely that the growth in the number of public servants could be kept much below the past growth rate. And the general rise in wages which has amounted to about 8 per cent in recent years will go on and necessitate revisions in government pay scales. In view of these factors it appears that the expected growth rate of expenditure on personal emoluments is unrealistically low and that the increase will almost certainly be by more than 10 per cent a year and possibly close to the 14 per cent increase rate of the past. The government estimate for current expenditure on education also appears to be on the low side. The mission has tried to estimate the consequences of the rapid increase in the population of school-going age and the achievement of modest gains in the percentage of children attending school. This suggests a continuation of the rate of increase in current expenditure on education by 15 per cent a year which represents a striking contrast with the official forecast. Similarly the government forecast of a sharp reduction in the growth rate of expenditure on health and other urban services seems questionable. On the whole, it would seem reasonable to expect that the overall growth rate of current expenditures will not be much lower than in the past.

60. In the case of capital expenditure the government forecast is for a stabilization of expenditures at about the present level of around HK\$750 million. This is in sharp contrast with the rapid growth of capital expenditures in the recent past. An important factor in the forecast is the completion of the Plover Cove Scheme which will allow a tapering off of expenditure on water works. By 1970/71 the government expects however that new schemes will have been taken in hand and that expenditure will start to build up again. Capital expenditure for education is expected to increase sharply partly because of increased capital subventions to private education. Housing expenditure, the largest item on the capital budget, increased very fast in the past. For the future however the government foresees a reduction of expenditures chiefly because in the forecast resettlement and low cost housing are kept at about the present level, while government support for middle-class housing is

reduced. There are strong doubts that this estimate is realistic. For one thing, there is a substantial need for replacement of inadequate housing. Another element of increase in the demand for housing is the increasing numbers reaching the age of family formation as an after-effect of the post-war baby boom. The effect of this will probably be enhanced by the factor that increasing prosperity tends to lead to a relative increase in the number of marriages in any given population. These factors will probably more than outweigh in the next few years the fact that immigration has virtually come to an end and that the birth rate is on the decline. In fact, the decline in the birth rate will affect the demand for housing (and many other services) with considerable delay. The government has pointed out that its estimates do not make allowance for a number of projects which will probably have been started by the end of the decade. These are the expenditures for the first phase of a container port estimated by the government at HK\$124 million; expenditures for the first phase of a mass transport system, estimated at HK\$1,000 million; "very large" expenditures for road construction and road improvement schemes now under study and a contribution from public funds to a medium and long term lending institution. From the viewpoint of the economy's long-term growth requirements most of these schemes and projects are probably of high priority and making quite notional allowances for their inclusion in the total, priority public capital requirements could realistically go as high as HK\$1,000 or 1,200 million by 1970/71.

61. While there are serious doubts about the validity of the government's financial forecast this does not necessarily mean that the overall deficit will turn out to be different. Revenue and expenditure are both under-estimated and adjustments may cancel out each other. By way of illustration a comparison is made between the government's forecast and a tentative estimate by the mission. The latter is based on an extrapolation of current revenue and expenditure at the growth rate of the past four years. Allowance is made for a slowdown in land sales. Capital expenditure is assumed to reach HK\$1,100 million by 1970/71, the amount mentioned in the previous paragraph.

TABLE 9: Government Revenue and Expenditure  
During 1966/67-1970/71 (cumulative)  
(HK\$ million)

	<u>Government forecast</u>	<u>Tentative estimate by mission</u>
Revenue	10,516	12,454
Current expenditure	7,315	8,694
Capital expenditure	<u>3,863</u>	<u>4,524</u>
Cumulative deficit	662	764
Cumulative deficit in US \$ million	116	134

62. The deficit in the government forecast amounts to only 6 per cent of total revenue. A deficit of this magnitude could probably be covered without great difficulty by additional taxation and perhaps some drawdown of reserves. At the beginning of 1967/68 these stood at HK\$1,265 million (US\$221 million), equivalent to about two thirds of total revenue. The deficit in the mission estimate is of about the same magnitude but both revenue and expenditure in this estimate are much higher than in the government's forecast. This illustrates the point that continued revenue growth at the rate of the past several years will allow the government to finance a considerable expansion of government expenditure without any serious financial problem. The increase in expenditure in this tentative estimate would be sufficient to cover our rough estimate of priority capital expenditures and would also allow a vigorous expansion of education, health and other services. If however a slowdown in economic growth would lead to a lower growth rate of revenue and if the government felt that it would not be justified to cut expenditures at the same rate, then a more serious financial problem could arise. Under adverse economic conditions, the scope for additional taxation and local borrowing might be small and the government might need to borrow in foreign markets. The financial strength of the Colony would permit a considerable amount of outside borrowing but if the present situation of capital markets remains unchanged, it is uncertain that borrowing efforts would be successful. London would probably be the most appropriate market for a British Crown Colony, but in view of Britain's economic difficulties it is unlikely that more than a marginal amount of Hong Kong's prospective needs could be covered from this source. The success in other capital markets is also uncertain. However for the time being the Government does not have a financial problem requiring borrowing abroad although the possibility that such a financial problem will arise in the next several years cannot be excluded.

63. A final word about creditworthiness. Public debt outstanding is very small (US\$14 million equivalent) and debt service (US\$1 million) negligible. The prospects for foreign exchange earnings are favorable and the Colony has large foreign reserves (US\$886 million equivalent in September 1966). It is therefore unlikely that Hong Kong would have difficulty servicing a substantial increase in its foreign debt. Of course Hong Kong's future might be disturbed by political developments in the area, especially aggressive policies on the part of Mainland China. As against this possibility, any Bank loan to the Colony would have the guarantee of the United Kingdom. If the element of political disturbance can thus be discounted, there remains little doubt that Hong Kong could assume large amounts of debt on conventional terms.

## Appendix on National Accounts and Balance of Payments

### Introduction

1. Little information is available on Hong Kong's National Accounts. Neither the government nor any agency outside the Government is engaged in producing statistics on this subject on a regular basis. Rather sketchy estimates for the late forties and early fifties <sup>1/</sup> and preliminary results of investigations for the financial years 1960/61 and 1961/62 (by Dr. E.R. Chang of the University of Hong Kong) are the main information on the subject. The preliminary results of this last enquiry had just become available when the mission visited Hong Kong. It is based on a 20% sample of income and corporation tax returns supplemented by published information on public utilities, government revenue and expenditure and foreign trade. However, a full description of the method followed in establishing these accounts is not yet available. With regard to the balance of payments, the only information available to the mission consists of estimates for the years 1963-65 produced by the Ministry of Overseas Development of the U.K. Government. These estimates are incomplete and, by the Ministry's own admission, of a very tentative nature. The latter is also true for a breakdown of current invisibles for the years 1960, 1964, 1965 provided by the Ministry to the mission.

2. On the basis of these pieces of information and various economic indicators, the mission has attempted to approximate the most important macro-economic magnitudes for the years 1960-1965. The following summary tables were prepared: (i) gross domestic product by industrial origin; (ii) gross capital formation; (iii) balance of payments; (iv) expenditure on gross national product. Clearly the mission had neither the time nor the information to make accurate estimates. Many of the assumptions have an arbitrary character and the results may be subject to considerable error. In spite of these serious limitations we feel, however, that the results do help in obtaining a picture of economic developments during the 1960's.

### Gross Domestic Product by Industrial Origin

3. As a starting point the mission used Dr. Chang's GDP estimates for 1960/61 and 1961/62 which we transposed to a calendar year basis by straightline extrapolation. For the contributions to GDP by the main economic sectors, Dr. Chang's estimates were also used except for some important, but admittedly very rough adjustments. The contribution by the manufacturing sector is estimated by Dr. Chang at only 23.7% in 1961/62. This sector employs 44% of the labor force and accounts for almost all exports (45% of GDP), a part of the value of re-exports and a certain (but unknown) share of domestic consumption and capital formation. There is no doubt that this estimate must be far too low and we have tentatively

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<sup>1/</sup> Ronald A. Ma and Edward F. Szczepanik, "The National Income of Hong Kong, 1947-1950", Hong Kong, 1955, and Edward F. Szczepanik, "The Economic Growth of Hong Kong", London, 1958.

followed Szczepanik's probably much more reasonable estimate of a 33% contribution to GDP. Although port activities and shipping are quite important in Hong Kong it is unlikely that the contribution to GDP by the transportation sector can be much more important in Hong Kong than in most countries due to the absence of inter-city transport. Dr. Chang's estimate that the transport, storage and communications sector account for 10.1% of GDP is much higher than in countries with a highly developed transport and communications system (U.S.A. 6.1%, Germany 5.9%). Tentatively we have reduced the contribution of this sector to 5% of GDP. In the case of wholesale and retail trade and banking and other services we have made moderate downward adjustments in their contributions to GDP.

4. Having thus obtained an estimate for GDP by origin in 1960 and 1961, the following steps were taken to extrapolate the results for the years 1962-1965:

- Agriculture, forestry and fisheries. The value added of this sector was assumed to increase at the same rate as the total production value of the primary sector as reflected in the respective administration reports of the government.

