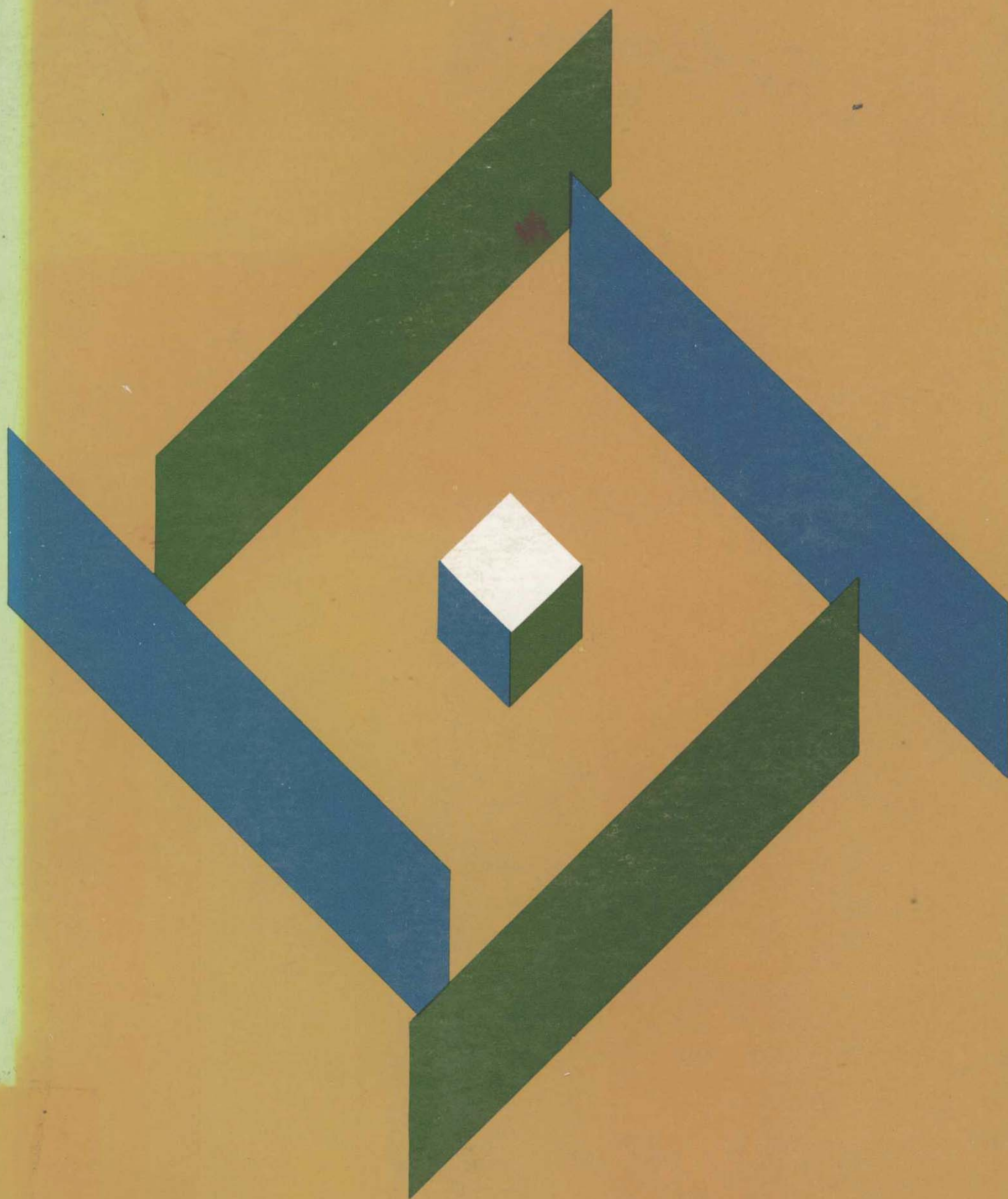


Trade Barriers and the Promotion of Hong Kong Exports



Tzong-biau Lin · Victor Mok

Trade Barriers and the Promotion of Hong Kong Exports

Tzong-biau Lin · Victor Mok



The Chinese University Press
Hong Kong

International Standard Book Number: 962-201-191-8

Copyright ©1980 by The Chinese University of Hong Kong

**The Chinese University Press
The Chinese University of Hong Kong
SHATIN, N.T., HONG KONG**

**Typesetting by Regal Company, Hong Kong
Printing by Tang King Po School, Hong Kong**

FOREWORD

As is generally known, the survival of the Hong Kong economy depends on its external trade.

