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12 Foreign Trade and Economic Growth in Hong Kong: Experience and Prospects

Edward K. Y. Chen

12.1 Introduction

Hong Kong is one of the world's fastest growing economies in the postwar period. Rapid economic growth in Hong Kong began with its economic transformation from an entrepôt to an industrial city in the 1950s. What is worth noting is that such an economic transformation was achieved without planning or even premeditation. In the 1960s and early 1970s, Hong Kong experienced a process of rapid industrialization accompanied by a high rate of income growth. During all this time, the role of the government was relatively unimportant, and the entire experience of rapid industrialization represented a series of successful self-adjustments to changes in the internal and external economic environment. Limited by its small internal market, Hong Kong had to adopt an outward-looking policy of export-oriented industrialism from the very beginning. This outward-looking policy has proved to be successful not only in Hong Kong but also later in other Asian economies such as South Korea, Singapore, and Taiwan and at one time in Brazil and Mexico.

Basic statistics for the macroeconomic performance of the Hong Kong economy in the past twenty years or so are given in the Appendix (tables 12.A.1–12.A.4). Table 12.1 shows the average annual growth rates of GDP and GDP per head during the period 1961–82. It can be seen that the rate of economic growth in Hong Kong as measured by GDP or GDP per head has been extremely high by any standard during the past fifteen years. The average annual growth

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The author is grateful to Miss Teresa Wong for computational assistance.

Table 12.1 **Average Annual Growth Rates of GDP and GDP per Head (at constant prices of 1973): Hong Kong** (percentages)

	GDP	GDP per Head
1961–66	10.9	8.0
1966–71	7.6	5.4
1971–76	8.8	6.8
1976–81	12.4	9.5
1961–81	9.9	7.4
1961–82	9.5	6.9

Sources: Hong Kong, Census and Statistics Department, *Estimates of Gross Domestic Product* (1983). Hong Kong Government, *1983 Economic Prospects* (1983).

rate of real GDP was 9.5%, and even in terms of GDP per head, the growth rate was 6.9% per annum on average. If we exclude 1982, the year of slow growth, the average GDP and GDP per head growth rates were 9.9% and 7.4% respectively for the period 1961–81. Owing to changes in the world trade situation and internal events (such as the banking crisis in 1965 and the riots in 1967), the Hong Kong economy has experienced considerable fluctuations in the level of economic activities. Nevertheless, the recovery after an economic setback has always been rapid and remarkable. For instance, the economy recovered quickly from the relatively slow growth in the years 1966, 1968, and 1971. Like everywhere else, Hong Kong suffered from the world economic recession during 1974–75, but Hong Kong recovered remarkably well in 1976. It would seem that there is some kind of "well-behaved" automatic mechanism which regulates the economy. Since late 1979, the world has suffered from the second oil crisis. Owing to the strong internal demand and the increased importance of the financial sector, the growth rates of Hong Kong were still at the high level of 11.7% and 10.9% in 1980 and 1981 respectively. The world recession had its impact on Hong Kong in 1982, during which the economy grew at only 2.4%. But, once again, taking full advantage of the U.S. recovery in 1983, Hong Kong achieved a 6% growth in that year.

The process of economic growth is almost invariably accompanied by structural changes involving the intersectoral shift of resources. There have been two phases of structural changes in Hong Kong in the past thirty years. The first phase occurred in the 1950s and 1960s, during which there was a shift of resources to the manufacturing sector. The second phase began in the early 1970s, and the direction has been toward the development of financial services.[1] In 1980, for the first time, the contribution of financial services to GDP (26%) surpassed that of manufacturing (25%).

12.2 Commodity Patterns of Export

Hong Kong has an area of just over 1,036 km^2; moreover, most of the land is hilly and therefore not arable. Hong Kong lacks not only arable land but also other kinds of natural resources. There are no important mineral reserves such as coal or petroleum and hardly any raw material supplies.[2] Thus, because of its shortage of arable land, Hong Kong has to depend on imports for its food supply, and because of the lack of mineral reserves, Hong Kong has to import virtually all raw materials and fuels required by the various industrial activities. In addition, as Hong Kong is a small place, the domestic market is not large enough to absorb all the manufactured products produced locally by the rapidly expanding industries. The major manufacturing industries in Hong Kong are therefore export oriented.

It is frequently said that the rapid growth in Hong Kong is export-led; i.e., the rapid economic growth is initiated and sustained by a rapid expansion in exports. Although this proposition is largely true for Hong Kong, it may not necessarily be true for other countries in which a strong positive association between growth and export expansion exists. In the case of Hong Kong, industrialization can take place only if the manufactured products produced can find overseas markets. In this sense, export expansion makes it possible to industrialize, and industrialization gives rise to higher rates of economic growth. Export earnings enable a country to import capital goods, which have the effect of raising the level of productivity and therefore the rate of growth.[3] For some other countries cause and effect may not be as simple as this. It is equally possible for export expansion to be the result rather than the cause of economic growth; the export expansion of Japan is often said to be growth-led.

This paper will study changes in the product composition of Hong Kong's exports and imports in the past twenty years. Such changes will be explained on the demand side in terms of the changing conditions in the overseas markets and on the supply side in terms of the changing comparative advantages within the domestic economy. This paper will also deal with the direction of Hong Kong's foreign trade. Hong Kong's trade with its major trading partners (the United States, Japan, and Western Europe) will be analyzed in some detail. Lastly, the prospects of the Hong Kong economy and thus its foreign trade will be assessed, with special attention given to its attempts to diversify the economy and the political uncertainty caused by the 1997 issue.

It is necessary to distinguish between domestic exports and reexports in the total export figures for Hong Kong. Before the mid-1950s, the major source of income in Hong Kong was entrepôt trade, and reexports were much larger than domestic exports. For example, in 1950

it was estimated that reexports constituted 89% of total exports. There has been a drastic fall in the share of reexports in total exports since the mid-1950s, but in recent years, there has been a revival of the importance of entrepôt trade as a result of China's new economic policy since 1977. By 1981 and 1982, reexports constituted some 35% of total exports, which was a drastic increase when compared with a figure of about 20% in the early 1970s. In this section, we confine ourselves to the analysis of domestic exports; reexports will be dealt with briefly in a later section. Unless stated otherwise, domestic exports are referred to as exports.

The economy of Hong is highly industrialized and export oriented. It can be seen from table 12.2 that manufactured exports accounted for over 90% of Hong Kong's total exports in the past twenty years. In fact, since the late 1960s, only 3%–4% of Hong Kong's exports have been nonmanufactured products. At the SITC one-digit level, it seems that Hong Kong has experienced a considerable change in the composition of its exports. Specifically, there have been a significant decline in section 6, manufactured goods classified by materials, and a signif-

Table 12.2 **Share of Manufactured Exports in Total Exports** (percentages)

	SITC 5	SITC 6	SITC 7	SITC 8	Total
1963	1.4	23.1	5.1	62.0	91.6
1964	1.2	21.5	5.1	64.5	92.3
1965	1.1	22.0	6.8	63.5	93.4
1966	0.9	21.3	9.3	62.9	94.4
1967	0.9	19.0	10.0	65.0	94.9
1968	1.0	17.2	10.4	66.8	95.4
1969	1.0	15.4	11.2	68.2	95.8
1970	0.8	15.1	11.8	68.3	96.0
1971	0.9	14.2	12.2	69.0	96.3
1972	0.9	14.4	14.0	67.4	96.7
1973	0.9	16.5	14.5	64.4	96.3
1974	0.8	16.5	16.0	63.1	96.4
1975	0.8	13.5	14.6	68.1	97.0
1976	0.7	13.2	14.7	68.4	97.0
1977	0.8	11.8	16.0	68.0	96.6
1978	0.8	11.4	15.7	68.3	96.2
1979	0.8	11.2	16.7	67.1	95.8
1980	0.8	11.3	18.1	65.7	95.9
1981	0.9	10.7	18.7	66.4	96.7
1982	0.9	10.0	18.2	67.5	96.6

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics,* various issues.

Note: SITC 5 = chemicals; SITC 6 = manufactured goods classified chiefly by material; SITC 7 = machinery and transport equipment; SITC 8 = miscellaneous manufactured articles.

icant increase in section 8, machinery and transport equipment. A further analysis at the SITC two-digit level reveals that this shift at the one-digit level is principally due to the decline of the textile (spinning, weaving, dyeing, and finishing) industry and the rise of the electronics industry. Changes in the other divisions were relatively insignificant. Miscellaneous manufactured articles, which are principally labor-intensive products, accounted for two-thirds of Hong Kong's exports, indicating the very high labor intensity of Hong Kong's manufactured exports even in recent years. An analysis at the two-digit and three-digit levels shows that there have been some changes in the composition of exports within the section of miscellaneous manufactured articles. Throughout the last twenty years, clothing consistently accounted for 35%–45% of Hong Kong's exports. On the other hand, the relative importance of footwear has been declining and that of watches and clocks rising very rapidly. At the same time, the decrease in the relative importance of plastic flowers and household goods was compensated for by the rapid increase in the relative importance of toys and dolls. In the mid-1980s, Hong Kong is the world's number one exporter of toys and dolls in value terms and the world's number three exporter of watches and clocks.

It is perhaps more revealing to look at the changing composition of Hong Kong's exports by types of industry. Table 12.3 shows the percentage shares of the exports of Hong Kong's major industries. These industries accounted for about three-quarters of Hong Kong's total exports. So far clothing remains the single most important industry, accounting for more than one-third of Hong Kong's total exports. While textiles, footwear, and plastic articles (excluding plastic toys) are declining industries, toys and dolls, electronics, and watches and clocks are the industries enjoying rapid growth. The rise of the watches and clocks industry in the past few years has been particularly noteworthy.

For some of these major industries, it is necessary to undertake a more disaggregate analysis in order to examine the changes in their product composition.

12.2.1 Clothing

A better idea of the product composition of Hong Kong's exports of clothing can be obtained by breaking down the exports by type of material, kind of wear, and method of manufacture, as shown in tables 12.4–12.6. Owing to the import restrictions imposed on cotton products at an early stage, there was a marked trend of diversification into clothing of man-made fibers. This trend has however reversed since the mid-1970s. This switching back to cotton was partly due to the extension of trade restrictions on noncotton products by many importing countries, and partly because of the coming back into fashion

Table 12.3 **Percentage Share of Major Industries in Exports**

	Clothing	Textiles	Toys & Dolls	Electronics	Footwear	Watches & Clocks	Plastic Articles[a]
1964	36.6	16.0	6.7	2.4	3.9	—	6.6
1970	35.1	10.3	7.1	9.5	2.4	—	4.1
1971	39.7	10.2	7.6	10.1	2.6	—	3.4
1973	38.3	12.1	8.6	12.4	1.4	1.5	3.5
1974	38.2	11.9	8.0	12.0	1.4	2.2	2.5
1975	44.6	9.4	7.0	10.7	1.1	2.8	1.8
1976	43.8	9.4	7.4	11.4	1.0	3.7	1.8
1977	39.7	7.6	8.8	12.7	1.0	4.8	2.1
1978	38.6	7.1	8.3	12.7	1.0	6.7	2.1
1979	36.0	7.3	9.3	12.9	0.9	8.3	1.9
1980	34.1	6.7	8.8	13.9	0.9	9.6	2.4
1981	35.2	6.6	9.2	13.5	1.0	9.2	2.3
1982	35.0	4.0	11.1	10.7	0.9	9.0	2.3

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics,* various issues.
[a]Excluding toys.

