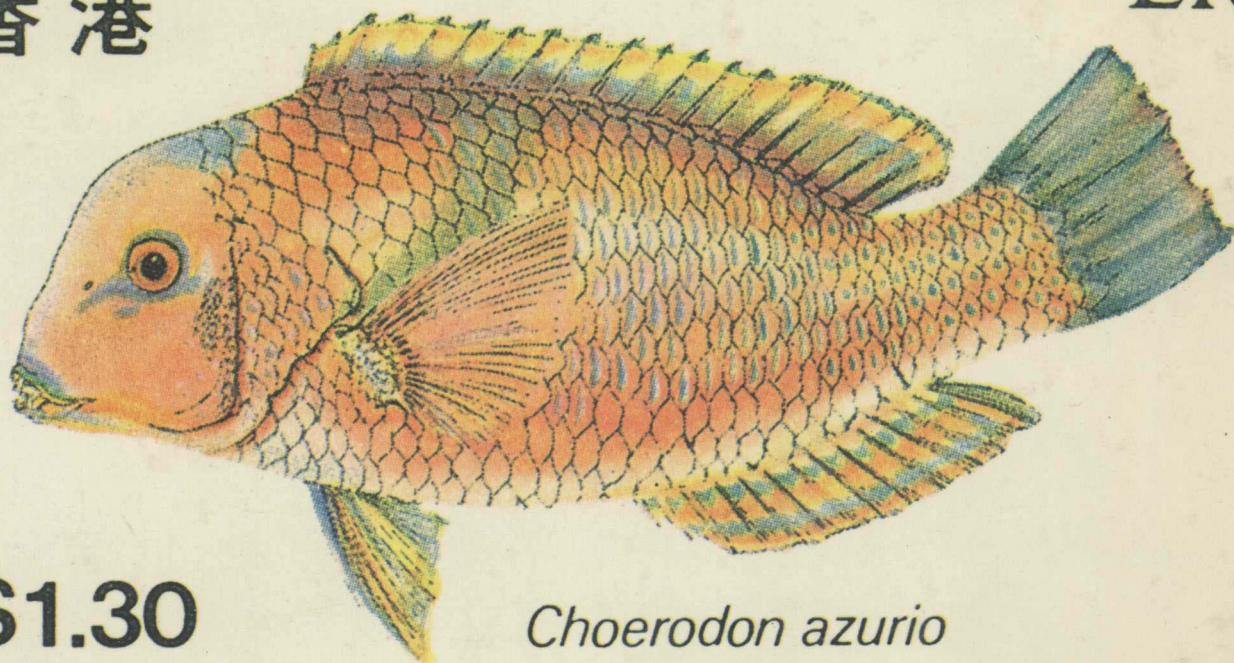


THE MARKETS OF ASIA/PACIFIC

HONG KONG & MACAU

Hong Kong
香港



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THE MARKETS OF ASIA/PACIFIC

HONG KONG & MACAU

The Asia Pacific Centre



Facts On File, Inc.

**460 Park Avenue South,
New York, N.Y. 10016**

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Foreword

'THE MARKETS OF ASIA PACIFIC' SERIES

The series of books under the title 'The Markets of Asia Pacific' is designed to provide an overview of some of the fastest growing and most dynamic markets in the world. The series will be periodically updated: for most countries, every two years.

An important feature of the series is the release for the first time of the banks of market data owned by the Survey Research Group of Companies (SRG). SRG is the largest group of market research companies operating in the Asia Pacific region and heavy investment in syndicated research of their own has led to a considerable amount of new market research information becoming available. Almost all the SRG information published in this series cannot be found in any other published source.

Where SRG information exists, it has considerable depth but it covers by no means all the markets of interest. It has therefore been supplemented by key published statistics from elsewhere. The selection of published statistics has been derived from a search of existing data sources. While it is clearly beyond the scope of the series to quote from all sources found, a listing of titles and locations is included as an important feature in each country book.