Prior to 1949, this was dominated by entrepôt trade, but changing circumstances since then have led to a diminution of entrepôt activity and a rapid expansion of domestic exports as a result of accelerated industrialization. In all fairness, Hong Kong's embarkation on industrialization was not by design. Rather, it was a result of the high pressure brought about by the huge influx of refugees from China in 1949 and 1950. These refugees, mostly young and many skilled or semi-skilled, were hungry for jobs and created tremendous difficulties in Hong Kong to get them settled. A happy coincidence was that among these refugees were quite a few industrialists who had brought along a considerable amount of capital and were anxious to make new business ventures in Hong Kong or nearby countries. Favorable conditions in terms of its well-developed infrastructure and its political stability made Hong Kong an ideal choice. Thus, the cheap, industrious and dexterous labor force, readily available capital and entrepreneurship combined to reshape the Hong Kong economy through industrialization and, following the Korean War and the subsequent United Nations trade embargo against China, to change its orientation from entrepôt trade to domestically manufactured exports. Reinforced by later developments in which both local and overseas industrialists participated, this growth process over the years generated immense employment opportunities for the growing population.

It can be imagined that, with the manufacturing industries contributing about 30 per cent of total gross domestic product and with over 90 per cent of their products during the period 1960–75 exported, plus interaction among manufacturing, exporting, and all other activities, changes in domestic exports would have significant employment implications for the manufacturing industries and other sectors. But quantification of these employment implications is a far more difficult task, even for professional economists. Yet it is an extremely important task because it plays the leading role in the drama of Hong Kong's fabulous economic development.

I am happy that this task has been taken up and successfully accomplished by Dr. Tzong-biau Lin and his associates. The complexity of the problems involved in the present study has added greatly to the workload of Dr. Lin, who has served as Chairman of the Department of Economics since October 1975 and concurrently Dean of the Social Science Faculty since August 1977, in addition to his regular teaching duties and commitments to other research projects. But he has managed to

get all these things done remarkably well.

To a large extent, his success in research depends on his leadership in organizing efficient work teams. In the present study, his work team consisted of Dr. Victor Mok, a specialist in foreign trade and development, and Mr. Ho Yin-ping, a promising young economist and a very conscientious researcher. Thus the present study is a product of the joint efforts of the Trio working on the basis of optimal division of labor.

The present study consists of two volumes. The first deals with quantitative aspects of employment in relation to exports, while the second concerns trade barriers and promotion activities. Although the two volumes are closely related, the first differs from the second not only in emphasis but also in methodology. Each volume, however, represents a significant contribution in its own right.

For various reasons, the Economic Research Centre has not been very active until recent years. The completion of the present study testifies to the potential of the Centre that can be tapped, and this, let us hope, will be further borne out by a continuing outflow of worthy studies in the near future.

Mo-huan Hsing
Director, Economic Research Centre

PREFACE

This is a study of the manufactured exports of Hong Kong. Through an analysis of the changing export pattern in the postwar era, it presents a historical account of how Hong Kong successfully developed from an entrepôt in Southeast Asia to the leading exporter of manufactures among the less developed countries (LDCs).

Economic theory tells that the best policy for a small economy is free trade, regardless of measures taken by its opponents. This policy, however, has certain drawbacks and consequences. Commitment to free trade subjects an economy of this type to the dictates of developments beyond its control, which at times can be detrimental; it may find itself captive in situations difficult to disengage from. To maximize the benefit from free trade, therefore, it must be willing and able to make internal adjustments as changes in external circumstances require; it must be quick to capitalize on opportunities and yet flexible enough to alter direction in the face of adversity. We shall see that this is essentially the story of Hong Kong's industrialization through an export drive and its encounter with trade barriers in the process.