Table 12.4 **Exports of Clothing by Type of Material** (in millions of HK $ and percentages)

	Cotton	Man-made Fibers	Wool	Silk[a]	Other	Total
1969	1,339 (35.0)	1,114	1,008 (26.3)	—	365 (9.6)	3,826
1970	1,283 (29.6)	(29.1)	990 (22.8)	—	477 (11.1)	4,334
1971	1,724 (31.6)	1,584	906 (16.6)	—	633 (11.5)	5,464
1972	1,997 (32.7)	(36.5)	915 (15.0)	—	675 (11.0)	6,109
1973	2,431 (32.5)	2,200	857 (11.5)	—	952 (13.1)	7,426
1974	3,352 (38.6)	(40.3)	729 (8.4)	—	1,046 (12.1)	8,678
1975	4,605 (45.7)	2,522	773 (7.7)	—	1,109 (11.0)	10,677
1976	6,965 (49.3)	(41.3)	968 (6.9)	—	1,418 (10.0)	14,114
1977	6,490 (47.4)	3,186	1,352 (9.9)	—	1,409 (10.3)	13,678
1978	7,251 (47.4)	(42.9)	1,414 (9.2)	—	1,686 (11.1)	15,295
1979	9,341 (48.1)	3,551	1,520 (7.8)	—	2,320 (12.0)	19,406
1980	10,779 (48.0)	(40.9)	2,179 (9.7)	—	2,561 (11.4)	22,453
1981	12,863 (47.3)	3,591	2,898 (10.7)	1,258 (4.6)	1,720 (6.3)	27,191
1982	13,644 (49.2)	(35.6)	2,519 (9.1)	1,345 (4.8)	1,716 (6.2)	27,734
		4,764				
		(33.8)				
		4,428				
		(32.4)				
		4,944				
		(32.3)				
		6,226				
		(32.1)				
		6,934				
		(30.9)				
		8,451				
		(31.1)				
		8,510				
		(30.7)				

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics,* various issues.

[a]Classified under Other before 1981.

of clothing made of cotton. At present, about one-half of Hong Kong's exports of clothing and about two-thirds of Hong Kong's exports of nonknitted outerwear are made of cotton. In the case of underwear the use of cotton is also greater than the use of man-made fibers. As can be seen from table 12.4, the exports of wool clothing have declined in relative importance. This is of course a result of the clothing industry's attempt to diversify into higher-quality and more sophisticated products to overcome nontariff trade restrictions.

The major clothing exports of Hong Kong are outerwear, the relative importance of which has in fact increased from two-thirds of the total clothing exports in 1969 to almost three-quarters in 1982. The produc-

Table 12.5 **Exports of Clothing by Kind of Wear** (in millions of HK $ and percentages)

	Outerwear	Underwear and Nightwear	Other
1969	2,562 (67.0)	938 (24.5)	326 (8.5)
1970	2,852 (65.8)	1,065 (24.6)	417 (9.6)
1971	3,610 (66.1)	1,336 (24.5)	518 (9.4)
1972	4,133 (67.7)	1,462 (23.9)	514 (8.4)
1973	5,132 (69.1)	1,610 (21.7)	684 (9.2)
1974	5,848 (67.4)	2,024 (23.3)	806 (9.3)
1975	7,062 (70.1)	2,264 (22.5)	751 (7.4)
1976	10,066 (71.3)	3,035 (21.5)	1,013 (7.2)
1977	9,569 (70.0)	2,976 (21.8)	1,133 (8.2)
1978	10,835 (70.8)	3,453 (22.6)	1,007 (6.6)
1979	13,711 (70.7)	4,261 (22.0)	1,434 (7.3)
1980	16,073 (71.6)	4,930 (22.0)	1,450 (6.4)
1981	20,295 (74.6)	5,416 (20.0)	1,480 (5.4)
1982	20,618 (74.3)	5,609 (20.2)	1,507 (5.5)

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics,* various issues.

Table 12.6 **Exports of Clothing by Method of Manufacture** (in millions of HK $ and percentages)

	Nonknitted	Knitted	Other
1969	2,029 (53.0)	1,510 (39.5)	287 (7.5)
1970	2,198 (50.7)	1,756 (40.5)	380 (8.8)
1971	2,714 (49.7)	2,278 (41.7)	472 (8.6)
1972	3,001 (49.1)	2,536 (41.5)	571 (9.4)
1973	3,675 (49.5)	2,834 (38.2)	915 (12.3)
1974	4,628 (53.3)	3,016 (34.8)	1,034 (11.9)
1975	5,433 (53.9)	3,597 (35.7)	1,048 (10.4)
1976	8,116 (57.5)	4,641 (32.9)	1,357 (9.6)
1977	7,549 (55.2)	4,829 (35.3)	1,301 (9.5)
1978	8,895 (58.2)	5,121 (33.5)	1,279 (8.3)
1979	11,700 (60.3)	6,094 (31.4)	1,612 (8.3)
1980	13,238 (59.0)	7,662 (34.1)	1,553 (6.9)
1981	16,272 (59.8)	9,352 (34.4)	1,567 (5.8)
1982	16,976 (61.2)	9,338 (33.7)	1,421 (5.1)

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics,* various issues.

tion of outerwear offers greater opportunities for product sophistication and diversification. Recently, Hong Kong has moved into the area of fashion designs, which have won Hong Kong some prizes in international shows. Exports of nonknitted outerwear have increased since the mid-1970s, following the return to fashion of cotton apparel, which

are mostly nonknitted. On the other hand, in the case of underwear and nightwear, the relative importance of knitted products has increased over time. Today, the export value of knitted underwear and nightwear is almost as great as that of nonknitted.

In sum, there have been considerable changes in Hong Kong's clothing industry in the past ten years or so, which are, however, not revealed at the two- or three-digit level of product classification.

12.2.2 Textiles

Hong Kong's exports of textile yarns, fabrics, and made-up articles have declined since as early as the beginning of the 1960s. The relative decline in the production of textiles was to a large extent the result of the increasing trade restrictions imposed on our textile products by the importing countries. The first severe blow to the rapid growth of textiles came in 1959 when the United Kingdom imposed restrictions on our textile exports under the Lancashire Pact. In 1961 Hong Kong had to agree to the General Agreement on Tariffs and Trade (GATT) Long Term Cotton Textile Agreement (CTA), by which textile exports to the United States and the European Community (EC) were limited by a quota. At first, only textiles were restricted under this agreement. Later, clothing was also included. In 1974 the CTA was replaced by the Multi-Fiber Arrangement (MFA), which also covered noncotton textiles. Both the CTA and the MFA laid down the basic principles under which bilateral agreements between Hong Kong and the importing countries were to be negotiated. In general, these agreements specified certain initial maximum quantities of textiles and clothing that might be exported from Hong Kong, allowing an annual percentage increase thereafter.

Like the clothing industry, the textile (spinning, weaving, dyeing, and finishing) industry has been responding to trade restrictions by a process of product diversification and sophistication, although perhaps at a less rapid rate than that in the clothing industry. In addition, the textile industry has increasingly turned to Hong Kong's internal market as a substitution for exports. In 1971, 45.3% of textiles produced in Hong Kong were exported; in 1978, the corresponding figure dropped to 23.5%.

Table 12.7 indicates that the major item of textiles exports is fabrics. The exports of yarn and thread are relatively small because most of the yarn and thread are used locally for the manufacture of fabrics. Of the various types of fabrics exported, there has been a gradual shift in relative importance from cotton to noncotton fabrics. One reason is that an increasing proportion of cotton fabrics produced is used by the local clothing industry, which, as noted earlier, has in recent years

Table 12.7 **Exports of Textile by Item** (in millions of HK $ and percentages)

	Yarn & Thread	Made-up Articles & Related Products	Fabrics			
			Total	Cotton	Noncotton	Other[a]
1963	68 (12.2)	59 (10.6)	434 (77.2)	—	—	—
1964	85 (14.0)	61 (10.0)	463 (76.0)	—	—	—
1965	93 (13.0)	81 (11.3)	540 (75.7)	—	—	—
1966	94 (11.6)	123 (15.2)	592 (73.2)	—	—	—
1967	88 (9.4)	164 (17.5)	685 (73.1)	610	51	24
1968	88 (8.5)	199 (19.2)	749 (72.3)	654	63	32
1969	114 (10.1)	198 (17.6)	815 (72.3)	685	91	39
1970	140 (11.0)	208 (16.3)	929 (72.7)	772	121	36
1971	157 (11.2)	243 (17.4)	998 (71.4)	786	173	39
1972	187 (12.1)	237 (15.3)	1,127 (72.6)	765	317	45
1973	412 (17.5)	212 (9.0)	1,728 (73.5)	1,178	506	44
1974	483 (17.6)	277 (10.1)	1,978 (72.3)	1,384	538	56
1975	299 (13.9)	234 (10.9)	1,612 (75.2)	1,175	384	53
1976	407 (13.3)	292 (9.6)	2,352 (77.1)	1,763	519	70
1977	426 (16.1)	291 (11.0)	1,931 (72.9)	1,397	448	86
1978	345 (12.0)	331 (11.5)	2,192 (76.5)	1,521	573	98
1979	450 (11.1)	504 (12.4)	3,110 (76.5)	2,144	819	147
1980	490 (10.8)	603 (13.3)	3,442 (75.9)	2,399	842	201
1981	553 (10.4)	633 (11.9)	4,116 (77.7)	2,740	1,117	259
1982	584 (11.6)	570 (11.3)	3,898 (77.1)	2,510	1,092	296

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics*, various issues.

[a]Special textile fabrics, lace, ribbons, embroidery, and small wears.

emphasized the production of cotton apparel. Yet in terms of absolute values, the exports of cotton fabrics are still more than twice those of noncotton fabrics.

12.2.3 Electronics

There has been no clear-cut classification of products into electronics. Electronics has increasingly become a technology used in all kinds of industries. In the trade statistics of Hong Kong's electronics exports, two ambiguous sectors are toys and watches and clocks. With the introduction of electronic LED/LCD watches and clocks and electronic toys such as hand-held games and toys with electronic controls, a problem of classification arises because these products were earlier classified as electronics and later as toys and watches and clocks. Even today, some degree of ambiguity exists. For example, in the case of a multiproduct electronics firm producing toys and watches and clocks as sidelines, such products are most likely grouped under electronics rather than watches and clocks or toys. Owing to the process of rapid

product diversification within the electronics industry, there has also been a frequent reclassification of electronics products within the industry itself.