In setting a style for the series, emphasis has been put on the provision of hard information rather than interpretative discussion. Wherever possible, however, key points of market development are described in the text. In effect, this is designed as a reference series which should provide mostly numeric answers to a range of marketing questions. To facilitate reference a detailed index is provided at the back of the book.

The broad format of each country book is similar but there is some variation in specific content. This is determined by the particular market characteristics of the country and the data that happens to be available.

HONG KONG

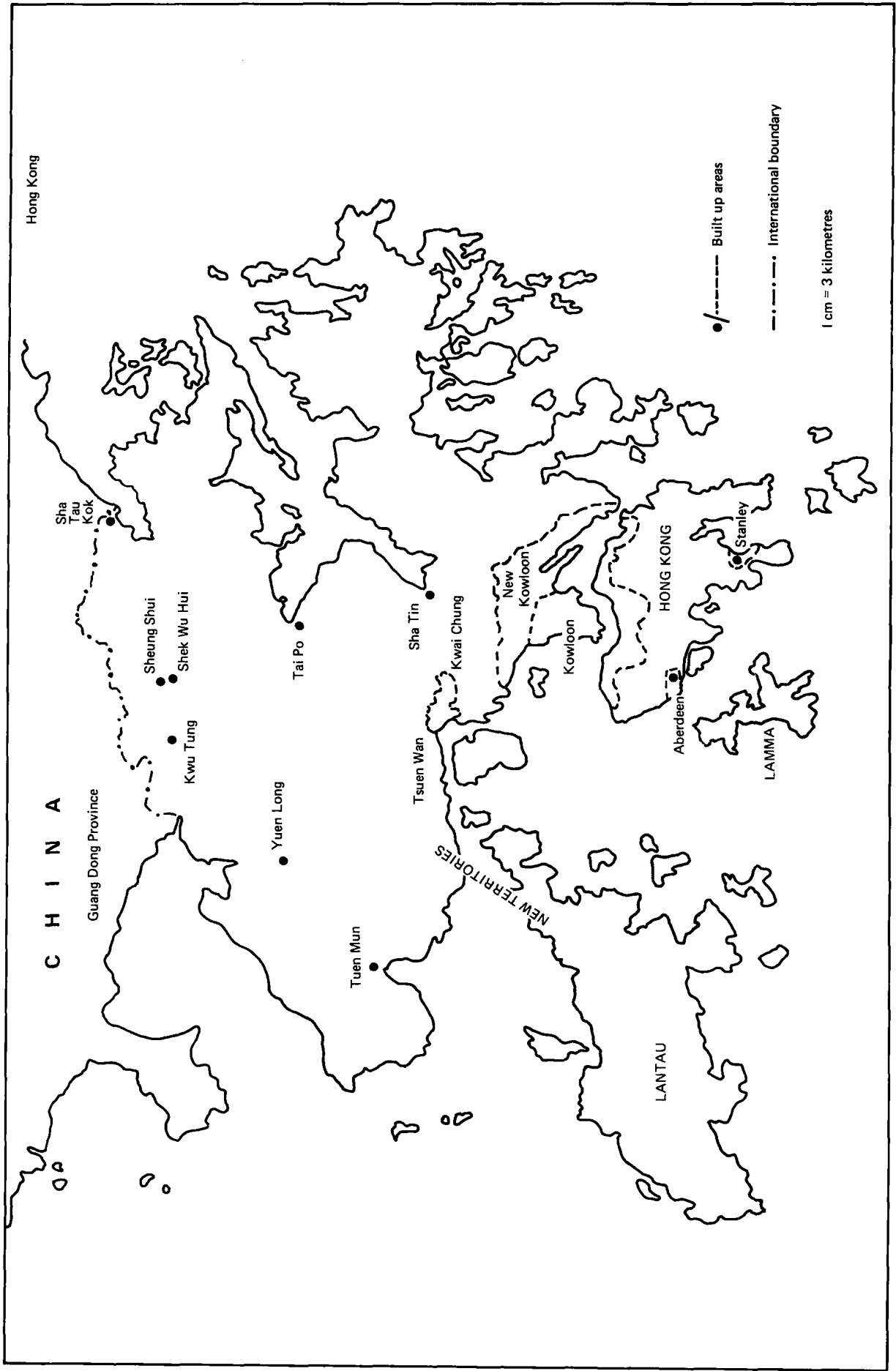
This volume draws heavily on surveys conducted by Survey Research Hong Kong Ltd in the past 2 years. This is the first occasion on which most of this information has been released for general publication and it provides an overview of the main media and consumer markets. We acknowledge the data provided by Survey Research Hong Kong (SRH) and their help in identifying key market trends and characteristics.