In a way, this study is complementary to another one, entitled *Manufactured Exports and Employment in Hong Kong*, which is a result of collaboration by basically the same authors but which employs an entirely different methodology. Here we trace the development of the major factual events and show how Hong Kong has reacted, while the other study, using regression and input-output analysis, seeks to estimate the employment and growth effects of the expansion of Hong Kong's manufactured exports, and further to decompose the effects of contributory factors. In our discussion we shall constantly refer to the findings of this other study.

In the second half of the 1970s, Hong Kong is confronted by a set of problems relating to its trade prospects. On the one hand, an increasing number of LDCs have built up a capacity for manufactured exports and now pose as serious contenders in the arena of international competition. On the other hand, the world is beset by gathering protectionism which, abetted by the slow recovery from the oil crises and its aftermath, has rendered the talk about a new international division of labor purely academic.

Unlike other LDCs which have a broader economic base to fall back upon, Hong Kong has to press forward with its manufactured exports in order to survive. It must continue to produce more and better goods and seek avenues to wider markets. "Diversification" has become almost a household word. In this endeavor,

however, there is much to be sorted out conceptually and in implementation. Hong Kong is at the crossroads. It is hoped that a study of the past can provide some enrichment to its vision for the future.

The authors

CONTENTS

LIST OF TABLES	vi
FOREWORD	vii
PREFACE	ix
1. INTRODUCTION	1
2. THE CHANGING PATTERN OF HONG KONG'S EXPORTS	7
Re-exports	7
Domestic Exports	13
Comparative Advantage	21
3. BARRIERS TO HONG KONG'S EXPORTS – TARIFFS	25
Trade Barriers and Tariffs	25
Commonwealth Preference	26
The General Agreement on Tariffs and Trade	31
United Nations Conference on Trade and Development	37
Summary	41
4. BARRIERS TO HONG KONG'S EXPORTS – IMPORT QUOTAS	45
Non-tariff Trade Barriers and Quantitative Restrictions	45
Development of Import Quotas on Textiles	47
Hong Kong's Voluntary Restraint Program	50
Performance against Quotas	53
Effects of Quota Restrictions	57
Summary	63
5. HONG KONG'S EXPORT PROMOTION ACTIVITIES	65
Scope of Trade Promotion in Hong Kong	65
Trade Promotion before 1966	66
The Hong Kong Trade Development Council	68
Work of the Trade Development Council	71
Summary	78
6. FUTURE PROSPECTS	81
The Issue of Trade Barriers	81
Changing Comparative Advantage	85
The Need for Diversification	88
STATISTICAL APPENDICES	99
BIBLIOGRAPHY	105

LIST OF TABLES

1.1	LDCs Share in World Exports	4
2.1	Salient Features of Hong Kong's Export Trade	9
2.2	Hong Kong Re-exports — Destination Asia and Selected Countries of Origin	9
2.3	Re-exports of Hong Kong to Asian Markets	11
2.4	Re-exports of Hong Kong by Commodity Groups	15
2.5	Production and Trade of Hong Kong's Manufacturing Industries, 1970	17
2.6	Domestic Exports of Hong Kong by Commodity Groups	19
2.7	Shares of Hong Kong's Domestic Exports to DCs and LDCs	22
2.8	Labor Intensity of Hong Kong's Manufacturing Industries, 1973	23
3.1	Leading Importers of Hong Kong Textiles	29
3.2	Share of Textiles in Hong Kong's Exports	30
3.3	Hong Kong's Share in Imports into the U.K.	31
3.4	Hong Kong's Export of Manufactures	34
3.5	Shares of EEC and Nordic Countries in Hong Kong's Exports	35
3.6	Unit Value and Quantum Indices of Hong Kong's Exports	36
3.7	Growth Rates of Hong Kong's Exports to Selected Countries	43
4.1	Performance against STA, LTA and CTA Quotas	54
4.2	Performance against British Cotton Textile Quotas	55
4.3	Performance against U.S. Textile Quotas 1973/74	56
4.4	Performance against EEC Textile Quotas, 1974	58
4.5	Performance against British Textile Quotas, 1974	58
4.6	Hong Kong's Export of Selected Manufactures to Developed Countries	59
4.7	Shares of Textiles and Clothing in Hong Kong's Exports of Manufactures	61
4.8	Unit Value and Quantum Indices of Hong Kong's Selected Manufactured Exports	63
5.1	Coverage of Hong Kong Outward Trade Missions under TDC	74
5.2	Hong Kong's Participation in International Exhibitions under TDC	76
5.3	Nature of Hong Kong's Participation in International Exhibitions, 1955-1975	76
6.1	Growth Rates of Hong Kong's Manufactured Exports to Developed Countries	84
6.2	Merchandise Exports of Hong Kong, Taiwan and South Korea	86
6.3	Selected Manufactured Exports of Hong Kong, Taiwan and South Korea	89
6.4	Comparative Shares of Principal Manufactured Exports in Major Markets	91
6.5	Concentration Ratios of Hong Kong's Exports	94