Hong Kong's electronics industry started with the manufacture of transistor radios and gradually branched into components and parts (see table 12.8). Even today the exports of radios constitute almost one-half of the export earnings of Hong Kong's electronics industry. Hong Kong started to manufacture electronic parts and components relatively early but for a long time confined itself mostly to assembly work. It is only in recent years that Hong Kong has begun to produce semiconductors and integrated circuits from the raw material stage. There are at present a few firms designing and manufacturing home and commercial computers. Hong Kong is a latecomer in the production of telephones and related products, but the growth in this area has been very fast in the past two years. So far, Hong Kong is not an important producer of television sets, especially color sets. Generally speaking, the Hong Kong electronics industry has been flourishing on

Table 12.8 **Exports of Electronics Products** (in millions of HK $)

	Computer Components and Parts	Elec. Mach. Components and Parts	Calc. Mach.	Trans. Radios and Parts[a]	Semi-conductors, Integrated Circuits	Transistors and Diodes
1963				68		
1964				95		
1965				128		
1966				185		
1967		64		210		
1968		98		329		136
1969		134		472		232
1970	197	77		549		259
1971	285	9		712	5	225
1972	279	73		919	48	276
1973	399	65		1,230	91	388
1974	465	137		1,422	229	387
1975	340	79		1,377	163	259
1976	467	149		2,001	266	351
1977	683	171	213	2,259	251	382
1978	678	160	388	2,462	303	431
1979	787	215	549	3,483	442	594
1980	1,465	258	464	4,300	522	643
1981	2,126	187	321	4,351	584	506
1982	1,694	234	308	4,131	541	549

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics*, various issues.

[a]Includes nontransistor radios and parts from 1978 on.

the basis of what has been called the "three-year cycles." This means that Hong Kong electronics firms quickly spot opportunities in the world market and produce the fashionable products for about three years. At the end of three years, firms will shift to other products because of declining demand or increasing competition from other Asian exporters. Most of these products are, as expected, consumer electronics, the production of which does not require very sophisticated technology.

12.2.4 Toys and Dolls

For some years Hong Kong has been the world's number one exporter of toys and dolls, followed at some distance by Taiwan, Japan, and the United States, in that order. In both toys and dolls, there has been a shift from the use of nonplastic materials to plastic. Miscellaneous toys include stuffed and rubber toys and the electronic games recently come into fashion (table 12.9).

12.2.5 Plastics

Besides plastic toys and dolls, Hong Kong also produces plastic flowers and other articles for export (table 12.10). The exports of plastic flowers were an important foreign exchange earner for Hong Kong in the 1960s. Today, Hong Kong is still the world's number one exporter of plastic flowers, followed by Taiwan, West Germany, and South Korea. Since the early 1970s, the industry has diversified rapidly into the production of plastic household and related products. In the past few years, the relative importance of plastic flowers has become smaller than that of other plastic articles.

Table 12.9 **Exports of Toys and Dolls** (in millions of HK $)

	Plastic Toys	Metal Toys	Misc. Toys	Plastic Dolls	Nonplastic Dolls	Elec. Motors for Toys	Carnival Articles
1973	1,160	71	27	158	88	31	74
1974	1,249	103	34	192	82	41	56
1975	1,114	94	49	155	55	40	39
1976	1,651	146	80	215	85	84	59
1977	2,155	178	75	277	101	107	90
1978	2,327	193	83	268	81	127	117
1979	3,192	286	168	405	123	199	141
1980	3,578	409	162	451	124	185	200
1981	4,710	600	511	475	181	207	222
1982	5,814	415	1,153	489	187	230	223

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics,* various issues.

Table 12.10 **Exports of Plastic Products, Excluding Plastic Toys** (in millions of HK $)

	Artificial Flowers and Fruits	Other Articles
1963	216	21
1964	271	20
1965	266	20
1966	258	23
1967	288	31
1968	308	41
1969	366	54
1970	416	88
1971	354	111
1972	418	133
1973	479	209
1974	344	233
1975	200	205
1976	291	306
1977	375	355
1978	435	436
1979	448	622
1980	873	786
1981	895	952
1982	889	1,053

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics,* various issues.

12.2.6 Watches and Clocks

With the assistance of the electronics industry, the production of watches and clocks has experienced a phenomenal growth in the past five years as a result of the application of electronic devices to watches and clocks. In the past two years, Hong Kong has been the world's number one exporter of watches in terms of quantity and the world's number three exporter in terms of value (after Switzerland and Japan). But, Hong Kong has so far by and large confined itself to the assembly of imported parts of watches. The watches produced in Hong Kong therefore either have relatively low value-added content or are largely for the lower price range of the market.

12.2.7 Value Added in Manufacturing Industries

Many developing countries serve as subcontracting centers for foreign firms or at most undertake assembly work of imported semimanufactures. In these cases, the value-added content of manufactured exports is generally low.

In the case of Hong Kong, detailed data on manufacturing are available for the two years 1973 and 1978. These data show that value added

constituted about one-third of the gross output of Hong Kong's manufactured industries as a whole. In fact, there was a slight decline in value-added content from 36.7% in 1973 to 34.4% in 1978, indicating that the process of product sophistication was quite slow. Table 12.11 gives the percentages of value added in gross output at the three- or four-digit SITC level of classification. Only in nonelectrical machinery, tobacco manufacturing, and clothing (especially leather and fur) did the value-added content increase considerably. Most of Hong Kong's major exporting industries have relatively low value-added content.

Table 12.11 **Value Added as Percentage of Gross Output in Hong Kong Manufacturing**

	1973	1978
Food manufacture	28.68	29.89
Beverages	65.50	61.58
Tobacco manufacture	41.24	59.90
Textiles	34.21	29.39
Clothing	33.03	36.28
Leather products	25.94	31.84
Footwear	43.97	44.21
Wood products	35.29	35.47
Furniture	46.62	45.39
Paper and paper products	31.32	33.27
Printing and publishing	50.42	46.89
Chemical and chemical products	43.00	35.58
Rubber products	42.82	36.60
Plastic products	42.13	41.39
Plastic flowers	47.45	50.15
Plastic toys	43.17	43.70
Nonmetallic mineral products	35.22	30.82
Basic metal	25.50	23.38
Fabricated metal	44.58	40.40
Nonelectrical machinery	36.38	46.36
Electrical machinery	31.78	30.05
Sound equipment	28.42	22.13
Transistorized radios	26.26	26.36
Electrical appliances	34.80	32.08
Transport equipment	61.83	52.08
Professional and scientific equipment	37.10	22.02
Photographic and optical goods	56.81	36.17
Watches and clocks	30.01	20.87
Other manufacturing industries	22.97	35.43
Jewelry and related goods	11.94	28.80
All manufacturing industries	36.69	34.42

Sources: Hong Kong Census and Statistics Department, *1973 Survey of Industrial Production and 1978 Survey of Industrial Production.*

12.3 Geographic Distribution of Exports

While Hong Kong's exports are mainly from the products of a few industries, the direction of Hong Kong's exports is even more narrowly confined to a few countries. Table 12.12 shows that the United States is by far Hong Kong's most important export market, accounting for over one-third of Hong Kong's domestic exports. The relative importance of the United Kingdom market has been steadily declining, and West Germany for some years (1975–80) became the second-largest market for Hong Kong's exports. Australia, Japan, and Canada are the other important markets of Hong Kong. Hong Kong's exports to Canada began to pick up only in the late 1970s. In 1982, 3.3% of Hong Kong's exports went to Canada. The increasing importance of China as a market is even more recent. In 1982 China became the fourth-largest market of Hong Kong. But it is important to note that many of Hong Kong's exports to China consist of parts and semimanufactures representing intraindustry or intrafirm trade only. This is largely the result of the opening up of China, especially its Special Economic Zones, for foreign investment and participation. At present there are many Hong Kong firms which have subsidiaries in China and/or subcontracting arrangements with factories in China.[4]

The six countries listed in table 12.12 imported about two-thirds of Hong Kong's domestic exports. Nonetheless, the problem of market concentration is perhaps not as serious as many people think. As long as the right products are produced to satisfy the needs of overseas markets, certainly these countries can maintain or even expand their existing level of importation of Hong Kong products. After all, these

Table 12.12 **The Direction of Trade: Exports** (as percentages of totals)

	United States	United Kingdom	West Germany	Australia	Japan	China
1964	27.7	21.9	6.6	2.6	2.7	0.9
1968	41.4	15.9	5.9	2.9	2.8	0.1
1972	40.2	14.4	10.0	2.9	3.1	0.1
1974	32.4	12.1	10.7	5.7	4.6	0.4
1976	34.4	10.1	12.2	4.2	4.3	0.1
1977	38.7	8.7	10.5	3.6	4.0	0.1
1978	37.2	9.5	10.9	3.7	4.6	0.2
1979	33.6	10.7	11.4	3.2	4.8	1.1
1980	33.2	10.0	10.8	2.9	3.4	2.4
1981	36.3	9.6	8.8	3.4	3.7	3.6
1982	37.6	8.7	8.5	3.4	3.8	4.6

Sources: Hong Kong Census and Statistics Department, *Hong Kong External Trade,* various issues.

countries are all large countries with sizable markets. Hong Kong's existing level of exports to each of these countries represents only a relatively small share of their markets. Table 12.13 shows Hong Kong's exports as a share of total imports into Hong Kong's major overseas markets. It must however be noted that for some individual products such as clothing and toys, the shares of Hong Kong's exports in the total imports of some countries (such as the United States, Germany, and the United Kingdom) can be substantial. The comparative share of Hong Kong's principal export commodities in main overseas markets is given in the Appendix (Tables 12.A.5–12.A.7). Hong Kong has always been very responsive to the U.S. market; for example, we usually increase (decrease) our exports by more than 10% if demand in the United States increases (decreases) by 10%. A similar relationship exists between Hong Kong and the United Kingdom. The relative importance of Hong Kong's exports in West Germany's imports has increased from 0.6% in the early 1970s to a leveling off at 0.9% in recent years. Australia has been steadily increasing its imports from Hong Kong. In theory the Japanese market has a great potential for Hong Kong products, but it is difficult in practice to penetrate the Japanese market because of the existence of many economic and institutional barriers. In the past three years, for example, in the cases of clothing, watches and clocks, radios, footwear, toys and dolls, and electronic components and parts for computers, the United States, the United Kingdom, and West Germany are generally the three largest markets for Hong Kong. In the case of textile fabrics and manufactures of metal, China, the United Kingdom, and the United States are the largest markets.

12.3.1 United States

The United States is Hong Kong's largest market for almost all its major exports. But in the past ten years or so, the leading position of Hong Kong in the U.S. market in some products has been increasingly challenged by the other Asian newly industrializing countries (NICs)—South Korea, Singapore, and Taiwan. Today, Hong Kong is still the largest exporter of clothing, the second-largest exporter of watches and clocks, and the second-largest exporter of dolls and toys to the U.S. market. The first position in the export of toys and dolls to the U.S. market was lost to Taiwan in 1981. In the exports of electronics and textile products, the relative importance of Hong Kong in the U.S. market has been decreasing over time. However, Hong Kong has become the third-largest exporter of office machines and automatic data-processing equipment to the United States in recent years.