- Mining. On the basis of production statistics for minerals and government revenue from quarrying, we assumed that the value added of this small sector remained unchanged.

- Manufacturing. In view of the relatively small size of the domestic market and the predominance of manufactures in total exports, it was assumed that the growth rate of the value added of manufacturing production had been about equal to the total growth rate of domestic exports. This assumption may be questioned to the extent that the output of manufactured goods for the local market may have grown more slowly than output for the export market. On the other hand, however, the increased substitution of domestic semi-manufactures for imported inputs has led to a rapid increase in the proportion of domestic value added per export dollar. It may well be therefore that the GDP of manufacturing has grown much faster than the value of exports and that our estimates in this respect are too conservative.

- Construction. A growth index for the construction industry was established by adding together, for each year, government capital expenditure and private building investment. Private building investment was estimated on the basis of government data for the value of private buildings completed each year; we assumed an average two-year building period.

- Electricity, gas, water. It was assumed that the GDP of this sector increased at the same rate as the consumption of electricity and water. Gas production is of relatively small importance. In accordance with Dr. Chang's estimates the contribution of gas and electricity to the total value added of this sector was estimated at 88 per cent.

- Transportation, storage, communications. The arithmetic average of the growth rates of passenger traffic and sea-going cargo was taken as indicative of the growth rate of this sector.

- Wholesale and retail trade. The growth rate was assumed to be equal to the growth rate of the total value of foreign trade, because of the overwhelming importance of foreign trade (135% of GNP in 1965).

- Ownership of dwellings. The growth rate was assumed to be equal to the increase in rates collected by the Government. The government endeavors to reflect in its rate assessment changes in the value of the property.

- Public administration and defense. The growth rate was assumed to be equal to the growth rate of government current expenditure minus education and health, which are included in the services sector.

- Banking and other services. The growth rate was assumed to be equal to the growth rate of the rest of the economy. The reason for this optimistic assumption is the very fast growth rate of important parts of this composite sector (banking deposits up 22% per year, number of overseas visitors up 20% per year).

#### Gross Capital Formation

5. - Dwellings and non-residential building. Estimated as the sum of private building investment (see Paragraph 4, Construction) and government investment in housing.

- Other construction and works. Figures for 1960 and 1961 are based on Dr. Chang's estimates. Increase in following years was assumed to be at the same rate as the increase in government capital expenditure.

- Transport equipment, machinery and other equipment. Estimated to be equal to the value of retained capital goods imports plus 25%. This percentage should allow for mark-up by local trading houses on the imports of capital goods not directly imported by manufacturers and for a modest volume of local machinery production.

- Increase in stocks. Figures for 1960 and 1961 based on Dr. Chang's estimates. Extrapolation was made in line with the growth of GDP. It was furthermore assumed that there was a positive correlation with changes in imports.

Balance of Payments

6. - Merchandise trade. We have used customs returns figures but reduced imports to an f.o.b. basis. Transport and insurance on imports were estimated at 7-1/2 per cent of c.i.f. value as in the balance of payment estimates for 1963-1965 made by the U.K. Ministry of Overseas Development.

- Non-factor services. The figures on this item are very rough approximations. For transportation, government services and other services we used tentative estimates by the U.K. Ministry of Overseas Development for the years 1960, 1964 and 1965. The values for the intervening years are the result of intrapolation. In the case of travel we used our own estimate (see also Paragraph 21 in the report).

	1960	1961	1962	1963	1964	1965
	(millions of HK dollars)					
Transport	-192	-221	-250	-280	-309	-267
Travel	541	585	633	686	743	797
Government	120	126	132	138	144	186
Other services	<u>18</u>	<u>2</u>	<u>- 14</u>	<u>- 30</u>	<u>- 46</u>	<u>- 62</u>
	418	492	501	514	532	654

Evidently it is not possible to claim accuracy for these estimates. However in view of the rapid development of tourism it seems plausible that the total services balance should show a gradually rising trend in spite of increasing deficits (because of the expansion of foreign trade) on transport and other services.

- Factor income from abroad. Data for 1960 and 1961 are based on Dr. Chang's estimates. Investment income was assumed to grow in the following years at the same rate as external assets (Statistical Appendix Table 17). Other factor earnings were assumed to grow at the same rate as foreign trade. Factor payments were assumed to grow annually by 2 per cent of the deficit on goods and non-factor services.

7. - Change in reserves. See Statistical Appendix Table 17.

- Capital Account. Estimated as a residual. Includes remittances.

Expenditure on GNP

8. - Consumption was determined on a residual. No attempt was made to make an independent estimate.

TABLE 1: Gross Domestic Product by Industrial Origin  
(in millions of HK dollars)

	1960	1961-	1962	1963	1964	1965
Agriculture, forestry, fisheries	182	211	228	232	203	216
Mining and quarrying	16	19	19	19	19	19
Manufacturing	1,766	2,046	2,311	2,669	3,087	3,506
Construction	332	384	465	610	763	903
Electricity, gas, water, sanitation, services	134	155	180	207	240	274
Transportation, storage, communica- tions	268	310	341	367	397	409
Trade, wholesale and retail	947	1,097	1,229	1,385	1,598	1,723
Ownership of dwellings	353	409	452	509	590	789
Public administration and defense	289	335	367	405	482	567
Banking, other services	1,070	1,240	1,397	1,600	1,843	2,099
GDP at factor cost	5,350	6,200	6,989	8,004	9,222	10,505
Indirect taxes minus subsidies	230	267	298	340	388	392
GDP at market prices	5,580	6,467	7,287	8,344	9,610	10,897
Factor income from abroad	71	27	48	60	37	89
GNP at market prices	5,651	6,494	7,335	8,404	9,647	10,986
Population mid-year (estimate) (thous. persons)	3,171	3,171	3,410	3,592	3,692	3,804
GNP per capita	1,782	2,048	2,151	2,340	2,613	2,888
GNP per capita in US \$	312	358	376	410	457	505

TABLE 2: Gross Capital Formation  
(in millions of HK dollars)

	1960	1961	1962	1963	1964	1965
Dwellings and non-residential building	445	443	535	826	1,109	1,274
Other construction and works	128	160	204	240	261	321
Transport equipment, machinery and other equipment	465	486	570	710	845	970
Total gross fixed capital formation	1,038	1,089	1,309	1,776	2,215	2,565
Increase in stocks	410	335	420	480	630	570
Total gross capital formation	1,448	1,425	1,729	2,256	2,845	3,135

TABLE 3: Balance of Payments  
(in millions of HK dollars)

	1960	1961	1962	1963	1964	1965
Exports, f.o.b.	2,867	2,939	3,317	3,831	4,428	5,027
Re-exports, f.o.b.	1,070	991	1,070	1,160	1,356	1,503
Total exports, f.o.b.	3,937	3,930	4,387	4,991	5,784	6,530
Imports, f.o.b.	5,424	5,523	6,158	6,856	7,910	8,293
Trade balance	-1,487	-1,593	-1,771	-1,865	-2,126	-1,763
Non-factor services	487	492	501	514	532	654
Factor income from abroad	71	27	48	60	37	89
Current account	-929	-1,074	-1,222	-1,291	-1,557	-1,020
Capital account (including remittances)	1,148	1,132	1,794	1,698	1,459	2,008
Change in reserves (minus sign denotes increase)	-219	-58	-572	-407	+98	-988

TABLE 4: Expenditure on Gross National Product  
(in millions of HK dollars)

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	1960	1961	1962	1963	1964	1965
Consumption	5,132	6,144	6,828	7,439	8,359	8,861
Gross capital formation	1,448	1,425	1,729	2,256	2,845	3,135
Balance of foreign trade and current invisibles (non-factor services only)	-1,000	-1,101	-1,270	-1,351	-1,594	-1,099
Gross domestic product at market prices	5,580	6,467	7,287	8,344	9,610	10,897
Factor income from abroad	71	27	48	60	37	89
Gross national product at market prices	5,651	6,494	7,335	8,404	9,647	10,986

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STATISTICAL APPENDIX

TABLE

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TABLE 1 : Public Debt

A. Public Debt <sup>1/</sup> Outstanding as of March 31, 1966 (in thousands of US\$ equiv.)

<u>Item</u>	<u>Debt Outstanding</u> <u>March 31, 1966</u>
<u>1. Debt Repayable in domestic currency</u>	
3-1/2% Rehabilitation Loan 1947/48	8,167
<u>2. Debt Repayable in Foreign Currency (sterling)</u>	
U.K. Gov't loan for develop- ment of Kai Tak airport	5,600
Colonial Dev. & Welfare Scheme	19
	5,619
Total Public Debt	13,786

B. Service Payments on Public Debt (in thousands of US\$ equiv.)

FY 1966/67

Interest	286
Repayment	668
Total	953

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<sup>1/</sup> An unknown portion of the debt repayable in domestic currency is held by creditors abroad. In view of the freedom of exchange transactions in Hong Kong, service payments on this debt are freely convertible into foreign exchange. Debt repayable in domestic currency was therefore included in this table.

Source: Annual Report of the Accountant General.