STATISTICAL APPENDICES

A-1	World Commodity Exports	100
A-2	Leading Importers of Hong Kong's Textiles	101
A-3	Hong Kong's Export of Manufactures (By Countries)	101
A-4	Hong Kong's Export of Selected Manufactures to Developed Countries	102

Chapter 1

INTRODUCTION

Economic thinking on the contribution of trade to economic development has undergone certain changes over the years, first from the optimism of the classical and neo-classical economists to the reservations of Myrdal, Nurkse and Prebisch in the 1950s, and then back to a more positive view since the 1960s with UNCTAD (United Nations Conference on Trade and Development) making definite policy recommendations stressing manufactured exports.¹ Apart from the purely theoretical aspects, this shifting back and forth of ideas involves different interpretations of the experience of the developing countries and the relevance of trade theory to their development problems. It is understandable that few generalizations have been found for the relationship between trade and development, considering the vastly diverse nature of the LDCs (Less Developed Countries) and the fact that economic development itself is such a complex process, not to speak of the lack of an integrated dynamic theory of international trade.

Yet, in this second half of the twentieth century, there are clear examples in which trade has once more become the "engine of growth". Hong Kong is an outstanding case. In a matter of about two decades, it has transformed itself into an industrial city thriving mainly on manufactured exports which have contributed significantly to its almost miraculous development.² In a sense, Hong Kong is unique and quite fortunate because, as an early bird among the LDCs, it was able to capitalize promptly on certain favorable developments in the sphere of international trade. But the entire process has been far from plain sailing, especially in more recent years when the atmosphere of free trade is threatening to come to an end. Our purpose is to review the events which have been significant to Hong Kong's export trade, analyze their effects, and illustrate Hong Kong's response in either taking advantage of the opportunities or overcoming the difficulties stemming from these events.

As a group confined by their level of development and their capacity to export, the LDCs have rather limited participation in world trade. In the mid-1960s, total LDC exports amounted to only 20 per cent of the world total. Of even greater

¹For a theoretical review, the reader is referred to Gerald M. Meier, *The International Economics of Development: Theory and Policy* (New York: Harper & Row, Publishers, 1968), Chapter 8; also Irving B. Kravis, "Trade as a Handmaiden of Growth: Similarities between the Nineteenth and Twentieth Centuries", *Economic Journal*, December 1970, pp. 850-72.

²A detailed analysis of the contribution of exports to Hong Kong's growth and employment is given in T. B. Lin, V. Mok and Y. P. Ho, *Manufactured Exports and Employment in Hong Kong* (Hong Kong: Chinese University Press, 1980).

concern was their export of manufactures. Only 16 per cent of their exports were manufactures, compared to more than 50 per cent for the world as a whole. Thus, the LDCs' share in world export of manufactures was a meagre 5 per cent.³

Yet the world has found no lack of trade opportunities during the postwar period. In fact, with rapid economic expansion in the developed countries, the world has witnessed a trend towards trade liberalization. Since the mid-1960s this has provided great impetus to trade and development at an accelerated pace. From this vast expanding market, which took in more than 70 per cent of the total exports of the LDCs and about two-thirds of their manufactured exports, a small spill-over would benefit the LDCs a great deal considering the initially low base. A number of developments deserve our special attention.