Table 12.13 **Hong Kong's Exports in Main Overseas Markets** (percentage share)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
United States	2.4	2.2	2.2	2.1	1.6	1.6	2.0	2.0	2.1	2.0	2.0	2.1	2.3
United Kingdom	1.4	1.7	1.7	1.7	1.3	1.3	1.4	1.2	1.3	1.4	1.7	1.7	1.5
West Germany	0.6	0.6	0.8	0.8	0.7	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9
China	—	—	—	—	—	—	—	—	—	—	7.0	5.3	—
Japan	0.5	0.5	0.5	0.7	0.4	0.4	0.5	0.5	0.6	0.6	0.4	0.5	0.5
Australia	1.4	1.5	1.9	2.3	2.5	2.3	2.6	2.4	2.5	2.4	2.2	2.2	2.3
Canada	0.6	0.5	0.5	0.5	0.4	0.5	0.8	0.6	0.6	0.7	0.8	0.8	1.0
Singapore	2.5	2.3	2.5	2.8	2.3	2.2	2.4	2.6	2.9	2.2	2.1	1.9	2.1
Taiwan	1.8	2.1	2.4	2.6	1.7	1.3	1.3	2.4	1.4	1.4	1.3	1.5	1.6

Source: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics.*

12.3.2 West Germany

Hong Kong has been for many years the second-largest exporter of clothing to West Germany. Hong Kong also exports a significant share of West Germany's imports of watches and clocks, toys and dolls, and travel goods. In 1981 Taiwan replaced Hong Kong as the second-largest exporter of travel goods to West Germany. Hong Kong's shares of textiles and manufactures of metal in the West Germany market have also declined in recent years.

12.3.3 United Kingdom

Hong Kong has always been the largest exporter of clothing to the U.K. market. The position of Hong Kong in this case seems much more secure than in the U.S. market, where Taiwan, South Korea, and, more recently, China have been keen competitors. Hong Kong is also the leading exporter of toys and dolls, electronics products, and watches and clocks to the U.K. market. The United Kingdom is also an important market for Hong Kong's exports of metal products, textile fabrics, plastic flowers and other plastic articles, and heating and lighting fixtures and fittings, though these products are not among Hong Kong's leading exports.

12.3.4 Japan

None of Hong Kong's exports make up a significant share of Japan's imports. Hong Kong's major exports to Japan are clothing, watches and clocks, toys and dolls, metal products, travel goods, jewelry, artificial flowers, and metal scrap. There have been various attempts by Hong Kong to penetrate the Japanese market to a greater extent, but success has so far been limited. The problems facing Hong Kong are believed to be similar to those facing other exporters, especially other developing countries. It is believed that Japan imposes a number of administrative (invisible and yet effective) protective measures on imports. The Japanese yen has been thought to be deliberately undervalued. The multilayered distribution network is difficult for exporters to break into. Also, Japanese consumer tastes are difficult to satisfy. A special problem for Hong Kong is that its lower-end products are more expensive than the products of lower-wage countries and its higher-end products cannot compete with the name-brand products of Europe, for which Japanese consumers have a uniquely strong preference.

12.4 The Determinants of Export Growth

Table 12.14 shows the value index, unit value index, and quantum index of Hong Kong's exports for the period 1969–82. It is evident

Table 12.14 Trade Indices of Hong Kong's Exports

	Value Index	Unit Value Index	Quantum Index
1969	13	33	39
1970	15	36	43
1971	17	38	45
1972	19	40	47
1973	24	48	50
1974	28	61	47
1975	28	61	47
1976	41	67	61
1977	44	69	64
1978	51	72	70
1979	70	84	83
1980	85	92	92
1981	100	100	100
1982	103	106	97

Source: Hong Kong Census and Statistics Department, *Hong Kong Review of Overseas Trade*, various issues.

that Hong Kong's exports have grown at a very fast rate. Exports increased 7.9 times in terms of value (at current prices), 3.2 times in terms of unit value, and 2.5 times in terms of quantity, when we compare the beginning and ending years. As we have seen, about 95% of Hong Kong's exports are manufactured products. This high rate of export growth must therefore reflect an equally high rate of growth in Hong Kong's manufacturing sector. Most of the major manufacturing industries in Hong Kong are highly export oriented. According to the industrial surveys, some 75% of the output of the major industries in Hong Kong was for export. The figures are in fact much higher for many individual industries, such as consumer electronics, watches, clothing, and toys and dolls, all of which export over 90% of their output. The textile (spinning and weaving) industry is the notable exception, exporting only about one-quarter of its output in recent years. There is evidence that Hong Kong's growth is export-led (see Chen 1980). The issue here is how the rapid growth of Hong Kong's manufactured exports in the past two decades can be explained.

An often-used technique to analyze the sources of export growth is the constant-market-share method, first developed by Tyszynski (1951)and later widely applied to many country and regional studies (for a more recent review and extension see Richardson 1971). Essentially, this constant-market-share method uses a simple conceptual framework to decompose export growth into four components:

1. The effect of the increase in total world trade
2. The effect of the changes in the commodity composition of world trade; this effect will be greater the greater the more-than-

proportionate growth in world trade of the commodities which Hong Kong exports in the base year

3. The effect of the changes in the market distribution of world trade; this effect will be greater the greater the more-than-proportionate growth in demand in the markets which Hong Kong exports to in the base year
4. The effect of a country's increased competitiveness and therefore its ability to capture a larger share of its markets in the base year

This decomposition method is presented by the following formula:

$$\frac{dX}{dt} = \left(s\frac{dQ}{dt}\right) + \left(\sum_i s_i\frac{dQ_i}{dt} - s\frac{dQ}{dt}\right) + \left(\sum_i\sum_j s_{ij}\frac{dQ_{ij}}{dt} - \sum_i s_i\frac{dQ_i}{dt}\right) + \left(\sum_i\sum_j Q_{ij}\frac{ds_{ij}}{dt}\right).$$

The quantity X is Hong Kong's total exports; s is Hong Kong's share in world trade; Q is the world's total trade; s_i is Hong Kong's share in the total world trade of commodity i; Qi is the world's total trade in commodity i; s_{ij} is Hong Kong's share in the total world trade of commodity i to market j; Q_{ij} are the total exports of commodity i to market j; and t is time.

The constant-market-share analysis is simple to operate but also subject to a number of shortcomings (see Richardson 1971; Ooms 1967). For example, the method is arbitrary in that the share, or competitiveness, effect is nothing but an unexplained residual and the ordering of the terms in the actual computation affects the results. More importantly, this approach concentrates on the demand side. The supply factors are only implicitly considered in the competitiveness effect, which is only a residual. Also, this model treats commodity and market distributions in a static sense, with reference to only the base year. Nonetheless, such a decomposition analysis should be useful as a partial and preliminary analysis, especially when it is supplemented by other evidence. We will consider later an analysis of Hong Kong's export growth in terms of Hong Kong's changing comparative advantage.

Table 12.15 gives the sources of Hong Kong's export growth in 1976–81 using the constant-market-share technique. Commodity exports are divided into eight groups. Markets are divided into five regions: ASEAN (Association of South East Asian Nations) and Australia, East Asia, North America, Western Europe, and others. For all exports, it is shown that 93% of Hong Kong's export growth in 1976–81 was accounted for by increases in world demand. The dominance of the world trade effect is true in fact for all commodity groups. The commodity composition effect is unimportant except in footwear, and the market distribution effect is unimportant except in the category "other." Over-

Table 12.15 **Sources of Hong Kong's Export Growth by Commodity Groups, 1976–81** (percentages)

	World Trade Effect	Commodity Composition Effect	Market Distribution Effect	Competitiveness Effect
Textiles	119.81	6.30	3.11	−29.21
Metal	85.59	1.20	10.76	2.45
Clothing	96.51	−150.45	−48.47	202.40
Electrical machinery	72.34	−7.02	−8.89	43.58
Plastic products	69.21	−316.68	−115.13	462.59
Sci. instr., watches, clocks	65.88	−8.08	−0.54	42.74
Footwear	104.75	177.93	−12.24	−170.37
Other	90.67	−2.15	37.24	−25.76
Total	93.27	−7.35	−10.06	24.15

Sources of data for computation: Hong Kong Census and Statistics Department, *Hong Kong Trade Statistics,* 1976 and 1981; State Statistical Bureau, People's Republic of China, *Statistical Yearbook of China,* 1981; Directorate-General of Budget, Accounting, and State, Republic of China, *Statistical Yearbook of the Republic of China,* 1982; United Nations, *Yearbook of International Trade Statistics,* vols. 1–2, 1981.

all, about one-fourth of export growth can be explained by the increased competitiveness of Hong Kong products. It is in this sources of export growth that we find considerable differences among commodity groups. Increased competitiveness was the major source of export growth in clothing and plastic products. These are the two industries which have gone through a relatively rapid process of product sophistication and diversification. In electrical machinery (mainly electronics products) and scientific instruments and watches and clocks, the effect of increased competitiveness is also significant. It is of course not a surprise to find that in such declining industries as textiles and footwear, increased competitiveness was not a source of export growth.

The constant-market-share analysis has in fact been applied to Hong Kong for an earlier period and to other Asian NICs as well.[5] Table 12.16 gives the computations for Hong Kong, South Korea, Singapore, and Taiwan for two time periods (except for Singapore). The table is constructed from three sources, yet the computed results are largely comparable. All the sources used a three-digit SITC classification of commodities, but they categorized markets differently. Two observations can be made. First, there has been a trend of increasing dependence on the growth of world trade, while there has been at the same time a decrease in the relative importance of the competitiveness effect. These trends are particularly notable in the case of South Korea and

Table 12.16 **Sources of Export Growth in the NICs** (percentages)

	World Trade Effect	Commodity Composition Effect	Market Distribution Effect	Competitiveness Effect
Hong Kong				
1965–70[a]	50.2	5.4	−4.4	48.9
1976–81[b]	93.3	−7.4	−10.1	24.2
South Korea				
1965–69[a]	26.2	−2.7	−1.5	78.0
1977–81[c]	92.0	−3.5	−1.8	13.3
Singapore				
1977–81[c]	65.0	7.1	2.8	25.1
Taiwan				
1965–70[a]	30.6	−6.5	3.2	72.7
1977–81[c]	70.9	−1.1	−0.1	30.3

[a]Kuo 1983.
[b]Computed by the author.
[c]Cha et al. 1983.

Taiwan, when we compare the periods 1965–70 and 1977–81. The reasons for this are probably (1) that the protective measures taken by developed countries in recent years have prevented the Asian NICs from capturing a larger share of their existing markets and (2) that many more developing countries (such as Mexico, Brazil, Malaysia, and Thailand) have switched to an export-oriented development strategy, thus competing with the Asian NICs in the developed-country markets. Thus, to a large extent, the Asian NICs in recent years could expand their exports only at a rate corresponding to the growth in world trade.

The second observation is that, with perhaps the exception of Singapore, the effects of commodity composition and market distribution have not been important factors explaining export growth. What is implied by these results is that the commodities and markets that the Asian NICs concentrate on in the base year do not experience more than proportionate growth during the period under construction. There is, however, no indication as to whether commodity and market diversifications have taken place.

It is of interest to examine how much diversification of products was undertaken by Hong Kong manufacturing in the past twenty years. One simple method to achieve this is to calculate the concentration ratios of Hong Kong's commodity exports at the, say, three-digit level. This is given in table 12.17. The computation of these ratios is based on the "H" concentration measure, which is defined as the square root of the sum of the percentage share of different commodities (or commodity groups) in total exports (Hirschman 1945; Adelman 1969; Naya 1973). When multiplied by 100, the ratio will vary between 0 and 100; the more diversified the commodity pattern, the smaller the ratio. The

Table 12.17 Commodity Concentration Ratios of Hong Kong's Exports

Year	Concentration Ratio	Year	Concentration Ratio
1964	40.52	1973	41.33
1965	42.66	1974	40.88
1966	39.68	1975	46.09
1967	39.09	1976	45.50
1968	39.96	1977	42.00
1969	40.84	1978	41.39
1970	40.09	1979	41.26
1971	43.08	1980	41.82
1972	43.15		

Source: Computed from data in Hong Kong Census and Statistics Department, *Hong Kong External Trade*, various issues.

commodity concentration ratios of Hong Kong's exports indicate that there has not been much diversification in Hong Kong manufacturing at the three-digit level. There are in fact indications that the commodity pattern was more concentrated in the 1970s than in the 1960s.