TABLE 2: Total Population

1931	<u>1/</u>	849,751
1935	<u>2/</u>	966,341
1940	<u>2/</u>	1,821,893
1945	<u>3/</u>	500,000 - 600,000
1950	<u>3/</u>	1,670,000
1955	<u>3/</u>	2,250,000
1961	<u>4/</u>	3,133,131
1961	<u>5/</u>	3,209,500
1962	<u>5/</u>	3,442,700
1963	<u>5/</u>	3,550,000
1964	<u>5/</u>	3,636,600
1965	<u>5/</u>	3,722,600
1966	<u>5/</u>	3,785,300

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- 1/ Population census March 7, 1931.  
2/ Annual report Director of Med. and Health Services 1950/51, quoted by Edw. Szczepanik, "The Economic Growth of Hong Kong", London 1958.  
3/ Mid-year estimates by Edw. Szczepanik, op. cit.  
4/ Population census March 7, 1961.  
5/ End-year estimates based on the by-census 1966.

TABLE 3: Vital Statistics

	Est. mid year pop.	Births		Deaths	
		Number	Per 1,000 population	Number	Per 1,000 population
1956	2,440,000	96,746	39.7	19,295	7.9
1961	3,174,700	108,726	34.2	18,738	5.9
1962	3,346,600	111,905	33.4	20,324	6.1
1963	3,503,700	115,263	32.9	19,748	5.6
1964	3,594,200	108,519	30.2	18,113	5.0
1965	3,692,300	102,195	27.7	17,621	4.8
1966	3,732,400	92,476	24.8	18,700	5.0

Source: Hong Kong Government Gazette and Hong Kong Government Report 1965.

TABLE 4: Net Immigration

<u>From mid-year</u>	<u>to mid-year:</u>	<u>Total for</u> <u>5-year periods</u>	<u>Average</u> <u>per year</u>
1935	1940	large immigration	
1940	1945	large immigration	
1945	1950	975,000	195,000
1950	1955	301,000	60,200
<u>From end-year</u>	<u>to end-year:</u>		
1955	1960	270,000	54,000
1960	1965	192,400	38,480
1960	1961	41,700	
1961	1962	141,600	
1962	1963	11,700	
1963	1964	- 3,800	
1964	1965	1,200	
1965	1966	- 11,100	

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Source:

1945-1955: Estimates by Edw. Szczepanik, op. cit.  
 1955-1965: Estimated by mission as difference between official estimates of total population and natural increase of population.

TABLE 5: Population by Five-Year Age Groups, 1961 Census  
(in thousand persons)

<u>Age Group</u>	<u>M</u>	<u>F</u>	<u>Total</u>	<u>%</u>
0-4	257.7	243.0	500.7	16.0
5-9	220.4	204.9	425.3	13.6
10-14	185.9	165.1	351.0	11.2
0-14	<u>664.0</u>	<u>613.0</u>	<u>1,277.0</u>	<u>40.8</u>
15-19	90.2	74.9	165.1	5.3
20-24	111.2	91.5	202.7	6.5
25-29	137.2	116.8	254.0	8.1
30-34	140.9	122.2	263.1	8.4
35-39	123.3	111.6	235.0	7.5
40-44	107.3	95.7	203.0	6.5
45-49	86.5	80.7	167.2	5.3
50-54	60.1	63.8	123.9	4.0
55-59	37.2	49.8	87.0	2.8
60-64	23.6	40.0	63.6	2.0
15-64	<u>917.5</u>	<u>847.0</u>	<u>1,764.6</u>	<u>56.4</u>
65-69	13.2	27.8	41.0	1.3
70-74	7.6	18.5	26.1	0.8
75 and over	<u>5.4</u>	<u>15.5</u>	<u>20.8</u>	<u>0.7</u>
Over 65	26.2	61.8	87.9	2.8
Total population	1,607.8	1,521.9	3,129.6	100.0

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Source: Population Census 1961.

TABLE 6: Literacy by Age Groups, Census 1961

<u>Of persons in age-group</u>	<u>% can read</u>
10-14	91.3
15-19	91.0
20-24	88.2
25-34	77.6
35-44	70.7
45-54	61.6
55-64	47.7
65 and over	35.3
Total population	74.6

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Source: Population Census 1961.

TABLE 7: Economically Active Population by Industry, Census 1961

	<u>Number (thousands of persons)</u>	<u>Per cent of total</u>
Agriculture and fisheries	87.6	7.2
Mining and quarrying	8.9	0.7
Manufacturing	475.5	39.2
of which textiles	87.2	7.2
garments	108.5	9.0
Construction	100.2	8.3
Utilities	19.0	1.6
Trade	131.3	10.8
Communications	86.7	7.2
Other services	265.3	21.9
Unclassified	16.6	1.4
Total working population	1,191.1	98.3
Unemployed	20.9	1.7
Total economically active population	1,212.0	100.0

Source: Population Census 1961.

TABLE 8 : Wages

	1960	1962	1964	1965	March 1966
A. <u>Index of Average Daily Wages for Industrial Workers</u> <u>1/</u> (1958 = 100)					
All industries	121	134	160	173	186
All manufacturing industries <u>3/</u>	117	132	158	171	183
of which: textiles <u>2/</u>	121	134	156	171	185
Other industries <u>4/</u>	157	152	178	195	213

1/ Excludes fringe benefits. The index figures are compiled by using the overall average wage in 1958 as the common base throughout industry, not the average daily wage in 1958 in the industry concerned.

2/ Cotton spinning, cotton weaving (2 and 3 shifts), knitting, garment and shirts industries.

3/ Footnote 2/ above plus rubber footwear, enamelware, metal torches, motor repairing and plastics industries.

4/ Dockyards, electricity supply, tramway operators and communications.

B. Wage Rates

The range of daily wages for workers in manufacturing industry in March 1966 was as follows:

Skilled workers	HK\$8.50 - 27.00
Semi-skilled	HK\$5.50 - 21.00
Unskilled	HK\$4.50 - 12.00

The weighted average daily wage rate for males in selected industries in 1966 was:

	General Worker	Highest Paid Skilled Workers <u>1/</u> (HK\$)
Cotton spinning	7.50	10.54 (twister)
Cotton weaving (3 shifts)	7.35	10.53 (sizer)
Cotton weaving (2 shifts)	10.15	
Knitted piece goods	6.03 (female)	11.78 (machine operator)
Garment and shirts	8.00	12.50 (machine operator)
Rubber Producers	7.24	14.00 (hand cutter)
Enamelware	8.20	11.39 (enamel painter)
Metal trash cans	8.16	13.00 (painter)
Electronics	9.00	
Plastic flowers	7.89	13.06 (mould maker)
Construction	11.60	33.00 (bamboo scaffolder)

1/ Excludes technicians, foremen, supervisory staff, etc.

Source: Department of Labour.

TABLE 9 : Consolidated Government Revenue  
(HK\$ million)

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 Budget
Direct Taxes Total	268.2	332.2	368.2	435.6	511.5	615.1	675.3
of which Profits & Earnings Tax	155.1	199.1	215.1	268.5	319.2	372.1	417.0
Rates	101.4	116.3	128.5	144.6	167.6	224.0	242.6
Estate duty	11.7	16.8	24.6	22.5	24.7	19.0	15.7
Indirect Taxes Total	239.7	279.3	306.0	349.4	398.3	391.0	455.8
of which Duties	168.0	175.8	199.9	225.5	254.7	259.4	316.0
Stamp Duties	39.9	55.3	53.1	62.7	74.8	61.7	62.0
Other <sup>1/</sup>	31.8	48.2	53.0	61.2	68.8	69.9	77.8
Other Revenue Total <sup>2/</sup>	81.7	81.9	92.6	115.1	133.2	124.4	126.8
Government Enterprises current surplus <sup>3/</sup>	57.5	76.9	70.5	16.9 <sup>7/</sup>	70.3	94.8	115.6
Other Income Total	171.2	215.4	370.6	386.1	360.0	351.5	363.1
of which Receipts Reimbursements &							
Sales <sup>4/</sup>	30.4	33.7	48.7	50.3	57.6	67.6	85.5
Rents <sup>5/</sup>	39.0	46.5	56.8	71.2	87.0	112.1	117.5
Interest <sup>6/</sup>	38.3	44.9	57.0	69.8	82.4	95.7	89.1 <sup>8/</sup>
Land sales	63.5	90.3	208.1	194.8	133.0	76.1	71.0
Total Revenue	818.3	985.7	1,207.9	1,303.1	1,473.3	1,576.8	1,736.6

- <sup>1/</sup> Comprises taxes on bets and sweeps, business registration, dance halls, entertainment, hotel accommodations and motor vehicles.
- <sup>2/</sup> Comprises licenses, franchises (including royalties from privately owned utility companies), fines, forfeitures, fees and proceeds from lottery. Excludes revenues accruing to Post Office and Airport.
- <sup>3/</sup> Comprises current surplus of Post Office, Railways, Airport and Waterworks.
- <sup>4/</sup> Includes repayment of Development Loan Fund Loans (DLF, a separate fund for the financing of Government and private sector projects), net surplus of Stores Department and of Government quarries, plus outside contributions towards Government projects.
- <sup>5/</sup> Includes rental income of Housing Authority.
- <sup>6/</sup> Includes interest accruing to Development Loan Fund and Housing Authority.
- <sup>7/</sup> The net surplus fell drastically in 1963/64 because of the Water Emergency. The operation of tankers bringing water from China cost HK\$44.9 million.
- <sup>8/</sup> Revenue of the Housing Authority in 1966/67 estimated by the mission.