First, negotiations for trade concessions under GATT (General Agreement on Tariffs and Trade), based on the principle of reciprocity and non-discrimination, did make headway over the years and culminated in the conclusion of the Kennedy Round in 1967. It resulted in significant tariff reductions on broad groups of commodities, especially manufactures, with far-reaching implications for world trade. In the meantime, the developed countries have also come to realize that, if they are sincere in their commitment to free trade, they must institute internal adjustment schemes. This has, to some extent, helped alleviate the resistance of domestic pressure groups who so often undermine genuine trade liberalization efforts. Despite being jeered at as the "rich man's club", GATT has made much progress towards freer trade from which the LDCs can also benefit.

Second, the movement towards economic integration in Western Europe, especially the formation of the EEC (European Economic Community), has had a profound impact on trade and development. Regionalization itself has trade-diversion effects; it discriminates against non-member states. But in the case of the EEC, it is generally agreed that its trade-creation effects have by far out-weighed its trade-diversion effects. What is more important is that its dynamic effect on incomes has generated great potential for the EEC to become a vast market, especially for manufactures. However, the effects of the recent enlargement of the EEC have yet to be estimated.

Third, since its initiation in 1964, UNCTAD has had a slow start as a forum for North-South confrontation. This reflects the immense complexity of the trade and development question, in which various LDCs had quite different areas of interest, and with various developed countries responding in quite diverse ways to their demands. After long-drawn-out discussion, however, schemes of preference for manufactures began to materialize and to be implemented one after another in the early 1970s. Limited as they may be, manufactures of the LDCs can now enter the markets of the developed countries with a preferential margin.

³These percentages are calculated from data given by M. Z. Cutajar and A. Franks in *The Less Developed Countries in World Trade* (London: Overseas Development Institute, 1967), Table 3, p. 24.

Finally, counteracting forces have also been at work. They express themselves in the increasing recourse to quantitative restrictions on imports. More specifically, an increasing number of developed countries have imposed import quotas on manufactures from the LDCs, in order to protect those domestic industries which are most vulnerable to competition, notably textiles, clothing and footwear. This has caused much frustration on the part of the LDCs which have embarked upon industrialization through export expansion.

Generally speaking, favorable conditions for trade have existed in the postwar period. The market is there, and individual LDCs may well take advantage of their low production costs. Moreover, a marginal increase in a vast market means an increase of substantial proportions to a "small" exporting country. With increasing capacity to export manufactures, the LDCs have indeed made some progress. During the period 1962-1967 and 1968, their overall export of manufactures grew at an annual rate of 15 per cent and 18.1 per cent, and in the market of the developed countries at 16.4 per cent and 26.1 per cent, while the total world export of manufactures grew at only 10.4 per cent and 14.6 per cent respectively. Their share in the total world export of manufactures increased from 4.3 per cent in 1962 to 5.4 per cent in 1968, and in the market of the developed countries from 3.8 per cent to 4.9 per cent respectively.⁴

This increase, however, was not evenly distributed among the LDCs. Large proportions were taken up by Hong Kong, which had traditionally thrived on free trade, and countries like South Korea and Taiwan, which had shifted from import substitution to an export orientation in the 1960s. Among 45 leading LDCs, the top five performers accounted for about half the export of non-resource based manufactures in 1969, with Hong Kong the leader *par excellence*, alone accounting for 15 per cent. Both South Korea and Taiwan had an average annual rate of growth in their export of manufactures of over 50 per cent in the 1960s, but even though Hong Kong had an average annual growth rate of only 15 per cent, the value of its manufactured exports in 1969 was larger than theirs combined.⁵

Table 1.1 shows the export performance of Hong Kong and the LDCs since 1966. In total exports, the LDCs have barely kept pace with the world, except in 1974 when there was an abrupt increase in oil prices. In manufactures they have made steady and continuous progress. Hong Kong performed remarkably well up to 1971 and seems to have faltered thereafter.