Nonetheless, it is unlikely that Hong Kong was able to respond to the increase in world trade so well without having diversified. At a more disaggregate level, it can be shown that, within individual industries such as clothing, textiles, plastics, and electronics, very rapid processes of product diversification have been taking place. This has been discussed above in connection with the patterns of Hong Kong's exports. Hong Kong industrialists are extremely flexible and adaptable in coping with changes in consumers' tastes within a particular subsector or product group. On the other hand, Hong Kong industrialists are more reluctant to diversify into new industries, the establishment of which requires much longer term investment and greater risk. This reluctance is reinforced by the fact that there has been no definite government industrial policy.

Very much in line with our expectations, market diversification has been of no importance in explaining Hong Kong's export growth. As we have seen, in the past two decades Hong Kong has continued to rely on a few markets, whose growth was generally relatively slow, with perhaps the exception of West Germany. Some diversification into the Middle Eastern and African markets has been achieved, but the overall significance of this is understandably limited.

Let us now turn to a consideration of the supply factors affecting Hong Kong's export growth. Owing to data limitations, we can examine only the two years 1973 and 1978, during which large-scale surveys of industrial production were performed.

Table 12.18 shows the relationship between export performance and changes in capital intensity. Two interesting observations emerge from these data. First, the major exporting industries of Hong Kong were

Table 12.18 **Export Performance and Capital Intensity of Principal Commodities**

	Exports[a]	Export Share (%)	Export Growth 1973–78 (%)	Capital-Labor Ratio[b]
Clothing: outerwear				
1973	4,724	24.3		4.02
1978	10,306	25.3	118.2	4.72
Clothing: underwear				
1973	1,604	8.2		2.04
1978	3,330	8.2	107.6	3.49
Footwear				
1973	273	1.4		2.54
1978	407	1.0	49.1	2.83
Textile yarn & thread				
1973	412	2.1		9.02
1978	345	0.8	−16.3	10.05
Textile fabrics				
1973	1,728	8.9		22.83
1978	2,192	5.4	26.9	17.77
Textile made-up articles				
1973	212	1.1		11.42
1978	331	0.8	56.1	7.96
Toys & dolls				
1973	1,669	8.6		5.15
1978	3,373	8.3	102.1	6.80
Artificial flowers				
1973	479	2.5		5.94
1978	435	1.1	−9.2	7.05
Plastic articles[c]				
1973	209	1.1		10.47
1978	436	1.1	108.6	10.66
Iron & steel utensils				
1973	91	0.5		6.60
1978	190	0.5	108.8	7.91
Metal lanterns				
1973	56	0.3		6.80
1978	151	0.4	169.6	10.51
Electric torches				
1973	81	0.4		5.86
1978	127	0.3	56.8	6.89
Handbags, etc.				
1973	288	1.5		2.66
1978	611	1.5	112.2	3.30
Watches & clocks				
1973	293	1.5		5.84
1978	2,734	6.7	833.1	7.90
Cameras				
1973	75	0.4		6.03
1978	297	0.7	296.0	5.91

Table 12.18 (continued)

	Exports[a]	Export Share (%)	Export Growth 1973–78 (%)	Capital-Labor Ratio[b]
Nonelectric machinery & parts				
1973	213	1.1		8.40
1978	353	0.9	65.0	8.20
Electronic components & parts				
1973	464	2.4		3.85
1978	838	2.1	80.6	7.24
Transistor radios & parts				
1973	1,230	6.3		2.65
1978	2,247	5.5	82.7	3.67
Electric heating equipment & parts				
1973	36	0.2		4.77
1978	404	1.0	1,022.2	9.30

Sources: Hong Kong Census and Statistics Department, *1973 Survey of Industrial Production* and *1978 Survey of Industrial Production;* idem, *Hong Kong External Trade.*

[a]In millions of HK dollars.

[b]HK $1,000 per worker, at 1973 prices.

[c]Excluding flowers.

quite labor-intensive in 1973, and many of them remained so in 1978. Clothing, radios, and handbags are notable examples.[6] This is perhaps because Hong Kong exports are relatively human-capital-intensive rather than physical-capital-intensive. Secondly, over the period 1973–78, the capital intensity of most of the major industries nonetheless increased substantially. In fact there is some evidence that those industries which performed better are also those with more significant increases in capital intensity. Examples are clothing, metal lanterns, watches and clocks, and electric heating equipment and parts. The capital intensity of electronic parts and components increased significantly, but this sector did not capture an increasing share in total exports. There was perhaps a time lag in this case. In later years, after 1978, this sector grew at a phenomenal rate. The manufacture of textiles is an interesting case. The capital intensity of this sector is high, and the technology used is very modern. The severe trade restrictions imposed on textiles have initiated two kinds of changes: (1) production catering to the local market and (2) reduction in the rate of investment, resulting in a lower capital intensity, which may be more appropriate for Hong Kong's factor endowment considering that Hong Kong is perhaps more human-capital abundant than physical-capital abundant.

If export performance is an indicator of revealed comparative advantage (Balassa 1965), our findings indicate that the comparative advantage of Hong Kong is gradually changing toward more capital-intensive products. This is surely a natural and expected phenomenon in the process of economic development; a study of this process has been called the "stages" approach to comparative advantage (Balassa 1979; Heller 1976). It implies that countries will gradually change their trade structure in the course of economic growth and development. There are of course good reasons to believe that the comparative advantage of Hong Kong has been changing. With the accumulation of experience and knowledge over time, levels of both labor skills and technology have increased. However, it is important to note that the change in Hong Kong's comparative advantage toward higher technology and capital intensity has not been as rapid as in other Asian NICs. First, Hong Kong has traditionally been a laissez-faire economy, with the government playing very little part in building up a technological infrastructure for the promotion of the level of technology. Second, though the absolute wage rate of Hong Kong manufacturing is second to only Japan in Asia, the increase in wage rate in the past twenty years has most likely been smaller than productivity increases. For example, for the period 1964–82, the real wage rate in Hong Kong manufacturing increased at an average annual rate of only 3.7% (see Appendix table 12.A.3). In addition, during the period 1978–81, about half a million people came to Hong Kong from China; almost all of them are in the working-age group (for population statistics see table 12.A.2). This huge supply of unskilled and semiskilled workers certainly had an unfavorable effect on Hong Kong's moving up the comparative advantage ladder.

Unlike most other developing countries, the upgrading of industries in Hong Kong is not constrained by a shortage in the supply of capital. Capital is not a problem inasmuch as the private saving rates are high and the amount of foreign direct investment has been substantial. Multinational corporations in Hong Kong have also played a positive role in technology transfer and the promotion of manufactured exports.[7]

12.5 The Patterns of Imports

The lack of arable land and natural resources in Hong Kong means that Hong Kong has to import foodstuffs, raw materials, and fuels from other countries. With rapid industrialization, the need to import these products increases. Nowhere else in the world can we find a closer link between imports and exports than in Hong Kong.

Foodstuffs accounted for a quarter of total imports in 1964 but declined to about 10% in recent years (see table 12.19). This is an expected

Table 12.19 **Imports Classified by End Use** (as percentages of totals)

	Foodstuffs	Consumer Goods	Fuels	Raw Materials	Capital Goods
1964	24.7	19.7	2.8	44.3	8.5
1968	20.7	23.9	3.1	43.8	8.6
1970	17.9	25.5	2.7	41.7	12.2
1972	17.5	25.8	2.8	41.0	12.8
1974	18.4	22.3	5.9	40.9	12.6
1976	16.0	21.4	5.9	44.1	12.6
1977	15.5	23.5	5.8	41.9	13.3
1978	13.6	26.6	4.7	42.2	12.9
1979	11.6	25.1	5.4	43.7	14.2
1980	10.8	26.4	6.8	41.6	14.4
1981	10.6	26.7	7.7	40.4	14.6
1982	11.8	27.0	7.8	39.5	13.9

Source: Hong Kong Census and Statistics Department, *Hong Kong External Trade*, various issues.

trend because when the level of income increases, the demand for foodstuffs will normally increase less than proportionately. The increase in the percentage of fuels in total imports since 1974 is a reflection of the drastic increase in crude oil prices. In recent years, the quantity of crude oil imports has actually fallen, indicating that the demand for crude oil has become much more price-elastic over time. The percentage of capital goods has also been increasing moderately over time, and to some extent this reveals the rapid process of industrialization in Hong Kong and a movement toward more capital-intensive methods of production. It is of interest to note that Hong Kong does produce many of the consumer goods we currently import, such as radios, television sets, cameras, domestic electrical equipment, clothing, and footwear. We have continued to import these goods while at the same time exporting similar products to overseas markets. This indicates the snobbish behavior of many Hong Kong people and also how highly export oriented the Hong Kong economy is. On the one hand, owing to the small size of the domestic market, manufacturers are not interested in making the effort to develop the domestic market. On the other hand, with rapid increases in income, consumers prefer higher-quality and more sophisticated imported goods in many cases.

China has always been the major supplier of foodstuffs to Hong Kong and was the largest trading partner with regard to imports up to 1968, when Japan became the largest supplier of products to Hong Kong (see table 12.20). With the opening up of China and the recent closer economic ties between China and Hong Kong, China in 1982 once again became Hong Kong's largest supplier. The importance of the United

Table 12.20 **Sources of Hong Kong's Imports** (as percentages of totals)

	Japan	China	United States	United Kingdom	Singapore	Taiwan
1964	18.1	23.0	11.5	9.8	3.0	2.2
1968	21.8	19.5	13.8	8.7	2.1	3.3
1972	23.3	17.7	11.9	6.6	3.1	6.0
1974	20.9	17.6	13.5	5.7	5.5	5.2
1976	21.6	17.9	12.3	4.2	7.7	7.1
1977	23.7	16.6	12.5	4.5	5.9	6.7
1978	22.8	16.7	11.9	4.7	5.1	6.8
1979	22.5	17.6	12.1	5.1	5.6	7.0
1980	23.0	19.7	11.8	4.9	6.6	7.1
1981	23.2	21.3	10.4	4.5	7.7	7.8
1982	22.1	23.0	10.8	4.8	7.1	7.1

Source: Hong Kong Census and Statistics Department, *Hong Kong External Trade*, various issues.

States and the United Kingdom has generally been declining, while Singapore (for its supply of petroleum) and Taiwan have emerged as important sources of supply to Hong Kong. Hong Kong imports a wide range of products from Japan and the United States, including both capital and consumer goods. Hong Kong imports mainly foodstuffs from China; but the import of textile goods, clothing, and some manufactured articles has become increasingly significant. The major imports from the United Kingdom and West Germany are machinery, electrical appliances, fruits and vegetables, and plastic materials. Table 12.A.8 in the Appendix gives detailed information on the main sources of imports by end-use category in recent years.