Note: The classification of revenue is not the same as is used by the government.

Source: Annual Reports of the Accountant General (1960/61-1965/66); Estimates of Revenue & Expenditure for 1966/67.

TABLE 10 : Consolidated Government Expenditure  
(HK\$ million)

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 Budget
<u>I. CURRENT EXPENDITURE</u>							
General Services Total	231.1	248.9	264.1	288.1	334.6	403.5	452.5
as to General Administration	102.1	106.4	116.4	129.6	157.7	182.5	219.5
Police, Justice, Prisons	75.8	77.0	85.7	93.6	111.5	127.2	138.8
Defense <u>1/</u>	<u>53.2</u>	<u>65.5</u>	<u>62.0</u>	<u>64.9</u>	<u>65.4</u>	<u>93.8</u>	<u>94.2</u>
Economic Services Total	55.3	55.2	61.0	65.6	79.7	88.2	98.6
as to Agriculture	6.5	7.2	7.6	8.3	9.5	10.7	11.3
Roads and Bridges	6.5	7.7	8.1	8.5	8.6	9.7	10.7
Ports and Harbor	10.3	11.2	11.7	14.7	15.6	16.5	19.4
Commerce and Industry	8.9	10.3	11.9	13.7	16.2	20.5	24.9
Other	<u>23.1</u>	<u>18.8</u>	<u>21.7</u>	<u>20.4</u>	<u>29.8</u>	<u>30.8</u>	<u>32.3</u>
Social Services Total	229.2	265.1	299.2	337.4	410.3	482.3	554.5
as to Education	99.8	119.9	140.0	155.5	188.7	224.5	256.8
Health	73.0	82.9	89.9	101.0	122.8	140.4	158.5
Welfare	9.8	10.5	11.9	11.4	12.9	15.1	19.2
Urban Services	31.0	32.7	34.1	38.6	44.4	52.0	57.7
Housing and Resettlement <u>2/</u>	<u>15.6</u>	<u>19.1</u>	<u>23.3</u>	<u>30.9</u>	<u>41.5</u>	<u>50.3</u>	<u>62.3</u>
Transfers Total	24.8	24.7	25.9	27.0	30.5	32.2	36.6
as to Public Debt Interest	1.7	1.7	1.7	1.7	1.6	1.6	1.6
Pensions	<u>23.1</u>	<u>23.0</u>	<u>24.2</u>	<u>25.3</u>	<u>28.9</u>	<u>30.6</u>	<u>35.0</u>
TOTAL CURRENT EXPENDITURE	540.4	593.9	650.2	718.1	855.1	1,006.2	1,142.2

(Continued on next page)

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 Budget
<b>II. CAPITAL EXPENDITURE</b>							
General Services Total	23.7	16.0	23.5	25.6	34.0	95.1	77.0
as to General Administration	19.1	11.5	17.5	15.7	23.8	82.4 <sup>3/</sup>	58.9
Police, Justice Prisons	<u>4.6</u>	<u>4.5</u>	<u>6.0</u>	<u>9.9</u>	<u>10.2</u>	<u>12.7</u>	<u>18.1</u>
Economic Services Total	134.1	165.6	215.2	226.7	278.4	357.1	308.7
as to Agriculture <sup>5/</sup>	0.5	2.0	1.1	0.9	1.2	0.7	2.5
Roads and Bridges	22.0	16.7	22.2	25.6	28.9	43.1	52.6
Ports and Harbor <sup>5/</sup>	2.1	4.0	4.1	11.4	12.2	26.0	12.8
Government Enterprises <sup>4/</sup>	74.9	113.0	141.3	122.7	170.3	205.2	184.0
Commerce and Industry	0.1	1.0	2.2	0.5	0.2	1.2	2.2
Land Development	<u>34.5</u>	<u>28.9</u>	<u>44.3</u>	<u>65.6</u>	<u>65.6</u>	<u>80.9</u>	<u>54.6</u>
Social Services Total	140.3	177.8	218.2	285.0	272.5	267.8	340.5
as to Education <sup>5/</sup>	18.7	26.5	24.7	32.2	34.4	31.6	45.4
Health and Sewerage	19.1	18.9	37.0	33.7	14.2	25.6	27.7
Welfare	0.4	0.2	2.3	2.1	0.7	0.7	0.7
Urban Services	7.0	18.3	12.7	10.5	17.2	38.4	39.6
Housing and Resettlement <sup>6/</sup>	<u>95.1</u>	<u>113.9</u>	<u>141.5</u>	<u>206.5</u>	<u>206.0</u>	<u>171.5</u>	<u>227.1</u>
TOTAL CAPITAL EXPENDITURE	298.1	359.4	456.9	537.3	584.9	720.0	726.2

<sup>1/</sup> Includes capital expenditure.

<sup>2/</sup> Includes current expenditure by Housing Authority (Mission estimate for 1966/67).

<sup>3/</sup> Includes advances to banks of HK\$30.7 million during banking crisis.

<sup>4/</sup> Capital expenditure by Post Office, Waterworks, Railway, Airport, Government Stores and Quarries.

<sup>5/</sup> Includes loans made by Development Loan Fund.

<sup>6/</sup> Includes Development Loan Fund loans for housing (principally to Housing Society) and Capital expenditure of Housing Authority.

Note: The classification of expenditure is not the same as is used by the government.

Source: Annual Reports of the Accountant General (1960/61-1965/66); Estimates of Revenue and Expenditure for 1966/67.

TABLE 11 : Consolidated Government Surplus/Deficit  
(HK\$ million)

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 Budget
Current & capital expenditure	838.5	953.3	1,107.1	1,255.4	1,440.0	1,726.2	1,368.4
Revenue	818.3	985.7	1,207.9	1,303.1	1,473.3	1,576.8	1,736.6
Grants from abroad <u>1/</u>	2.0	4.1	0.2	2.4	4.0	3.4	0.7
Surplus/Deficit	-18.2	36.5	101.0	50.1	37.3	-146.0	-131.1

1/ World Refugee Year Schemes and Commonwealth Development & Welfare Schemes.

Source: Annual Reports of the Accountant General (1960/61-1965/66); Estimates of Revenue and Expenditure for 1966/67.

TABLE 12: Government Reserves  
(in HK\$ million)

December 31	1961	1962	1963	1964	1965	March 31 1967 <u>2/</u>
General Reserves	489.7	606.2	757.3	811.7	680.8	670
Revenue Equalization Fund	138.0	138.0	138.0	138.0	138.0	138
Exchange Fund Surplus	242.4	384.2	450.6	301.1 <sup>1/</sup>	389.5	426
Balance in Development Loan Fund	19.8	22.1	20.4	60.2	46.9	31
<u>TOTAL</u>	<u>889.9</u>	<u>1,150.5</u>	<u>1,366.3</u>	<u>1,311.0</u>	<u>1,255.2</u>	<u>1,265</u>
<u>Change</u>		+260.6	+215.8	-55.3	-55.8	+10

1/ HK\$150 million was transferred from Exchange Fund Surplus to Development Loan Fund during 1964.

2/ Forecast by Government.

3/ A contingency fund for unexpected revenue shortfalls.

Note: Not all of these reserves are foreign assets. A certain proportion (less than 30 per cent in March 1967) consists of balances with the local banks.

Source: Information supplied by the Government.

TABLE 13: Government Forecast of Revenues and Expenditures, 1966/67-1970/71 <sup>1/</sup>  
(HK\$ million)