We have alluded to the change in economic thinking on the relationship between

⁴These figures are from H. B. Chenery and H. Hughes, "Industrialization and Trade Trends: Some Issues for the 1970s", in H. Hughes (ed.), *Prospects for Partnership: Industrialization and Trade Policies in the 1970s* (Baltimore/London: Johns Hopkins Press, 1973), Table 1-4, p. 29. "Manufactures" include SITC (Standard International Trade Classification) Sections 5-8 less Division 68 (non-ferrous metals).

⁵*Ibid.*, Table 1-2, pp. 26-7. The list of leading LDCs includes such countries as Yugoslavia, Spain and Ireland, and the top five performers were Hong Kong, Spain, Yugoslavia, India and Taiwan.

Table 1.1: LDCs Share in World Exports

	1966	1967	1968	1969	1970	1971	1972	1973	1974
	All Commodities (SITC Sections 0-9)								
LDCs share in world									
Total exports	18.7%	18.7%	18.3%	17.8%	17.7%	17.8%	18.1%	19.4%	26.6%
Exports to developed countries	20.0	20.0	19.4	18.7	18.4	18.4	18.9	20.0	28.3
Hong Kong share in LDCs									
Total exports	2.6	2.9	3.4	3.8	3.9	3.7	3.6	3.4	2.0
Export to developed countries	2.9	3.2	3.5	4.0	4.1	4.2	4.1	3.8	2.2
	Manufactures (SITC Sections 5-8)								
LDCs share in world									
Total exports	5.8	5.9	6.0	6.3	6.5	6.1	6.4	7.5	7.7
Exports to developed countries	6.0	6.1	6.2	6.5	6.5	5.6	6.2	7.6	7.9
Hong Kong share in LDCs									
Total exports	13.6	14.4	14.8	14.9	14.9	16.0	15.1	13.4	11.7
Exports to developed countries	15.8	17.0	17.4	17.8	18.0	21.5	18.9	16.0	13.9

Source: Calculated from figures given in Appendix A-1.

trade and development. Recent empirical studies have shown that trade performance of the LDCs is positively related to their degree of "openness", and that in general the LDCs first go through an "easy" phase of industrialization by import substitution, and later some of them shift into export orientation with remarkable success.⁶ The need for protection of import substituting industries at an early stage of development requires some qualification. On the one hand, it is not necessary for those LDCs which are endowed with specific resources. Competition is limited in the international market and there may not be a domestic market for their resource based manufactures. On the other hand, labor-intensive foot-loose industries can develop in an area of abundant labor supply simply based on the principle of comparative advantage. Hong Kong is a case in point.

The transformation of Hong Kong from an entrepôt into an industrial city has little, if anything, to do with import substitution through protection. For Hong Kong has traditionally been a free port, and tariffs are imposed primarily to raise revenue. With only a small domestic market and an almost complete lack of natural resources, the policy of free trade has in fact guaranteed the import of machinery and necessary materials at the lowest possible cost, on which basis Hong Kong has successfully carried out its industrialization through an export drive from the very beginning. As de Vries has put it succinctly, "Where such a strategy of industrialization has been induced by the scarcity of natural resources, an initial obstacle to development has been turned into an economic advantage".⁷ The whole process is also in line with what Hla Myint calls the often neglected "productivity theory" element in the classical theory (*à la* Adam Smith) of international trade, according to which a labor-abundant economy could embark upon economic development through an export drive by increasing the work intensity of its labor force and the percentage of people gainfully employed in its manufacturing industries.⁸

Thus, starting in the early 1950s, Hong Kong's labor-intensive manufacturing industries began to flourish and cater increasingly to markets in the developed