12.6 The Patterns of Reexports

As mentioned above, there has been a strong revival of Hong Kong's entrepôt trade following China's much more open economic policy after 1977. Hong Kong has once again become an important port of China trade. Traditionally, textile products were the major reexport items and they still remain of importance (see table 12.21). Since the early 1970s, the relative importance of watches and machinery increased while that of medical and pharmaceutical products declined. Another notable feature of the changes in the commodity composition of reexports is the rapid growth of Hong Kong into a world trading center for diamonds and other precious stones during 1968–79. With a recent drop in the prices of precious stones, the importance of diamonds in Hong Kong's reexports has decreased drastically.

Table 12.21 **Reexports by Principal Commodities** (as percentages of totals)

	1964	1968	1970	1972	1974	1976	1977	1978	1979	1980	1981	1982
Textiles	15.0	19.5	13.4	14.1	13.1	10.7	12.1	13.7	13.8	14.3	16.7	14.5
Diamonds	6.3	13.1	17.8	14.8	10.0	8.7	7.5	9.2	7.1	4.7	3.8	2.6
Watches	2.7	3.8	4.5	5.0	7.1	6.2	6.3	6.6	6.2	6.9	6.2	5.1
Articles of apparel and clothing accessories	1.6	1.9	1.8	2.5	2.9	3.2	3.1	3.5	4.7	5.2	5.3	6.8
Electrical machinery, apparatus, and appliances	1.7	1.9	3.7	5.2	6.8	7.1	8.3	8.0	8.2	8.7	10.5	10.2
Nonelectrical machinery	2.3	3.5	4.8	4.5	5.0	5.5	6.2	7.0	8.1	7.6	7.2	7.9
Medical and pharmaceutical products	5.2	8.2	8.7	5.7	3.9	3.9	3.7	3.2	2.7	2.0	1.8	1.8

Sources: Hong Kong Census and Statistics Department, *Hong Kong External Trade*, various issues.

Table 12.22 **The Direction of Reexports** (as percentages of totals)

	Japan	Singapore	Taiwan	Indonesia	United States	China
1964	14.7	13.9	4.1	15.3	3.4	3.4
1968	16.4	10.8	4.7	15.7	6.4	1.7
1972	20.1	10.5	8.4	7.8	8.8	2.0
1974	14.4	12.1	9.7	8.6	7.2	2.8
1976	16.8	10.5	9.1	7.9	9.6	1.4
1977	13.6	10.8	8.9	9.0	10.8	1.8
1978	17.3	10.5	9.3	9.9	9.3	1.6
1979	12.4	9.0	8.6	8.4	10.0	6.6
1980	7.3	8.3	7.4	9.2	10.3	15.4
1981	6.7	7.8	5.8	10.2	11.5	19.3
1982	5.8	8.2	6.0	10.4	12.7	18.0

Source: Hong Kong Census and Statistics Department, *Hong Kong External Trade*, various issues.

Table 12.22 gives the major reexport markets of Hong Kong. It is of interest to note that the relative importance of the markets has been changing. In general, the relative importance of Japan and Singapore has been declining and that of the United States and China has been increasing very rapidly. China has once again become by far the most important reexport market of Hong Kong. Taiwan's and Indonesia's shares in Hong Kong's reexports have fluctuated. It is also of interest to note that, while there is as yet no direct trade between China and Taiwan and between China and South Korea, there has been indirect trade with Hong Kong as the middleman between China on the one hand and Taiwan and South Korea on the other, and this indirect trade has been growing in the past few years. In 1982 Hong Kong reexported 3.8% of its total reexports to South Korea.

12.7 Balance of Trade and Payments

In Hong Kong, it is not only true that the import value of merchandise is always much greater than its export value but also that this imbalance exists from time to time even after allowing for the exports and imports of services. Such imbalances occurred in the period 1961–66 and have occurred since 1978. Thus, even with Hong Kong's prosperous tourist industry and financial and transportation services, the current account in the balance of payments is still generally unbalanced. Table 12.A.4 in the Appendix shows the huge imbalance in merchandise trade and the net exports of goods and services. After two years' rapid recovery and growth, domestic consumption began to increase very rapidly, and this was especially apparent in 1978, during which aggregate demand tended to increase at a more rapid rate than that of aggregate supply.

This increased drastically our import of goods and led to huge imbalances in our net exports of goods and services. The imbalance reached an unprecedented figure of HK $8337 million in 1981 and has been reflected in the rapidly falling exchange rate of the Hong Kong dollar since late 1977.

Does this imbalance in the *current* account mean that Hong Kong has suffered from an *overall* imbalance in the balance of payments? Unlike most other countries, Hong Kong does not yet have any official balance-of-payments accounts, which means that a definite answer to the question cannot be given. However, it must be true that for most of the years in the postwar period Hong Kong did not have a balance-of-payments deficit, because the deficit in the current account was offset by the surplus in the capital account. Owing to the relative social and political stability, sound financial structure, low taxation, and free foreign exchange market, Hong Kong has always attracted a large inflow of capital, both long term and short term. It is reasonable to believe that such an inflow of capital each year can well offset the deficit in the current account.

Nevertheless, the situation has become less clear because of the uncertainties created by the 1997 issue. Since mid-1982, Hong Kong has suffered from a kind of confidence crisis: local capital has become much more hesitant to stay in Hong Kong, and there is evidence of a significant amount of outflow of local Hong Kong capital. But to a large extent, this outflow of local capital has been offset by an increase in the inflow of foreign capital, particularly the long-term capital in productive activities. This can perhaps be explained by the fact that in the global strategies of foreign multinational corporations Hong Kong is considered relatively politically stable and profitable to invest in.

In terms of trade balances with individual countries and regions, Hong Kong has a substantial favorable balance with North America, a small favorable balance with Western Europe, but a huge trade deficit with Asia. Our exports to the United States are more than double our imports from it. Hong Kong has a favorable balance of trade with West Germany, the Netherlands, and the United Kingdom, and an unfavorable balance with Switzerland, France, and Italy. In Asia, we have huge deficits in our trade with Japan, China, and Singapore.[8] Hong Kong's trade with Africa, Australia, the Middle East, and Central and South America is limited, but there is favorable balance in all these cases.

12.8 Prospects

After two decades of rapid growth, the Hong Kong economy has now come to a point where future rapid growth of the economy depends on the success of undertaking some structural transformation. As we

have analyzed above, two important reasons for Hong Kong's rapid growth of exports and therefore income are a high growth rate in world trade in the past two decades and the ability of the Hong Kong economy to undertake product diversification within say the three-digit classification of industries. In sum, the rapid growth of Hong Kong in the past twenty years was largely demand determined in the sense that Hong Kong was able to take advantage of the favorable international economic environment prevailing in the 1960s and 1970s, during which trade liberalization took place under the Kennedy Round and Tokyo Round negotiations. On the supply side, Hong Kong was able to produce in accordance with its comparative advantage those labor-intensive products for which there was a tremendous increase in world demand. Unfortunately, this international economic environment favorable to developing countries has changed since the mid-1970s. Increasing measures of trade restriction, often in the form of nontariff protection, were imposed by developed countries against imports from developing countries. Protectionism is certainly detrimental to the export-led growth of developing countries, but it is not fatal. Recent studies indicate that developed countries in fact do not import many manufactured goods from developing countries (Keesing and Wolf 1981; Hughes and Waelbroeck 1981). This is true even for textiles and clothing, not to mention other more technology- and capital-intensive products. Thus, there is in fact plenty of room for developing countries to penetrate developed-country markets. Trade restrictions imposed by developed countries can normally be overcome by industrial or product diversification and sophistication. This means that as long as a developing country can maintain its flexibility and dynamism, export-led growth is still feasible in the 1980s. Also, although the competition among the NICs will continue to be keen, that between the NICs and other developing countries will not be severe for some time to come. It is unlikely that a new group of NICs will emerge in the 1980s.[9]

Our conclusion is therefore that Hong Kong in theory should be able to maintain a reasonably high growth rate, say 6%–8%, in the 1980s irrespective of the greater uncertainties in the increase in world demand and the rise of protectionism, if Hong Kong can continue to diversify its products. However, any further diversification in Hong Kong manufacturing has to be at a less aggregate level than before. In other words, Hong Kong has to begin both diversification toward new industries at the two- or three-digit level and diversification toward much more capital- and technology-intensive products within the existing industries, such as clothing and electronics. In the years to come, this means that the export growth of Hong Kong will be more supply determined than demand determined. Technological intensity and capital intensity are slowly increasing in Hong Kong manufacturing, but the

speed does not seem to be adequate for the maintenance of Hong Kong's economic position. For two reasons, it is difficult for Hong Kong to transform its economy and move up the comparative advantage ladder swiftly and therefore to continue a rapid growth of exports in the 1980s.

First, in terms of technological capability Hong Kong is now somewhat behind the other NICs. Unlike the other NICs, Hong Kong does not enjoy the benefits of government long-term industrial policies. The Hong Kong government is still hesitant in providing technical support and backup services to industries, despite the fact that it is quite clear that some form of centralized effort for technological promotion is necessary for the present direction of industrial development toward products with greater capital and technological intensity. While the laissez-faire system was undoubtedly a contributing factor to Hong Kong's success in the last two decades, there is no reason to insist that this system without modification will also be the best policy for Hong Kong in the forthcoming Second Industrial Revolution.

Second, the economic future of Hong Kong is of course very much dependent on the final settlement of the 1997 lease issue. Since 1981, the question of 1997, when the lease of a part of Hong Kong runs out, has become the issue of the day, culminating in Prime Minister Thatcher's visit to China in September 1982. China has since insisted on regaining sovereignty over Hong Kong and allowing Hong Kong "persons" to govern Hong Kong as a special administrative zone of China after 1997. At present, negotiations are taking place between the British and the Chinese governments. Meanwhile, a great deal of uncertainty has been created, and this is surely detrimental to Hong Kong's economic transformation, which requires a longer-term political and economic stability. In 1983 the growth of domestic capital formation was negative. Capital flight from local investors has been significant, though for the time being the gaps are being filled by increased investment from China and continued investment from overseas. The exchange rate of the Hong Kong dollar fell from HK $6 to U.S. $1 in September 1982 to almost HK $10 to U.S. $1 on 24 September 1983, resulting in the government's decision to link the Hong Kong dollar to the U.S. dollar at a fixed rate of HK $7.8 to U.S. $1. In addition, owing largely to the cooling off of the real estate market, many banks and finance companies are in trouble because of their heavy commitments in real estate loans. The government had to take over a private commercial bank in one case.

It is however of interest to note that with the recovery of the American economy in the latter part of 1983, the export sector of Hong Kong has been able to respond quickly to the increased demand in the U.S. market, notwithstanding all the difficulties facing Hong Kong. It seems

that Hong Kong's export growth can still be sustained for some time on the basis of its traditional exports if markets become available. But one certainly cannot be optimistic about the long-term economic growth of Hong Kong in the 1980s unless a truly amicable settlement of the 1997 issue can be reached soon.