	1966/67	1967/68	1968/69	1969/70	1970/71	1961/62-1965/66 (cumulative)	1966/67-1970/71
<b>1. REVENUE</b>	<b>1,877.4</b>	<b>1,994.5</b>	<b>2,108.5</b>	<b>2,211.3</b>	<b>2,324.2</b>	<b>6,996.6</b>	<b>10,515.9</b>
Internal revenue <sup>2/</sup>	553.0	568.0	595.4	626.2	557.5	1,896.2	3,006.1
Rates	247.0	278.0	307.0	326.0	348.0	731.2	1,506.0
Duties	310.0	323.6	348.3	369.2	391.4	1,115.8	1,747.5
Lands and rents	31.5	95.1	110.8	126.8	142.9	292.2	553.1
Land sales	57.0	75.0	80.0	80.0	80.0	699.6	332.0
Interest	65.1	64.0	56.0	55.9	55.3	260.2	297.3
Development Loan Fund <sup>3/</sup>	36.2	41.5	43.0	43.7	45.5	149.4	209.9
Government enterprises <sup>4/</sup>	195.5	207.3	219.0	227.0	235.5	642.9	1,085.3
Other revenue	315.1	336.0	348.0	356.5	367.6	1,139.1	1,723.2
<b>2. CURRENT EXPENDITURE</b>	<b>1,254.3</b>	<b>1,359.4</b>	<b>1,461.4</b>	<b>1,568.3</b>	<b>1,671.4</b>	<b>3,986.8</b>	<b>7,314.8</b>
Police	112.5	120.0	126.5	133.5	141.0	395.2	633.5
Defence contribution	24.2	67.8	67.8	67.8	67.8	121.0	295.4
Education	247.0	267.6	290.7	315.6	340.1	828.7	1,461.0
Health	167.1	165.0	178.3	195.4	204.2	535.9	910.0
Social welfare	18.9	22.0	24.2	25.7	28.8	61.7	119.6
PWD	80.3	80.0	86.5	92.0	97.8	269.7	437.1
Urban services	64.7	65.6	70.8	74.9	79.0	202.0	355.0
Public administration and other current expenditure	539.1	571.4	616.6	663.4	712.7	1,571.6	3,103.2
(Personal emoluments)	(620.3)	(625.5)	(668.2)	(714.1)	(756.2)	(2,003.6)	(3,384.8)
<b>3. CAPITAL EXPENDITURE <sup>5/</sup></b>	<b>728.7</b>	<b>760.5</b>	<b>806.3</b>	<b>797.3</b>	<b>769.8</b>	<b>2,914.2</b>	<b>3,862.6</b>
Defence contributions	57.1	9.6	9.6	9.6	9.6	173.5	95.5
Education	44.9	78.5	87.4	65.0	42.3	149.7	318.1
Health	22.4	22.3	14.9	14.7	16.1	114.1	90.4
Housing	204.7	213.3	220.0	216.8	215.0	807.3	1,070.8
Waterworks	142.0	130.0	82.9	91.4	115.8	723.9	562.1
Civil engineering <sup>6/</sup>	135.0	163.5	245.0	242.0	203.0	n.a.	983.5
Other capital expenditure	122.6	143.3	145.5	157.3	157.0	n.a.	737.2
<b>4. OVERALL SURPLUS/DEFICIT</b>	<b>-105.6</b>	<b>-125.4</b>	<b>-159.2</b>	<b>-154.3</b>	<b>-117.0</b>	<b>+97.6</b>	<b>-661.5</b>

<sup>1/</sup> Classification not comparable with tables 9, 10-and 11.

<sup>2/</sup> Includes corporation and income tax, property tax, stamp duty, bets and sweep tax and a few smaller taxes collected by the Inland Revenue Dept.

<sup>3/</sup> Debt service payments received by D.L.F.

<sup>4/</sup> Current receipts of waterworks, post office, railway and airport.

<sup>5/</sup> Includes capital expenditure of D.L.F.

<sup>6/</sup> Roads and bridges (including Cross Harbour Tunnel), sewerage, development (including new towns), port works. No allowances made for Government contribution to port containerisation and mass transit system.

Source: Information supplied by the Government.

TABLE 14: Money Supply  
(in million HK\$)

December 31	1955	1960	1961	1962	1963	1964	1965	Sept. 1966
Notes issued	726.2	914.7	953.0	1,042.5	1,140.2	1,296.5	1,628.8	1,690.7
Notes & coins issued	51.5	82.2	72.2	78.7	89.6	103.0	111.0	122.2
<u>Demand deposits 1/</u>	<u>941.2</u>	<u>1,407.7</u>	<u>1,470.1</u>	<u>1,664.0</u>	<u>1,996.7</u>	<u>2,236.5</u>	<u>2,532.0</u>	<u>2,697.3</u>
<u>TOTAL</u>	1,718.9	2,404.6	2,495.3	2,785.2	3,226.5	3,636.0	4,271.8	4,510.2
<u>Offsets:</u>								
Cash in banks	144.1	135.7	114.1	161.9	201.5	238.4	220.6	231.8
Government cash 2/	1.8	7.0	5.9	5.0	8.3	5.9	6.4	5.8
Government demand deposits 2/	18.6	61.8	90.3	83.9	102.7	140.8	86.7	45.5
Demand deposit of note & coin fund	<u>9.8</u>	<u>30.1</u>	<u>17.6</u>	<u>11.4</u>	<u>10.8</u>	<u>10.6</u>	<u>11.1</u>	<u>5.3</u>
<u>Total Offsets</u>	174.3	234.6	227.9	262.2	323.3	395.7	324.8	288.4
<u>MONEY SUPPLY</u>	1,544.6	2,170.0	2,267.4	2,523.0	2,903.2	3,240.3	3,947.0	4,221.8

1/ Includes net balances due to non-reporting banks which are outside the banking system as defined here.

2/ Includes balances of Development Loan Fund.

Source: Information provided by the Government; Annual Reports of Accountant General.

TABLE 15: Analysis of Factors Affecting the Money Supply<sup>1/</sup>  
(in millions of HK dollars)

	December 31	1955	1960	1961	1962	1963	1964	1965	Sept. 1966
<b>I. Public sector</b>									
1. Bank credit to Government <sup>2/</sup>		25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
2. Note and coin issue by Government		51.5	82.2	72.2	78.7	89.6	103.0	111.0	122.2
Total		<u>76.5</u>	<u>107.2</u>	<u>97.2</u>	<u>103.7</u>	<u>114.6</u>	<u>128.0</u>	<u>136.0</u>	<u>147.2</u>
Offsets									
3. Local currency and balance <sup>3/</sup>		73.7	111.6	206.6	328.4	480.0	476.8	424.3	365.1 <sup>7/</sup>
4. Balances abroad <sup>4/</sup>		587.8	560.0	464.3	454.0	434.2	584.2	506.2	489.4
5. Assets Note and Coin Security Funds		29.5	79.2	71.2	78.3	89.4	101.1	110.7	120.9
Total		<u>691.0</u>	<u>750.8</u>	<u>742.1</u>	<u>860.7</u>	<u>1,003.6</u>	<u>1,162.1</u>	<u>1,041.2</u>	<u>975.4</u>
6. Net credit to public sector		-614.5	-643.6	-644.9	-757.0	-889.0	-1,034.1	-905.2	-828.2
<b>II. Private sector</b>									
7. Loans and advances <sup>5/</sup>		631.6	1,719.7	2,403.9	2,823.7	3,617.1	4,561.1	5,012.6	5,255.1
8. Investment		34.4	60.6	124.0	147.1	156.0	233.8	512.8	537.8
Total		<u>666.0</u>	<u>1,780.3</u>	<u>2,527.9</u>	<u>2,970.8</u>	<u>3,773.1</u>	<u>4,794.9</u>	<u>5,525.4</u>	<u>5,792.9</u>
Offsets									
9. Time and savings deposits		231.6	1,246.2	1,786.4	2,395.5	3,039.5	3,969.3	4,346.3	5,067.2
10. Net miscellaneous accounts		132.0	201.3	315.6	212.4	200.1	-136.8	541.1	426.2
Total		<u>363.6</u>	<u>1,447.5</u>	<u>2,102.0</u>	<u>2,607.9</u>	<u>3,239.6</u>	<u>3,832.5</u>	<u>4,887.4</u>	<u>5,493.4</u>
11. Net credit to private sector		302.4	332.8	425.9	362.9	533.5	962.4	638.0	299.5
12. Net domestic credit		-312.1	-310.8	-219.0	-394.1	-355.5	-71.7	-267.2	-528.7
<b>III. External sector</b>									
13. Exchange Fund <sup>6/</sup>		665.2	346.4	884.4	978.4	1,074.4	1,233.4	1,559.8	1,622.0 <sup>7/</sup>

(Continued on next page)

December 31	1955	1960	1961	1962	1963	1964	1965	Sept. 1966
14. Government balances abroad	537.2	560.0	464.3	454.0	434.2	584.2	506.2	489.4
15. Note and Coin Security Funds	19.7	49.1	53.6	55.3	58.6	58.5	58.4	74.5
16. Net bank balances	547.6	944.7	1,001.4	1,385.1	1,660.7	1,398.0	2,075.7	2,547.8
17. Bank investments	36.4	80.6	82.7	44.2	30.8	37.9	44.0	16.8
Total external sector	<u>1,856.7</u>	<u>2,480.8</u>	<u>2,486.4</u>	<u>2,917.0</u>	<u>3,258.7</u>	<u>3,312.0</u>	<u>4,214.1</u>	<u>4,750.5</u>
Total Money Supply	1,524.6	2,170.0	2,267.4	2,523.0	2,903.2	3,240.3	3,947.0	4,221.8

- 1/ Owing to the lack of comprehensive statistics covering the whole banking system, the money supply is defined here as equivalent to the monetary liabilities of the reporting "authorized" banks (the term refers to authorization to deal in the official foreign exchange market) and the Government vis-a-vis the general public. Thus, monetary liabilities of the non-authorized banks, small Chinese banks, are excluded, and the money supply figures given consequently represent some under-estimation. Moreover, as the number of reporting banks rose over the period covered, part of the increase in the money supply is due to change in the statistical coverage. However, the error involved is comparatively small, since most of the additional reporting banks were newly established.
- 2/ Bank credit to the Government consists entirely of bank holdings of bonds issued in 1948, which are very roughly estimated to be about HK\$25 million.
- 3/ Consists of cash and bank balances of the Colonial Government, the Kowloon-Canton Railway, the Post Office, special funds, and the Development Loan Fund.
- 4/ Includes balances held by special funds and the Development Loan Fund. Sterling assets are valued at L1 = HK\$16.00; all investments were at market value.
- 5/ Includes net balances due from non-reporting banks which are outside the banking system as defined here.
- 6/ Comprises only that portion of sterling assets which is equivalent to the amount of certificates of indebtedness outstanding to the note-issuing banks in Hong Kong.
- 7/ Estimate by Mission.