⁶See for example: H. Myint, *Southeast Asia's Economy: Development Policies in the 1970s* (Middlesex: Penguin Books, 1972); B. Balassa, "Growth Strategies in Semi-Industrial Countries", *Quarterly Journal of Economics*, February 1970, pp. 24-47; *idem*, "Trade Policies in Developing Countries", *American Economic Review*, (May 1971), pp. 178-87; *idem*, "Industrial Policies in Taiwan and Korea", *Weltwirtschaftliches Archiv*, Heft 1, 1971, pp. 55-77; A. H. M. Mahfuzur Rahman, *Exports of Manufactures from Developing Countries* (Rotterdam: Rotterdam University Press, 1973); B. A. de Vries, *The Export Experience of Developing Countries*, World Bank Staff Occasional Papers 3 (Baltimore: Johns Hopkins Press, for International Bank for Reconstruction and Development, 1967); T. K. Morrison, "Manufactured Exports and Protection in Developing Countries: A Cross-Country Analysis", *Economic Development and Cultural Change*, October 1976, pp. 151-8; and I. B. Kravis, *op. cit.*

⁷*Op. cit.*, p. 62.

⁸See his "The 'Classical Theory' of International Trade and the Underdeveloped Countries", *Economic Journal*, June 1958, pp. 317-37.

countries opened up by economic expansion and the resumption of freer trade. As a result of sheer market forces, Hong Kong's exports to all individual developed countries consist almost exclusively of manufactures, with the sole exception of Japan.⁹ In Chapter 2 we shall examine the changing pattern of Hong Kong's export trade.

Due to the peculiar nature of Hong Kong's export trade, our study will focus mainly on events related to the developed countries which include North America, Western Europe (including the Nordic countries but excluding Spain and Portugal), South Africa, Australia, New Zealand and Japan. In the following discussion, because of the negligible and diminishing importance of chemicals (SITC Section 5) in Hong Kong's export basket, unless otherwise specified we shall include only SITC Sections 6-8 as "manufactures".

In Chapter 3 we shall trace the development of tariffs on manufactures imported into the developed countries. In this respect, three separate streams are of special importance to Hong Kong, namely the Commonwealth Preference, GATT, and the Generalized System of Preferences (GSP) under UNCTAD. The development and effect of each stream on Hong Kong's export trade will be discussed separately.

Chapter 4 deals with non-tariff trade barriers. We shall concentrate on the import quotas imposed by the developed countries on Hong Kong's export of textiles and clothing, for they have become so systematic and comprehensive that they constitute the major source of agony and uncertainty to Hong Kong's manufacturers. An analysis of their effects on Hong Kong's export pattern will be given. In addition, there will be some discussion of Hong Kong's "voluntary restraint" program and its problems.

Since trade performance depends on the ability to sell as much as on the ability to produce, Chapter 5 is devoted to the development of Hong Kong's export promotion and the institutional arrangements for such activities. Unlike countries with large internal markets, Hong Kong cannot produce first and export later. Therefore, we shall discuss these activities from many aspects, such as fostering the flow of trade information, enhancing business contacts and direct sales, as well as promoting overseas investments.

The last chapter will summarize the issues and study their implications for the future trade and development of Hong Kong, especially in relation to its current attempts at diversification. It may also shed some light on the problem of manufactured exports from the LDCs in general.

⁹In 1975, manufactures constituted about 75 per cent of Japanese imports from Hong Kong. This comparatively low percentage is due to the fact that Japan imports substantial amounts of fish from Hong Kong. In that year, more than 15 per cent of Hong Kong's exports to Japan consisted of food (SITC Section 0), of which fish was the major item.

Chapter 2

THE CHANGING PATTERN OF HONG KONG'S EXPORTS

Hong Kong's economy is an extreme case of the outward-looking type. In order to survive, it must import both consumer goods and raw materials, and the bulk of these must be paid for by exports. Traditionally, Hong Kong showed a deficit in its balance of commodity trade, financed by receipts from the invisible trade and capital accounts. Indeed, in the early 1960s, the merchandise trade deficit amounted to 50 per cent of total exports. But as a result of the amazing growth in exports, this was cut down to less than 15 per cent in the following ten years and is still declining. In absolute terms, imports increased from HK\$5,970 million in 1961 to HK\$43,293 million in 1976, an increase of 6.3 times, total exports from HK\$3,930 million to HK\$41,557 million, an increase of 9.6 times, while domestic exports rose from HK\$2,939 million to HK\$32,629 million, an increase of 10.1 times in the same period. These figures compare with an increase of 6.8 times in Hong Kong's GDP.