If the export growth of Hong Kong does eventually decline, Taiwan and South Korea will of course derive benefits regarding their exports of labor-intensive products such as clothing, textiles, dolls and toys, and plastic products. But Taiwan and South Korea have in fact already diversified into other products and have become less dependent on such traditional exports. Greater benefits may therefore fall to the next-tier NICs such as Thailand and Malaysia, which have embarked on export substitution policies. When Hong Kong's export growth declines, its import capability will necessarily be lower, and under such circumstances Japan and China as the main sources of supplies to Hong Kong will of course suffer. It is therefore understandable that Japan has been watching very carefully what is happening to Hong Kong. Hong Kong's trade with Southeast Asia is limited and is not expected to grow significantly in the foreseeable future. It is unlikely that Hong Kong will join or play a significant role in the Asia-Pacific club of economic integration. The future of Hong Kong as it affects Southeast Asia will largely be related to the role of Hong Kong as an entrepôt of the region. On the other hand, it is expected that the Hong Kong-China economic nexus will continue to be a key factor in Hong Kong's future development before and after 1997.

Appendix

Table 12.A.1 Hong Kong's Gross Domestic Product

	At Current Market Prices		At Constant (1973) Market Prices	
	GDP in Millions of HK $	% Change	GDP % Change	GDP per Capita % Change
1966	11,219	—	—	—
1967	12,591	12.2	7.7	5.1
1968	13,669	8.6	4.7	2.5
1969	16,274	19.1	14.8	13.0
1970	19,214	18.1	6.2	3.7
1971	21,873	13.8	5.0	2.7
1972	25,854	18.2	9.7	7.8
1973	33,796	30.7	15.8	13.1
1974	38,786	14.2	1.8	−0.7
1975	40,574	4.6	2.2	0.5
1976	51,973	28.1	18.8	17.5
1977	59,615	14.7	10.2	8.6
1978	69,557	16.7	10.3	8.2
1979	89,473	28.6	12.8	6.2
1980	112,981	26.3	11.7	8.1
1981[a]	137,377	21.6	10.9	8.4
1982[b]	157,302	14.5	2.4	0.8

Sources: Hong Kong Census and Statistics Department, *Estimates of Gross Domestic Product 1966 to 1981* (1983); Hong Kong Government, *1982 Economic Background* (1983).

Note: Estimates for 1966 to 1973 have not been adjusted for changes in stock.

[a]Provisional estimates.

[b]Preliminary estimates.

Table 12.A.2 Population of Hong Kong

	Midyear Population	Crude Birth Rate per 1,000	Crude Death Rate per 1,000	Natural Increase (%)	Population Growth Rate (%)
1946	1,550,000	20.1	10.8	0.9	—
1947	1,750,000	24.3	7.6	1.7	12.9
1948	1,800,000	26.4	7.5	1.9	2.9
1949	1,857,000	29.5	8.8	2.1	3.2
1950	2,237,000	29.5	8.3	1.9	20.5
1951	2,015,300	27.1	10.2	2.4	−9.9
1952	2,125,900	33.9	9.2	2.5	5.5
1953	2,242,200	33.7	8.2	2.6	5.5
1954	2,364,900	35.2	8.2	2.7	5.5
1955	2,490,400	36.3	7.7	2.9	5.3
1956	2,614,600	37.0	7.4	3.0	5.0
1957	2,736,300	35.8	7.1	2.9	4.7

(*continued*)

Table 12.A.2 (continued)

	Midyear Population	Crude Birth Rate per 1,000	Crude Death Rate per 1,000	Natural Increase (%)	Population Growth Rate (%)
1958	2,854,100	37.4	7.2	3.0	4.3
1959	2,967,400	35.2	6.8	2.8	4.0
1960	3,075,300	36.0	6.2	3.0	3.6
1961	3,168,100	35.0	6.1	2.9	3.0
1962	3,305,200	34.0	6.3	2.8	4.3
1963	3,420,900	33.5	6.0	2.8	3.5
1964	3,504,600	30.7	5.3	2.5	2.4
1965	3,597,900	28.1	5.0	2.3	2.7
1966	3,629,900	25.3	5.3	2.0	1.0
1967	3,722,800	23.7	5.4	1.8	2.6
1968	3,802,700	21.7	5.1	1.7	2.1
1969	3,863,900	21.4	5.0	1.6	1.6
1970	3,959,000	20.0	5.1	1.5	2.5
1971	4,045,300	19.7	5.0	1.5	2.2
1972	4,078,400	19.7	5.4	1.4	1.0
1973	4,159,900	19.8	5.1	1.5	2.0
1974	4,319,600	19.3	5.1	1.4	3.8
1975	4,395,800	18.2	4.9	1.3	1.8
1976	4,443,800	17.7	5.1	1.3	1.1
1977	4,513,900	17.7	5.2	1.3	1.6
1978	4,606,300	17.5	5.2	1.2	2.1
1979	4,878,600	17.0	5.2	1.2	5.9
1980	5,038,500	17.1	5.0	1.2	2.3
1981	5,154,100	16.9	4.8	1.2	2.3
1982	5,232,900	16.5	4.8	1.2	1.5

Source: Hong Kong Government, *Hong Kong Annual Report*, various years.

Table 12.A.3 **Average Daily Wages in Manufacturing Industries and Consumer Price Changes**

	Nominal Wage[a] (HK $)	Nominal Wage Index[a]	Real Wage Index[a]	Increase of Consumer Prices over Previous Year (%)[b]
1964	8.60	100	100	—
1965	9.50	110	109	—
1966	10.20	118	113	2.6
1967	10.90	127	119	6.2
1968	11.50	134	117	2.5
1969	12.20	142	122	3.6
1970	14.20	165	134	7.1
1971	16.70	194	146	3.4
1972	18.40	214	157	6.1
1973	20.80	241	160	18.2
1974	22.50	261	141	14.4

Table 12.A.3 (continued)

	Nominal Wage[a] (HK $)	Nominal Wage Index[a]	Real Wage Index[a]	Increase of Consumer Prices over Previous Year (%)[b]
1975	22.90	266	135	1.3
1976	26.49	308	152	2.4
1977	29.50	343	160	5.9
1978	32.69	382	168	6.0
1979	39.07	458	181	11.6
1980	43.78	513	175	15.5
1981	50.14	587	174	15.4
1982	58.63	686	184	10.6

Sources: Labour Department, Hong Kong Government, *Wage Statistics*, various issues; Hong Kong Government, *Hong Kong Annual Report*, various years.

[a]Wage statistics are calculated from March wages and exclude fringe benefits.

[b]A new series of consumer price indexes has been used since 1976.

Table 12.A.4 **Hong Kong's Foreign Trade** (in millions of HK $)

	Imports	Domestic Exports	Reexports	Total Exports	Net Exports of Goods and Services
1947	1,550	—	—	1,217	—
1948	2,077	—	—	1,583	—
1949	2,750	—	—	2,319	—
1950	3,788	—	—	3,715	—
1951	4,870	—	—	4,433	—
1952	3,779	—	—	2,899	—
1953	3,872	—	—	2,734	—
1954	3,435	—	—	2,417	—
1955	3,719	—	—	2,534	—
1956	4,566	—	—	3,210	—
1957	5,150	—	—	3,016	—
1958	4,594	—	—	2,989	—
1959	4,949	2,282	996	3,278	—
1960	5,864	2,867	1,070	3,937	—
1961	5,970	2,939	991	3,930	−1,234
1962	6,657	3,318	1,070	4,388	−1,463
1963	7,412	3,831	1,160	4,991	−1,602
1964	8,550	4,428	1,356	5,784	−1,907
1965	8,965	5,027	1,502	6,529	−1,645
1966	10,097	5,730	1,833	7,563	−836
1967	10,499	6,700	2,081	8,781	253
1968	12,472	8,428	2,142	10,570	343
1969	14,893	10,518	2,679	13,197	1,053
1970	17,607	12,347	2,892	15,239	1,030
1971	20,256	13,750	3,414	17,239	244
1972	21,764	15,245	4,154	19,399	1,430

(*continued*)

Table 12.A.4 (continued)

	Imports	Domestic Exports	Reexports	Total Exports	Net Exports of Goods and Services
1973	29,005	19,474	6,525	25,999	1,266
1974	34,120	22,911	7,124	30,005	711
1975	34,472	22,859	6,973	29,832	920
1976	43.293	32,629	8,928	41,557	4,392
1977	48,701	35,004	9,829	44,833	2,096
1978	63,056	40,711	13,197	53,908	−2,343
1979	85,837	55,912	20,002	75,934	−2,467
1980	111,651	68,171	30,072	98,243	−5,448
1981	138,375	80,423	41,739	122,162	−8,337
1982	142,893	83,032	44,353	127,385	−6,985

Sources: Hong Kong Government, *Hong Kong Annual Report*, various years; Hong Kong Census and Statistics Department, *Estimates of Gross Domestic Product* (1977 and 1983); Hong Kong Government, *1982 Economic Background* (1983).

Table 12.A.5 Comparative Share of Hong Kong's Principal Export Commodities in Main Overseas Markets: United States

Principal Commodities and Selected Suppliers	Percentage Share of Total Imports to the United States		
	1980	1981	1982
Articles of apparel and clothing accessories			
Hong Kong	25.9	25.2	24.3
Taiwan	19.6	17.8	18.7
Republic of Korea (South Korea)	15.9	17.1	17.1
China	3.9	5.5	7.6
Philippines	3.5	3.7	3.4
Japan	3.1	3.7	3.1
Italy	2.7	2.5	2.5
Mexico	3.6	3.1	2.2
Singapore	2.1	2.0	2.1
India	2.4	3.3	1.9
France	1.6	1.2	1.1
Baby carriages, toys, games, and sporting goods			
Taiwan	23.9	26.7	26.1
Hong Kong	26.3	25.2	25.5
Japan	13.9	14.5	16.6
Republic of Korea (South Korea)	9.7	8.9	9.2
Canada	2.7	3.5	2.6
Haiti	2.0	1.9	1.7
United Kingdom	2.1	1.8	1.5
France	2.3	1.5	1.3
Italy	2.1	1.6	1.2
Singapore	1.1	1.0	1.0

Table 12.A.5 (continued)

Principal Commodities and Selected Suppliers	Percentage Share of Total Imports to the United States		
	1980	1981	1982
Electrical machinery, apparatus, and appliances, and electrical parts thereof			
Japan	20.8	21.4	21.4
Mexico	9.7	10.9	9.8
Singapore	8.8	8.3	7.9
Canada	7.3	7.7	7.1
Taiwan	5.3	5.4	5.8
Federal Republic of Germany	6.8	5.2	5.4
Hong Kong	4.7	4.9	4.9
Republic of Korea (South Korea)	3.9	3.8	4.8
United Kingdom	3.7	2.7	2.5
Photographic apparatus, equipment, and supplies and optical goods, watches, and clocks			
Japan	44.4	47.3	45.9
Hong Kong	11.6	12.1	10.4
Taiwan	5.9	6.5	7.7
Switzerland	7.6	6.3	5.7
Federal Republic of Germany	6.3	5.4	5.6
Belgium and Luxembourg	4.0	3.7	4.5
Canada	3.0	2.8	3.2
France	3.3	2.7	3.1
United Kingdom	2.6	2.5	3.0
Republic of Korea (South Korea)	2.5	2.5	2.1
Singapore	1.5	1.3	0.7
Office machines and automatic data processing equipment			
Japan	40.4	46.8	48.9
Canada	15.1	14.3	12.4
Hong Kong	8.2	7.3	5.2
Singapore	1.9	1.9	4.9
Federal Republic of Germany	6.6	5.2	4.7
Taiwan	2.2	3.7	3.9
Mexico	3.1	3.1	3.1
United Kingdom	6.0	3.6	3.0
Republic of Korea (South Korea)	1.4	1.6	1.8
Textiles			
Japan	14.8	16.6	18.8
China	5.7	8.1	8.5
Italy	8.1	8.1	8.4
Taiwan	6.1	7.4	7.1
Republic of Korea (South Korea)	4.5	5.2	6.3
Hong Kong	6.2	6.4	5.2
India	8.6	6.2	4.9
United Kingdom	5.0	4.0	4.1

(*continued*)

Table 12.A.5 (continued)

Principal Commodities and Selected Suppliers	Percentage Share of Total Imports to the United States		
	1980	1981	1982
France	3.4	2.8	3.4
Federal Republic of Germany	3.6	2.9	3.4
Pakistan	2.9	3.2	2.8
Iran	1.2	1.1	0.7
Singapore	0.7	1.0	0.4

Source: *Hong Kong Review of Overseas Trade*.