Most of the other information in this book has been drawn from Government sources. The Hong Kong Census and Statistics Department provide a wide range of useful and well presented statistics on Hong Kong's social and economic background. Our use of statistics from Government sources is gratefully acknowledged.

Individual sources are referenced in the appropriate chapter.

MACAU

Macau is dealt with in a separate chapter of this book with statistics mainly drawn from Survey Research Hong Kong and the Macau Department of Statistics, and again we acknowledge these sources. Macau is clearly developing as a trade tourist and business centre and for future rounds of this series, consideration will be given to a separate book for Macau.



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1 Economic and political background

CONSTITUTION AND POLITICAL BACKGROUND

Situated on the Southeast coast of China's land mass is the United Kingdom Colony of Hong Kong, with a total land area of just over 1,000 square kilometres. The territory is administered by a Governor appointed by the Queen and he is assisted by an Executive Council and a Legislative Council each of which is made up of 5 ex-officio members and a number of appointed members.

From a constitutional point of view Hong Kong may be thought of in two parts. Hong Kong Island and Kowloon Peninsula were ceded in perpetuity to the UK by China by respectively, the Treaty of Nanking in 1842 and the Convention of Peking in 1860. These cessions were the outcome of hostilities between China and Britain over trade in opium. Neither are recognised by the Chinese Government.

At a subsequent Convention of Peking in 1898, the New Territories was leased to Britain for 99 years. The New Territories comprises an area of about 950 square kilometres including the land between the Kowloon peninsula and the Chinese border as well as over 230 islands. With the lease running out in 1997 and since it is inconceivable that Hong Kong could be split at the boundary of Kowloon and the New Territories there is an ever present question in the minds of investors in Hong Kong as to what will happen from 1998 onwards.

The Chinese view is that the whole of Hong Kong belongs to China and that the question of Hong Kong's status will be dealt with when the time is right. At the moment there are more urgent priorities for China to deal with. This has led some to suggest that 1997 is no more meaningful a year to worry about than any other since the Chinese do not recognise its significance. However, 1997 does have significance from the UK point of view in terms of the impossible legal situation affecting land in the New Territories once the lease has expired. Some action will, therefore, be required before the lease expiry to settle the issue of the granting and owning of land after 1997.

In fact, the expectation is that there will be a resolution of the Hong Kong question within the next five to seven years because of the matter of investor confidence. It is also expected that a situation of British administration very similar to the present one will continue. This is largely because the economic well-being of Hong Kong is seen to be very much in China's interest. At present it is estimated that about half of China's foreign exchange comes from Hong Kong. China is herself heavily invested in the territory and is known to view it as an important point of contact with and learning about the outside world.

In addition there have been some significant comments from the Chinese leadership. Most quoted has been Deng Xiaoping's words to the Governor of Hong Kong and closely repeated to the UK Foreign Minister in 1981 that Hong Kong investors should put their hearts at ease.

Other relevant comments have been to the effect that China has much to learn from Hong Kong and that Hong Kong has a role to play in China's modernisation policy. A particular example is the development of Special Economic Zones along the border with Hong Kong in which there are a large number of joint ventures with Hong Kong companies. Some see this as the beginning of the development of China's own Hong Kong but it is still too early to judge the success, potential and political acceptability of the SEZ's.