The degree of Hong Kong's reliance on trade and its success in the export drive can be seen from its import/GDP and export/GDP ratios. The former was well over 90 per cent in almost every year of the period under study. The latter stood at 60 to 70 per cent in the early 1960s, and increased sharply from 1968 when the political situation began to stabilize again after the 1967 social upheaval, which was a spill-over from China's Cultural Revolution. In 1976, the ratio reached 88 per cent, a figure which is seldom matched in other countries.

Table 2.1 features some basic facts on Hong Kong's successful transformation from an entrepôt into an industrial city. This process started in the early 1950s, and Hong Kong's pattern of exports has undergone such dramatic changes that there is little, if any, possibility that it will ever revert back to what it was or anything close to it. In a nutshell, there has been a complete switch-around of the relative importance of its re-exports and domestic exports.

Re-exports

At the height of the Korean Boom in 1951, Hong Kong's total exports stood at HK\$4,433 million, a figure higher than that of 1962. But domestic exports were estimated at only HK\$550 million,¹ implying that some 87 per cent of its exports were actually re-exports. Subsequent events caused Hong Kong's exports to fall to

¹See S. Y. Chung, "The Role of Manufacturing Industry in the Economy of Hong Kong", in J. W. England (ed.), *The Hong Kong Economic Scene* (Hong Kong: Department of Extra-Mural Studies, University of Hong Kong, 1969), Appendix A, p. 8.

HK\$2,889 million in 1952, a decrease of about 35 per cent, due mainly to the drastic curtailment of its re-exports to China.² Hong Kong's exports to China continued to dwindle, causing both total exports and re-exports to decline to still lower levels. In the meantime, Hong Kong's domestic exports began to gather momentum. In 1963, they reached HK\$3,831 million, helping to set a new Hong Kong postwar record of total exports, despite the fact that re-exports reached almost their lowest level at around HK\$1,160 million, accounting for only some 23 per cent of total exports.

Starting in the early 1960s, Hong Kong's re-exports turned the corner and revived with amazing speed as a result of China's efforts to re-orient trade towards non-Communist countries. By the early 1970s, they had surpassed the previous record set in 1951; in 1976, they amounted to HK\$8,900 million, more than twice the 1951 figure. Thus, the loss of the Mainland Chinese market had been much more than made up by increased re-exports to other markets. After several years of continuous decline, Hong Kong's re-exports seem to have stabilized at the level of 20 to 25 per cent of total exports.

Table 2.2 shows the destination and origin of Hong Kong's commodity re-exports. Traditionally, Asia was the principal market, and it remains very much so despite the dwindling importance of the Mainland Chinese market, which at its peak took in some 30 per cent of Hong Kong's re-exports. But it is also noticeable that Asia's share has been declining, signifying that Hong Kong's re-exports have increasingly gone beyond the boundary of the region. On the other hand, China continues to be the leading supplier, accounting for approximately 25 per cent. It is interesting to note the increased volume of Japanese and American exports channelled through Hong Kong. Of special significance is the progress made by Japan, for whose products Hong Kong finds major re-export markets in Singapore, Indonesia, the U.S. and Taiwan.³

Table 2.3 shows in greater detail Hong Kong's major re-export markets in Asia and their development since 1959. There is no need to point out the diminishing importance of the Mainland Chinese market. Japan and Singapore continue to occupy the leading position. Singapore has had a rather stable share of somewhat above 10 per cent over the years, while Japan's share climbed up to around 20 per cent in the early 1970s and then reverted back to its previous level after the normalization of Sino-Japanese relations. Taiwan is the third largest market. Its share increased from around 5 per cent in 1959 to over 10 per cent in 1973, declined slightly afterwards and has lingered at the level of 8 to 9 per cent in recent years. The Indonesian market is more dramatic. It started with only about 3 per cent in 1959, expanded tremendously, reaching a peak of some 23 per cent in

²Hong Kong's exports to China, consisting overwhelmingly of re-exports, fell from HK\$1,604 million in 1951 to HK\$520 million in 1952.

³Census and Statistics Department, *Hong Kong Review of Overseas Trade in 1975* (Hong Kong: Government Printer, 1976).