Source: Annual reports of the Accountant General; information provided by the Government.

TABLE 16: Loans and Advances by the Banking System  
(in millions of HK dollars)

	<u>1 9 6 5</u>			<u>1 9 6 6</u>		
	June	September	December	March	June	September
Manufacturing	985.8	1,044.7	1,014.7	1,075.9	1,125.0	1,120.7
of which: Textiles	491.8	513.6	496.5	510.2	524.6	501.4
Footwear and garments	98.3	98.2	106.0	114.4	120.6	118.0
Metal products and engineering	100.9	107.3	101.2	96.7	93.5	91.1
Rubber, plastics, chemicals	65.4	83.1	64.3	73.7	79.0	74.8
Electrical and electronics	27.7	26.8	27.3	36.7	37.6	45.8
Transport and transport equipment	155.2	159.5	190.6	191.6	189.0	189.9
Building construction	903.4	892.2	932.9	950.2	937.2	939.5
Trade	1,619.9	1,609.3	1,640.4	1,653.4	1,651.4	1,730.2
Financial concerns, including banks	274.2	243.6	199.8	210.3	185.6	173.4
Professional and private individuals	725.5	713.3	683.2	671.6	643.0	671.7
Others	484.9	492.8	521.7	547.0	571.3	564.7
<u>Total</u>	<u>5,148.9</u>	<u>5,155.4</u>	<u>5,183.3</u>	<u>5,300.0</u>	<u>5,302.5</u>	<u>5,390.1</u>

Source: Government Gazette.

TABLE 17: External Assets 1/  
(in HK\$ million)

December 31	1955	1960	1961	1962	1963	1964	1965	Sept. 1966
Exchange Fund <u>2/</u>	713.6	1,028.8	1,119.2	1,354.3	1,515.9	1,524.1	1,936.6	1,936.6
Notes & Coins Security Fund	19.7	49.1	53.6 <sup>3/</sup>	55.3	58.6	58.5	58.4	74.5
Government holdings <u>4/</u>	587.8	560.0	464.3	454.0	434.2	584.2	506.2	489.4
Net bank holdings <u>5/</u>	547.6	944.7	1,001.4	1,385.1	1,660.7	1,398.0	2,075.5	2,547.8
Bank investments	<u>36.4</u>	<u>80.6</u>	<u>82.7</u>	<u>44.2</u>	<u>30.8</u>	<u>37.9</u>	<u>14.0</u>	<u>16.8</u>
<u>TOTAL</u>	1,905.1	2,663.2	2,721.2	3,292.9	3,700.2	3,602.7	4,590.7	5,065.1
Change		758.1	+58.0	+571.7	+407.3	-97.5	+988.0	+474.4

1/ Excludes the foreign-exchange holdings and balances abroad of the non-authorized banks.

2/ Sterling assets valued at £1 = HK\$16.00; all investments are at market value.

3/ Figure refers to March 31st of following year.

4/ Includes sinking fund assets held abroad. All investments are at market value.

5/ Includes Head Office or Branches outside Hong Kong and short claims such as bills discounted drawn on abroad.

Source: Information supplied by Government.

TABLE 18: Composition of Imports (c.i.f.)  
(HK\$ million)

	1955	1960	1961	1962	1963	1964	1965	1966
<u>Food</u>	<u>971.3</u>	<u>1,353.2</u>	<u>1,406.5</u>	<u>1,609.0</u>	<u>1,733.4</u>	<u>2,012.5</u>	<u>2,041.9</u>	<u>2,216.1</u>
Cereals, cereals prep.	250.7	317.2	360.2	463.3	444.8	431.2	398.3	448.3
Meat, meat preps & live animals	215.4	334.1	309.4	346.6	403.3	512.4	603.1	653.6
Fruits, vegetables	200.3	263.9	263.9	287.0	304.4	340.7	402.1	412.4
Dairy products & eggs	78.3	128.2	135.3	149.0	168.8	184.5	186.8	187.0
Fish & fish preps.	- -	113.3	101.0	111.4	127.1	180.6	176.6	194.6
<u>Beverages &amp; Tobacco</u>	<u>79.9</u>	<u>115.3</u>	<u>132.4</u>	<u>148.6</u>	<u>171.3</u>	<u>189.7</u>	<u>211.7</u>	<u>208.2</u>
<u>Crude Materials</u>	<u>554.5</u>	<u>687.5</u>	<u>723.2</u>	<u>747.8</u>	<u>820.1</u>	<u>906.6</u>	<u>923.6</u>	<u>1,030.1</u>
Textile fabrics & waste	227.3	337.4	432.3	437.8	502.8	564.4	563.3	623.2
Wood, lumber, cork	65.4	87.3	63.8	84.9	86.6	83.0	65.0	60.8
<u>Mineral Fuels</u>	<u>134.3</u>	<u>197.6</u>	<u>212.9</u>	<u>235.4</u>	<u>261.5</u>	<u>262.0</u>	<u>291.3</u>	<u>336.6</u>
<u>Chemicals</u>	<u>328.0</u>	<u>465.9</u>	<u>531.8</u>	<u>558.0</u>	<u>573.6</u>	<u>670.4</u>	<u>669.4</u>	<u>747.7</u>
Plastic materials	- -	- -	- -	- -	- -	260.4	220.6	227.5
<u>Manufactured goods</u>	<u>1,129.0</u>	<u>1,932.1</u>	<u>1,771.5</u>	<u>1,995.0</u>	<u>2,335.3</u>	<u>2,677.7</u>	<u>2,767.2</u>	<u>3,297.2</u>
Textile yarn, fabrics, etc.	664.2	1,044.2	866.4	966.2	1,141.4	1,403.1	1,279.7	1,668.6
Non-metallic mineral manufactures, n.e.s.	- -	107.5	103.2	131.7	168.1	404.5	599.5	735.7
Paper, paperboard	122.3	133.7	138.2	155.2	166.9	204.0	203.3	242.2
Iron and steel	- -	- -	- -	- -	- -	308.6	348.4	274.8
<u>Machinery, Transport Equipment</u>	<u>211.3</u>	<u>598.8</u>	<u>622.8</u>	<u>710.9</u>	<u>855.1</u>	<u>1,024.3</u>	<u>1,176.7</u>	<u>1,309.6</u>
Machinery other than electric	82.4	269.0	271.3	292.4	344.3	424.4	468.1	407.7
Electric machinery & appliances	56.8	175.9	207.5	245.4	344.6	409.4	505.4	721.0
Transport equipment	72.1	153.9	143.9	173.1	166.2	190.5	203.2	180.9
<u>Miscellaneous Manufactures</u>	<u>251.3</u>	<u>427.4</u>	<u>464.4</u>	<u>535.5</u>	<u>579.0</u>	<u>713.4</u>	<u>796.4</u>	<u>856.6</u>
Clothing	33.5	71.0	82.0	99.2	116.5	180.0	218.4	167.1
Professional, scientific & controlling instruments	- -	176.2	192.8	214.2	209.5	221.2	250.1	307.5
<u>Others</u>	<u>59.3</u>	<u>86.0</u>	<u>104.9</u>	<u>117.0</u>	<u>82.6</u>	<u>94.0</u>	<u>86.6</u>	<u>94.8</u>
TOTAL IMPORTS	3,718.9	5,873.7	5,970.4	6,657.2	7,411.9	8,550.6	8,964.8	10,097.0

- - means: not specified in available statistical material.

Source: Hong Kong Trade Statistics.

TABLE 19: Source of Imports

	1955 Percent from	1966 Percent from
Total developed countries	<u>52.7</u>	<u>53.7</u>
of which		
USA	8.7	10.8
UK	11.9	10.0
EEC	9.6	7.8
Other Industrial European Countries <sup>1/</sup>	4.2	2.8
Japan	14.1	18.2
Other Developed Countries <sup>2/</sup>	4.2	4.0
Total less developed countries	<u>47.3</u>	<u>46.3</u>
of which		
Western Hemisphere	1.0	2.0
Middle East	0.7	2.3
Africa	1.5	1.1
Total Asia	<u>44.1</u>	<u>39.8</u>
of which		
Mainland China	24.1	27.4
Thailand	5.0	2.6
Malaysia <sup>3/</sup>	5.2	0.6
Other Asian Countries	9.4	9.1
Other Countries	0.4	1.2
TOTAL	<u>100.0</u>	<u>100.0</u>

<sup>1/</sup> Excludes Communist Bloc Countries.

<sup>2/</sup> Australia, New Zealand, Canada, and South Africa.

<sup>3/</sup> For 1966, Malaya, Sabah and Sarawak; for 1955, Malaya and North Borneo.

Source: Hong Kong Trade Statistics.