There is a strong feeling, then, that the Hong Kong question will be resolved in the not too distant future, although there is speculation about the direction from which the stimulus to resolution will or should come. Meanwhile, the economy of Hong Kong has continued to thrive.

The political consciousness of the Chinese in Hong Kong appears to be somewhat limited and the turn-out for Urban Council elections is extremely low. However, the Government has set up a number of bodies to ensure that the people are widely consulted and that their views can be represented. Apart from disturbances in 1967 which coincided with the Cultural Revolution inside Mainland China, Hong Kong has enjoyed considerable post war stability.

ECONOMIC BACKGROUND

Hong Kong has a dearth of natural resources and has traditionally survived and prospered through the hard work and resourcefulness of its people. Until 1950 Hong Kong flourished through its entrepot trade with China. Things changed in 1949 and 1950, first with the Communists taking over power in China which led to an influx of more than a million people, many with capital and initiative; second with the Korean War which led to a United Nations trade embargo against China. These events resulted in a shift in Hong Kong's economic base towards the manufacturing of light industrial goods: in particular, cotton textiles, footwear, household utensils and toys. Since then there has been diversification into, among others, plastics and electrical goods and more recently into specialised technological equipment.

Between 1960 and 1970 Hong Kong's domestic exports more than quadrupled and by 1970 the manufacturing sector accounted for more than thirty per cent of Gross Domestic Product. Expansion slowed during the recession of 1974-75 but picked up again at the end of the Seventies. Despite import controls in some of Hong Kong's major markets, domestic exports increased by 16% in 1978, 37% in 1979 and 17% in 1980.

The clothing and textile industry still dominates the economy, contributing 41% of domestic exports, although plastics, watches/clocks and electronics are growing. The shortage of space is a problem for heavy industry, although there is ship and aircraft repairing, the building of small and medium sized ships, steel rolling and the manufacture of machinery. Hong Kong's external trade is covered in more detail in a later chapter.

In 1979 GDP was HK\$86.1 billion: a per capita figure of HK\$17,574. The real average growth rate of GDP through the Seventies was 9.21% and 9% was expected to be the figure for the first year of the Eighties, with 8% forecast for 1981.

**Table 1 - Expenditure on Gross Domestic Product by year
(constant 1973 market prices)**

	1977	1978	1979
GDP components (HK\$ million)			
Private consumption expenditure	30,626	35,894	39,527
Govt. consumption expenditure	2,690	3,033	3,361
Gross domestic fixed capital formation	9,683	11,243	13,097
Increase in stocks	+1,331	+1,572	-250
Exports of goods	33,853	38,517	46,030
Less imports of goods	36,424	44,244	51,281
Net exports of services	4,522	4,903	4,935
Total	46,281	51,008	55,419

Source: Hong Kong Census and Statistics Dept

Another feature of the Seventies has been the growth of Hong Kong as a centre for financial services. As an indication, in 1970 financial services accounted for about 15% of GDP but by 1980 this had grown to 23%. Over the same time period the manufacturing share of GDP declined from about 31% to about 25% of GDP.

The declining share of the manufacturing sector is a matter of concern. The Seventies saw the emergence of a number of neighbouring countries with lower land and labour costs making a determined thrust to improve their manufacturing output and share of world markets. Hong Kong recognises the need for diversification not only within its present broad industry categories, but also into new types of industry. In 1977 an Advisory Committee on Diversification was set up by the Government and its findings are under examination. An important question for Hong Kong is whether fundamental changes in manufacturing industry can be implemented without more Government intervention (such as in Singapore) using the natural resourcefulness of Hong Kong's dynamic entrepreneurs with the relatively limited Government help that exists at present.

At the same time the Government is clearly determined that Hong Kong should continue to develop as a financial centre and measures were announced in 1981 which will encourage more banks and financial activity (for example, the moratorium on the issuing of new bank licences was lifted).