Table 12.A.6 Comparative Share of Hong Kong's Principal Export Commodities in Main Overseas Markets: United Kingdom

Principal Commodities and Selected Suppliers	Percentage Share of Total Imports to the United Kingdom		
	1980	1981	1982
Articles of apparel and clothing accessories			
Hong Kong	26.0	24.8	23.6
Italy	8.7	8.9	10.5
Republic of Korea (South Korea)	7.2	10.2	8.7
Portugal	5.4	4.2	4.7
Irish Republic	5.7	4.4	4.5
France	3.8	3.7	4.1
Taiwan	2.6	3.2	3.3
Singapore	1.1	1.2	1.1
Japan	0.5	0.5	0.5
Miscellaneous manufactured articles			
United States	20.7	20.9	20.8
Federal Republic of Germany	10.1	9.6	10.7
Japan	6.8	9.0	8.7
Italy	8.4	7.3	7.8
France	10.3	8.8	7.6
Hong Kong	5.9	6.8	7.2
Switzerland	6.1	5.5	6.0
Netherlands	4.9	4.9	4.6
Taiwan	1.9	2.6	2.1
Singapore	0.8	1.1	0.9
Republic of Korea (South Korea)	0.9	0.9	0.8
Textiles			
Federal Republic of Germany	10.7	12.5	14.6
Italy	10.2	10.9	11.3
Belgium and Luxembourg	8.5	9.6	10.1

Table 12.A.6 (continued)

Principal Commodities and Selected Suppliers	Percentage Share of Total Imports to the United Kingdom		
	1980	1981	1982
Irish Republic	8.3	7.5	6.7
France	6.2	6.4	6.7
United States	10.9	8.6	5.6
Switzerland	4.0	4.3	4.2
Japan	2.8	3.3	3.7
Hong Kong	3.2	3.1	2.8
China	1.6	1.9	1.9
India	3.7	2.3	1.7
Republic of Korea (South Korea)	1.2	1.5	1.4
Taiwan	0.5	0.4	0.7
Singapore	0.2	0.2	0.1
Electrical machinery, apparatus, and appliances, and electrical parts thereof			
United States	22.4	22.5	23.5
Federal Republic of Germany	17.6	16.8	18.2
Japan	7.6	10.2	9.2
Hong Kong	2.3	2.8	2.5
Singapore	1.7	1.7	1.7
Taiwan	1.1	1.2	0.8
Republic of Korea (South Korea)	0.5	0.3	0.2
Photographic apparatus, equipment, and supplies and optical goods, watches, and clocks			
United States	18.1	18.6	19.9
Federal Republic of Germany	16.6	16.9	16.4
Japan	12.9	13.5	15.0
France	9.9	10.7	9.4
Netherlands	7.0	9.2	7.0
Hong Kong	8.7	6.7	6.5
Switzerland	6.5	5.8	6.2
Taiwan	1.1	1.1	1.1
Republic of Korea (South Korea)	0.7	0.7	0.7
Singapore	0.9	0.4	0.2
Telecommunications and sound recording and reproducing apparatus and equipment			
Japan	35.7	40.9	45.9
United States	11.8	10.6	9.8
Federal Republic of Germany	8.8	8.0	8.7
Netherlands	5.2	4.1	3.4
Hong Kong	6.0	5.8	3.2
Taiwan	2.9	2.9	2.4
Singapore	3.4	2.8	2.1
Republic of Korea (South Korea)	2.3	1.6	1.8

Source: *Hong Kong Review of Overseas Trade*.

Table 12.A.7 Comparative Share of Hong Kong's Principal Export Commodities in Main Overseas Markets: Federal Republic of Germany

Principal Commodities and Selected Suppliers	Percentage Share of Total Imports to Federal Republic of Germany		
	1980	1981	1982
Articles of apparel and clothing accessories			
Italy	21.8	20.6	21.4
Hong Kong	11.6	12.1	11.2
Greece	9.0	8.6	7.4
Republic of Korea (South Korea)	5.5	6.7	6.3
France	5.9	4.8	5.6
Yugoslavia	5.1	5.1	5.2
Taiwan	2.8	3.4	3.2
Netherlands	2.0	1.8	3.1
India	1.8	2.3	2.0
China	1.6	2.1	1.6
Philippines	1.0	1.2	1.0
Photographic apparatus, equipment, and supplies and optical goods, watches, and clocks			
Japan	21.7	24.8	29.1
United States	13.1	14.0	13.4
Switzerland	11.3	10.3	8.9
United Kingdom	6.9	6.3	8.3
Netherlands	6.5	6.2	7.4
France	9.0	8.0	7.1
Hong Kong	8.0	7.1	4.9
Taiwan	1.2	1.0	0.6
Singapore	1.8	1.5	0.5
Republic of Korea (South Korea)	0.8	0.7	0.5
Baby carriages, toys, games, and sporting goods			
Italy	11.3	10.9	12.3
Japan	11.2	13.7	10.2
Austria	8.0	7.9	9.8
Hong Kong	7.9	8.4	8.3
United States	10.2	9.4	7.4
United Kingdom	6.2	5.7	6.4
Taiwan	11.9	8.0	6.0
France	5.8	5.4	5.9
Netherlands	4.5	4.1	3.9
Republic of Korea (South Korea)	3.5	3.2	3.5
Telecommunications and sound recording and reproducing apparatus and equipment			
Japan	36.6	43.2	42.0
United States	6.5	7.0	6.9
Austria	6.3	5.5	6.8

Table 12.A.7 (continued)

Principal Commodities and Selected Suppliers	Percentage Share of Total Imports to Federal Republic of Germany		
	1980	1981	1982
Netherlands	3.6	5.0	5.8
Belgium and Luxembourg	4.4	4.2	4.7
France	6.7	5.1	4.6
Taiwan	5.9	5.4	4.4
Italy	4.3	3.6	3.3
Hong Kong	3.2	2.8	3.0
United Kingdom	4.9	3.5	3.0
Republic of Korea (South Korea)	3.3	3.0	2.1
Singapore	2.3	1.8	1.7
Travel goods, handbags, and similar containers			
Italy	36.3	32.1	33.1
Taiwan	13.0	17.3	16.9
Hong Kong	13.8	12.4	11.7
Republic of Korea (South Korea)	8.8	10.5	10.1
Netherlands	3.1	3.0	3.3
France	3.7	3.2	2.6
Japan	1.5	2.0	1.4
Belgium and Luxembourg	0.9	1.0	0.6
Spain	1.2	0.9	0.6

Source: *Hong Kong Review of Overseas Trade.*

Table 12.A.8 Main Sources of Hong Kong's Imports by End-Use Category

End-Use Category and Source	Imports in Millions of HK $		
	1980	1981	1982
Raw materials and semimanufactures	*46,489*	*57,235*	*56,444*
Japan	12,790	15,180	15,134
China	6,685	9,315	10,010
Taiwan	5,613	7,728	7,113
United States	4,196	4,886	4,912
Republic of Korea (South Korea)	2,865	3,720	3,129
United Kingdom	1,798	2,064	2,249
Singapore	1,165	1,563	1,709
Federal Republic of Germany	1,212	1,533	1,606
Switzerland	1,433	1,275	887
Canada	465	573	726
Australia	670	813	698
Thailand	605	655	697
Pakistan	801	551	685
Malaysia, West	627	694	650

(*continued*)

Table 12.A.8 (continued)

End-Use Category and Source	Imports in Millions of HK $		
	1980	1981	1982
Consumer goods	*29,469*	*37,070*	*38,614*
China	6,883	9,727	11,423
Japan	6,931	9,001	8,603
United States	3,111	3,418	3,827
Taiwan	1,219	1,650	1,721
Switzerland	1,200	1,305	1,478
France	921	1,128	1,233
United Kingdom	1,134	1,230	1,232
Italy	731	963	1,155
Belgium and Luxembourg	841	700	987
Singapore	807	1,124	895
Israel	1,114	1,052	860
Federal Republic of Germany	760	885	859
Republic of Korea (South Korea)	582	1,370	764
India	578	548	687
Capital goods	*16,055*	*18,822*	*19,943*
Japan	4,987	6,733	6,582
United States	4,373	4,229	4,451
United Kingdom	2,344	2,815	3,207
China	582	989	1,054
Federal Republic of Germany	883	927	1,003
Taiwan	698	787	850
Singapore	308	321	434
Italy	211	264	242
Switzerland	226	214	229
Sweden	134	134	209
Foodstuffs	*12,065*	*14,660*	*16,785*
China	5,624	7,240	7,941
United States	1,530	1,909	2,152
Japan	892	974	1,125
Thailand	675	799	844
Australia	550	663	789
Taiwan	397	389	469
Vietnam	89	140	407
Singapore	203	283	340
Republic of Korea (South Korea)	270	281	319
Macau	117	125	265
New Zealand	146	199	225
Netherlands	133	163	210
United Kingdom	181	174	204
Fuels	*7,573*	*10,588*	*11,107*
Singapore	4,901	7,335	6,829
China	2,175	2,239	2,507
Bahrain	64	126	735
Republic of Korea (South Korea)	15	3	243
Australia	43	[a]	180

Table 12.A.8 (continued)

End-Use Category and Source	Imports in Millions of HK $		
	1980	1981	1982
Republic of South Africa	54	154	175
United States	[a]	[a]	118
Japan	44	142	96
United States of Oceania	—	—	56

Source: *Hong Kong Review of Overseas Trade.*

[a]Less than HK $0.5 million.

Notes

1. For the development of Hong Kong as a financial center see Jao 1979.
2. A variety of minerals can be found in Hong Kong—namely, iron and tungsten ores, graphite, kaolin, quartz, and feldspar—but none of them occur in large quantities.
3. For an export-led growth model applied to Hong Kong and some other Asian countries, see Chen 1980.
4. For discussions on the economic interdependence of Hong Kong and China, see Youngson 1983.
5. Lin, Mok, and Ho (1980) find that both the world trade effect and the commodity composition effect were the major sources of Hong Kong's export growth in 1964–74. They, however, simply divide markets into developed and developing.
6. Balassa (1979) states that "the exports of Hong Kong are less capital-intensive than expected."
7. For a study of the role of multinational corporations in Hong Kong's industrial development see Chen 1983.
8. Hong Kong imports a large proportion of its fuels from Singapore.
9. Some elaborations of this view can be found in McMullen 1982, pp. 23–28, based on work by Bradford.

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