TABLE 20: Composition of all Exports (f.o.b.)  
(HK\$ million)

	1955	1960		1961		1962		1963		1964		1965		1966	
	Total Exports	Domestic Exports	Re-Exports												
FOOD	303.5	130.0	180.5	114.4	190.2	120.4	259.4	156.3	259.9	160.4	320.4	135.1	278.2	153.9	299.8
Fruits, vegetables	120.3	38.0	88.2	31.4	65.3	26.4	80.0	24.1	72.6	24.5	56.3	25.3	87.3	22.7	88.2
BEVERAGES & TOBACCO	18.5	13.5	12.3	26.8	12.5	47.4	12.3	60.3	12.6	58.6	10.5	66.5	12.4	37.9	13.8
CRUDE MATERIALS	271.1	137.9	171.8	130.6	136.3	84.8	146.2	85.0	127.1	102.4	160.1	108.3	156.0	110.2	172.5
Metaliferous Ores, scrap	32.7	100.7	2.0	95.2	4.7	46.2	2.9	51.0	0.2	59.1	0.2	58.6	2.0	64.3	7.6
CHEMICALS	263.1	51.1	130.0	55.8	177.0	56.9	176.7	52.1	211.5	51.6	175.3	54.7	236.4	53.2	254.3
Medical, Pharmaceutical prod.	53.4	15.7	58.6	19.5	63.8	17.2	62.6	16.8	93.5	17.3	70.8	18.0	112.5	20.1	107.6
MANUFACTURED GOODS	877.2	769.5	380.5	908.5	274.2	861.6	274.2	941.4	350.2*	952.2*	444.9*	1,104.0*	544.2*	1,218.2*	773.6*
Textile yarn, fabrics, & manufactures of metal, n.e.s.	607.5	554.2	210.4	669.0	129.2	590.3	117.7	648.3	141.4	706.6	203.0	834.5	219.7	921.3	352.0
Non-metallic mineral manufactures, n.e.s.	104.2	117.8	9.9	120.8	7.8	135.3	7.7	140.9	6.1	145.9	20.2	157.4	15.9	175.7	21.6
--	--	--	--	13.5	8.7	14.5	8.0	13.5	8.4	34.1	135.3	36.4	238.2	45.4	314.3
MACHINERY & TRANSPORT EQUIPMENT	79.5	76.8	66.1	100.4	67.0	151.2	63.8	196.0	54.9	225.6	72.0	343.8	71.6	532.2	91.9
Machinery, other than elect.	34.4	12.2	24.6	14.0	29.1	17.3	28.8	21.0	23.3	24.4	31.9	27.0	34.7	27.0	41.0
Elect. machinery appliances	27.4	47.4	20.0	73.2	24.7	106.4	22.0	152.7	19.5	186.3	23.4	293.2	18.1	476.1	30.7
Transport equipment	17.7	17.2	21.5	13.2	13.2	27.5	13.0	22.4	12.1	14.9	16.6	23.5	18.7	29.1	20.2
MISCELLANEOUS MANUFACTURES	692.2	1,672.8	105.7	1,571.5	95.2	1,968.4	102.0	2,317.1	106.3	2,856.7	124.4	3,191.0	147.2	3,602.5	172.1
Clothing	330.1	1,010.4	13.6	862.1	10.3	1,147.4	10.8	1,382.9	12.1	1,519.7	22.0	1,772.6	28.5	2,305.5	23.9
Footwear	81.8	144.5	2.4	103.7	1.9	129.5	1.0	146.3	0.7	144.6	1.2	152.7	1.2	184.2	4.5
OTHERS	26.9	15.6	23.6	31.0	30.6	26.7	35.3	22.8	37.7	20.1	48.4	23.4	56.8	21.7	55.3
TOTAL	2,534.0	2,867.2	1,070.5	2,939.0	991.0	3,317.4	1,069.9	3,831.0	1,160.2	4,427.6	1,356.0	5,026.8	1,502.8	5,729.8	1,833.3

\* Slightly different classification.

Source: Hong Kong Trade Statistics.

TABLE 21: Destination of Domestic Exports (f.o.b.)

A. In million HK\$

	1955 <sup>3/</sup>	1958 <sup>3/</sup>	1960	1961	1962	1963	1964	1965	1966
Total Developed Countries	<u>718.5</u>	<u>1,192.2</u>	<u>1,894.3</u>	<u>1,819.8</u>	<u>2,267.3</u>	<u>2,709.1</u>	<u>3,301.4</u>	<u>3,898.9</u>	<u>4,538.1</u>
of which:									
USA	87.9	326.4	745.2	678.9	878.6	973.8	1,227.2	1,718.8	2,036.3
UK	251.3	393.2	585.2	589.2	714.4	863.8	968.4	860.7	987.3
W. Germany	33.3	64.6	107.0	105.8	151.2	217.3	294.1	370.7	420.5
Sweden	5.7	17.5	33.7	35.7	50.0	64.3	78.0	84.8	88.7
Netherlands	20.2	23.2	16.2	22.9	34.2	43.9	57.2	86.2	120.1
Other European Countries <sup>1/</sup>	52.4	70.1	72.0	87.6	111.7	149.4	215.1	233.4	304.6
Canada	28.9	51.2	76.6	64.7	90.8	85.3	115.9	135.1	175.5
Japan	146.3	120.2	100.7	106.5	76.7	120.6	118.5	133.0	161.6
Australia	53.4	75.9	86.4	60.7	85.9	84.4	112.5	133.9	128.2
Other Dev. Areas <sup>2/</sup>	39.1	49.9	71.3	67.8	73.8	106.3	114.5	142.3	115.3
Total Less Developed Areas	<u>1,815.9</u>	<u>1,796.6</u>	<u>972.9</u>	<u>1,119.2</u>	<u>1,050.1</u>	<u>1,121.9</u>	<u>1,126.2</u>	<u>1,127.9</u>	<u>1,191.6</u>
of which:									
Western Hemisphere	60.2	90.2	102.8	95.2	107.2	108.4	125.1	128.9	146.4
Middle East	27.9	51.7	61.0	62.7	88.3	100.1	99.8	122.0	122.3
Singapore	404.9	427.5	276.5	315.0	326.4	348.0	151.6	142.9	152.3
Malaysia							178.6	164.4	125.3
Indonesia	193.4	210.8	78.8	172.9	56.9	42.5	53.1	40.7	102.1
Thailand	179.1	217.0	83.0	85.8	73.6	76.9	91.0	98.6	82.1
Other Asia	713.2	556.9	143.7	126.6	139.6	145.0	137.1	142.1	183.3
Africa	192.2	180.2	177.0	199.3	192.7	228.6	220.1	217.7	205.5
Other Countries	45.0	62.3	50.1	61.7	65.4	72.4	69.4	70.6	7.3
TOTAL	<u>2,534.4</u>	<u>2,988.8</u>	<u>2,867.2</u>	<u>2,939.0</u>	<u>3,317.4</u>	<u>3,831.0</u>	<u>4,427.6</u>	<u>5,026.8</u>	<u>5,729.8</u>

(Continued on next page)

B. In per cent of total

% Exported to:	1955 <sup>2/</sup>	1958 <sup>3/</sup>	1960	1961	1962	1963	1964	1965	1966
Total developed countries	28.3	39.9	66.1	61.9	68.3	70.6	74.6	77.5	79.2
of which: USA	3.5	10.9	26.0	23.1	26.5	25.4	27.7	34.2	35.5
UK	9.9	13.2	20.4	20.0	21.5	22.5	21.9	17.1	17.2
W. Germany	1.3	2.2	3.7	3.6	4.6	5.7	6.6	7.4	7.3
Sweden	0.2	0.6	1.2	1.2	1.5	1.7	1.8	1.7	1.5
Netherlands	0.8	0.8	0.6	0.8	1.0	1.1	1.3	1.7	2.1
Other European c. <sup>1/</sup>	2.1	2.3	2.5	3.0	3.4	3.9	4.9	4.6	5.3
Canada	1.1	1.7	2.7	2.2	2.7	2.2	2.6	2.7	3.1
Japan	5.8	4.0	3.5	3.6	2.3	3.1	2.7	2.6	2.8
Australia	2.1	2.5	3.0	2.1	2.6	2.2	2.5	2.7	2.2
Other Dev. Areas <sup>2/</sup>	1.5	1.7	2.5	2.3	2.2	2.8	2.6	2.8	2.0
Total less developed areas	71.7	60.1	33.9	38.1	31.7	29.4	25.4	22.5	20.8
of which: Western Hemisphere	2.4	3.0	3.6	3.2	3.2	2.8	2.8	2.6	2.6
Middle East	1.1	1.7	2.1	2.1	2.7	2.6	2.3	2.4	2.1
Singapore	16.0	14.3	9.6	10.7	9.8	9.1	3.4	2.8	2.7
Malaysia							4.0	3.3	2.2
Indonesia	7.6	7.1	2.7	5.9	1.7	1.1	1.2	0.8	1.8
Thailand	7.1	7.3	2.9	2.9	2.2	2.0	2.1	2.0	1.4
Other Asia	28.1	18.6	5.0	4.3	4.2	3.8	3.1	2.8	3.2
Africa	7.6	6.0	6.2	6.8	5.8	6.0	5.0	4.3	3.6
Other countries	1.8	2.1	1.8	2.2	2.1	2.0	1.5	1.5	1.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>1/</sup> Excludes Communist Bloc countries other than Yugoslavia.

<sup>2/</sup> New Zealand and South Africa.

<sup>3/</sup> Includes re-exports.

Source: Hong Kong Trade Statistics.

TABLE 22: Domestic Exports of Textiles, Garments and Electrical Equipment (f.o.b.)  
(in millions of HK dollars)

Textile Yarns and Fabrics	1960	1965	Electrical Machinery & Appliances	1960	1965	Garments	1960	1965
Grey cotton yarns	96.5	92.4	Electrical transformers & current breakers		3.9	Suits, jackets and coats	26.9	79.6
Other textile yarns and thread	6.1	10.3	Other electrical switchgear		0.9	Slacks, shorts, jeans, trousers	177.6	211.8
Cotton sheating	118.6	143.2	Transistorized radios and parts	0.3	129.5	Skirts, dresses, frocks, blouses		
Poplin and broadcloth cottons	15.8	56.6	Television parts		27.5	jumpers	115.5	160.1
Cotton drills	53.0	65.0	Other telecommunications equipment		0.2	Shirts	228.2	339.0
Cotton shirting	0.3	54.9	Electric fans	4.6	12.0	Swimsuits and overalls	11.4	27.7
Twill and sateen cotton	10.8	66.2	Other domestic electrical equipment		0.8	Handkerchiefs, socks, stockings, ties	19.7	23.3
Canvas and ducks cotton	4.5	37.9	Torch batteries and bulbs	20.5	28.0	Gloves	92.6	93.3
Cotton jeans and denims	3.6	20.8	Radio batteries	0.9	5.3	Jackets, pullovers and jumpers	45.3	467.5
Cotton flannels	n.s.	29.0	Filament bulbs	6.0	4.2	Undergarments and nightgarments	134.4	164.1
Woven cotton or other textile fabrics	28.4*	94.4	Electrical fiber and bulbs		51.4	Other outer garments	106.1	146.2
Cotton piece goods, printed or not printed	115.9	n.s.	Electrical equipment for vehicles		5.3	Other	52.7	60.0
Tulle, lace, embroidery, ribbons	n.s.	3.9	Capacitor condensers		4.1	<b>TOTAL</b>	<b>1,010.4</b>	<b>1,772.6</b>
Cordage of synthetic fibre	2.2	9.4	Electrical plugs and switches	4.4	11.2	OF which to:		
Cotton fishing nets	4.3	3.1	Other electrical machinery	5.6	8.9	U.S.A.	37.2%	35.2%
Other special textile fibers	n.s.	5.9	Unspecified	5.0	-	U.K.	20.7%	18.8%
Bags and saks	6.5	15.2	<b>TOTAL</b>	<b>47.3</b>	<b>293.2</b>	Canada, South Africa, Australia, New Zealand	7.0%	3.9%
Sheets and bedspreads	7.1	11.7	OF which to:			West Germany	8.3%	16.5%
Cotton towels	30.1	62.6	U.S.A.	14.4%	61.6%	Other EEC	1.2%	3.6%
Other made-up articles	14.5	24.3	U.K.	21.4%	14.2%	Sweden	0.2%	3.4%
Table linen	18.9	16.6	EEC	3.0%	4.7%	Others	25.4%	18.6%
Carpets	3.2	9.1	Others	61.2%	19.5%			
Other textile yarns and fabrics	13.9	1.0						
<b>TOTAL</b>	<b>554.2</b>	<b>834.5</b>						
OF which to:								
New Zealand, Australia, Canada, South Africa	12.8%	20.1%						
U.K.	35.3%	29.4%						
EEC	2.5%	4.2%						
Indonesia	13.7%	2.9%						
U.S.A.	15.4%	16.5%						
Others	20.3%	25.9%						

\*The classification may not be comparable.

Source: Hong Kong Trade Statistics.

TABLE 23: Destination of Re-exports (f.o.b.)  
(HK \$ million)

	1960		1961		1962		1963		1964		1965		1966	
		%		%		%		%		%		%		%
Total Developed Countries:	<u>271.4</u>		<u>257.1</u>	<u>25.9</u>	<u>312.7</u>	<u>29.2</u>	<u>412.9</u>	<u>35.6</u>	<u>428.3</u>	<u>31.6</u>	<u>573.7</u>	<u>38.1</u>	<u>607.3</u>	<u>33.1</u>
of which:														
USA	18.1	1.7	22.1	2.2	28.9	2.7	37.1	3.2	46.5	3.4	85.9	5.7	104.8	5.7
UK	22.6	2.1	18.5	1.9	22.9	2.1	43.2	3.7	55.0	4.1	47.0	3.1	30.2	1.6
Other														
Europe <sup>1/</sup>	47.2	4.4	49.5	5.0	60.1	5.6	75.9	6.5	75.1	5.5	119.0	7.9	128.4	7.0
Japan	130.3	12.2	123.3	12.4	143.4	13.4	185.3	16.0	199.0	14.7	255.5	17.0	278.3	15.2
Other Dev. Areas <sup>2/</sup>	53.2	5.0	43.7	4.4	57.4	5.4	71.4	6.2	52.7	3.9	66.3	4.4	65.6	3.6
Total Less Developed Areas	<u>799.1</u>		<u>733.9</u>	<u>74.1</u>	<u>757.2</u>	<u>70.8</u>	<u>747.3</u>	<u>64.4</u>	<u>927.7</u>	<u>68.4</u>	<u>929.1</u>	<u>61.9</u>	<u>1,225.9</u>	<u>66.9</u>
of which:														
Western Hemisphere	10.6	1.0	13.8	1.4	16.8	1.6	11.4	1.0	12.8	0.9	19.4	1.3	24.4	1.3
Middle East	24.9	2.3	18.9	1.9	24.5	2.3	32.2	2.8	32.5	2.4	39.7	2.6	38.1	2.1
Africa	21.3	2.0	12.8	1.3	14.1	1.3	14.3	1.2	22.0	1.6	28.0	1.9	44.0	2.4
Asia	<u>723.8</u>	<u>67.6</u>	<u>662.5</u>	<u>66.8</u>	<u>676.5</u>	<u>63.3</u>	<u>665.6</u>	<u>57.3</u>	<u>837.0</u>	<u>61.8</u>	<u>820.6</u>	<u>54.7</u>	<u>1,093.8</u>	<u>59.7</u>
of which:														
Indonesia	74.7	7.0	52.8	5.3	67.4	6.3	44.5	3.8	207.1	15.3	145.6	9.7	342.9	18.7
Mainland China	107.3	10.0	91.3	9.2	76.9	7.2	61.8	5.3	46.7	3.4	53.9	3.6	54.0	2.9
Formosa	61.6	5.8	53.4	5.4	55.2	5.2	50.5	4.4	54.6	4.0	69.1	4.6	71.8	3.9
Macau	53.9	5.0	56.8	5.7	65.1	6.1	63.1	5.4	64.1	4.7	65.4	4.4	74.5	4.1
Malaysia	217.5	20.3	213.5	21.6	216.0	20.2	244.6	21.1	93.3	6.9	83.2	5.5	80.9	4.4
Singapore									188.0	13.9	206.0	13.7	213.5	11.6
Other Asian Countries	208.8	19.5	194.6	19.6	195.9	18.3	201.1	17.3	183.2	13.6	197.4	13.2	256.2	14.0
Other Countries:	<u>18.5</u>	<u>1.7</u>	<u>25.9</u>	<u>2.7</u>	<u>25.3</u>	<u>2.3</u>	<u>23.8</u>	<u>2.1</u>	<u>23.4</u>	<u>1.7</u>	<u>21.4</u>	<u>1.4</u>	<u>25.6</u>	<u>1.4</u>
TOTAL	<u>1,070.5</u>	<u>100.0</u>	<u>991.0</u>	<u>100.0</u>	<u>1,069.9</u>	<u>100.0</u>	<u>1,160.2</u>	<u>100.0</u>	<u>1,356.0</u>	<u>100.0</u>	<u>1,502.8</u>	<u>100.0</u>	<u>1,833.3</u>	<u>100.0</u>

<sup>1/</sup> Excludes Communist bloc countries other than Yugoslavia.

<sup>2/</sup> Canada, Australia, New Zealand and South Africa.

Source: Hong Kong Trade Statistics.

TABLE 24: Trade Balance  
(HK\$ million)

	1961	1962	1963	1964	1965	1966
Imports (c.i.f.)	5,970.4	6,657.2	7,411.9	8,550.6	8,964.8	10,097.0
Exports (f.o.b.)	2,939.0	3,317.4	3,831.0	4,427.6	5,026.8	5,729.8
Re-Exports (f.o.b.)	<u>991.0</u>	<u>1,069.9</u>	<u>1,160.2</u>	<u>1,356.0</u>	<u>1,502.8</u>	<u>1,833.3</u>
Balance	-2,040.4	-2,269.9	-2,420.7	-2,767.0	-2,435.2	-2,533.9

Source: Hong Kong Trade Statistics.

