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Hong Kong's Export-Propelled Growth

by Y. C. Jao, Hong Kong *

Hong Kong's metamorphosis from an entrepot to an industrial economy during the past quarter of a century gives a good example of how a developing country can achieve remarkable growth through international trade.

In 1947, Hong Kong's per capita nominal GDP at factor cost was only about US \$ 180. By the end of 1973, it had increased to about US \$ 1,320 despite the fact that during the intervening years the population had almost tripled to 4.2 mn¹. This growth process can be largely explained in terms of an export-propelled mechanism, chiefly in the form of the sustained growth of the export of manufactured goods and the expansion of export-oriented sectors such as tourism.

Table 1
Hong Kong's Export Growth

Category	Period *	Nominal Growth Rate (in p.c.)	Real Growth Rate (in p.c.)
Domestic Exports	1959-1973	16.5	11.7
Re-exports	1959-1973	14.3	9.5
Total Exports	1947-1973	12.5	9.0

* The periods covered differ because a distinction was made in the official trade returns between domestic exports and re-exports only in 1959.

Source: Underlying data from Hong Kong Annual Report, Hong Kong Government Gazette, and Hong Kong Monthly Digest of Statistics.

The general picture (Table 1) is one of highly satisfactory and sustained growth, especially in comparison with other less developed countries (LDCs). In an earlier study of the export performance of 29 LDCs (Hong Kong not included), based on a comparison of average annual data in 1950-53 with that in 1960-63, De Vries shows that the annual average weighted and unweighted growth rates in nominal terms are 1.6 p.c. and 2.8 p.c. respectively, with a range of variations between -5.0 p.c. and 12.9 p.c.² In a recent study of 17 LDCs in the 1960s, Helleiner finds that Hong Kong ranks third in the nominal growth rate of total exports, next to South Korea and Taiwan³. The latter two countries, however, started their export industrialism much later than Hong Kong, and from a smaller base it is easier for them to achieve higher rates of growth. It must be conceded, though, that Hong Kong has been experiencing very keen competition from these two countries in overseas markets in recent years.

In absolute terms, the value of total exports at current prices increased from US \$ 203 mn in 1947 to US \$ 5,112 mn in 1973. The 1973 figure is higher than that of many a large country (such as China and India).

Commodity Pattern and Market Outlets

During the 1970s, manufactured products on the average accounted for some 91 p.c. of Hong Kong's domestic exports (Table 2). It has also been estimated that 80-86 p.c. of Hong Kong's total manufactured goods are exported to overseas markets⁴. Of the manufactured goods so exported, clothing and textile products have consistently accounted for about 50 p.c. of the total. Next in importance are electronic products, ranging from transistor radios to computer memory systems. Plastic products, including novelties, dolls and toys, artificial flowers, and furniture, are also important, but the plastics industry suffered a serious setback in 1973 owing to the shortage and rising prices of raw materials. Another notable feature is the preponderance of rich developed countries as market outlets: United States, United Kingdom, Germany, Canada, Japan and Australia have regularly absorbed over 70 p.c. of Hong Kong's domestic exports.

Apart from its domestic exports, Hong Kong's re-exports have also been expanding at an impressive rate. In fact, during recent years, re-exports have grown at a faster rate than domestic exports. For example, in 1972 and 1973, the growth rates in money terms for re-exports were 18.2 p.c. and 55.4 p.c., as against 10.9 p.c. and 27.7 p.c. respectively for domestic exports.

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¹ The 1973 GDP figure was disclosed by Hong Kong's Financial Secretary in his budget speech on February 27, 1974. It has been converted into US dollar equivalent at the central rate of US \$ 1 = HK \$ 5.085.

² B. A. De Vries, *The Export Experience of Developing Countries*, Baltimore, 1967, Chapter III.

³ G. K. Helleiner, *Manufactured Exports from Less Developed Countries and Multinational Firms*. In: *Economic Journal*, March 1973, p. 24.

⁴ Census and Statistics Department, *1971 Census of Manufacturing Establishments*, Hong Kong, 1973.

One of the reasons for the accelerating growth of re-exports in recent years is undoubtedly the much improved relations between China and the West. Re-exports of Chinese origin now account for about a quarter of total re-exports. China is known to be using intensively Hong Kong's excellent harbour facilities, including its modern container terminal, for transshipment to third countries, particularly the United States.

Table 2
Hong Kong's Export Commodities and Markets
(p.c. of total)

	1970	1971	1972	1973
Principal Commodities				
Clothing	35.1	39.7	40.1	38.3
Miscellaneous manufactures	30.7	26.7	25.3	24.8
Textile yarns, fabrics and made-up articles	10.3	10.2	10.2	12.1
Electronic products	9.5	10.1	11.3	12.4
Footwear	2.4	2.6	2.0	1.4
Metal products	2.8	2.5	2.7	2.7
Principal Markets				
USA	42.0	41.5	40.2	35.0
United Kingdom	12.0	14.2	14.4	14.5
Federal Republic of Germany	8.0	8.2	10.0	9.8
Canada	3.1	3.5	3.3	2.6
Japan	4.0	3.5	3.1	5.5
Australia	2.9	2.9	2.9	4.0

Source: See Table 1.

Tourism and National Income

The role of exports as a stimulant or catalyst for overall growth, as measured by per capita national income, has been attracting considerable attention from development economists. In the case of Hong Kong, preliminary attempts have been made to quantify the relationship between exports and income growth. For the period 1953-64, Yeung has estimated that Hong Kong's foreign trade multipliers averaged about 1.3 for domestic exports and 0.12 for re-exports⁵. For several reasons Yeung's estimates must, however, be treated with considerable reservation.

Hong Kong has always had a deficit on merchandise account, but this deficit has just as consistently been offset by other invisible earnings. One of the most important exchange-earning industries now is tourism. Over the years, the number of incoming visitors had increased from 43,500 in the mid-fifties to over 1.2 mn in 1973. The gross expenditures by incoming visitors amounted to some US \$ 480 mn last year. Even deducting from this the tourist expenditures by Hong Kong residents abroad (which are relatively insignificant), the net tourist expenditures still represent a powerful injection into the income stream. Since limiting the attention to merchandise exports and

re-exports will not do full justice to the significance of the export-propelled mechanism, a more appropriate procedure should include invisible earnings from other export-oriented sectors as an additional variable. The whole question obviously requires further quantitative research, and cannot be fully discussed here.

Features of Export-led Growth

□ The first feature of export-led growth is that Hong Kong's experience conforms to Kuznets' conception of modern economic growth, since the export expansion has led to a sustained increase in per capita real income over more than 25 years, followed by a significant structural change from an entrepot to an industrial economy. The importance of exports for Hong Kong can be seen from the fact that total exports have on average accounted for some 70 p.c. of its GDP. In 1973 this ratio was as high as 92 p.c., according to preliminary estimates.

□ Second, as noted before, manufactured goods, primarily labour-intensive consumer goods, now account for over 90 p.c. of domestic exports. In turn, manufacturing's share of GDP has steadily increased over the years to about 32 p.c. at present. Manufacturing employment in registered factories (excluding employment in the putting-out system) has grown at an annual rate of slightly over 10 p.c. during 1947-73.

□ Third, unlike many other LDCs, the somewhat sterile debate between import-substitution and export-expansion has never been an issue in Hong Kong. The island city-state's factor endowment is such that it has to import nearly all of its food and raw materials for survival, and the export of merchandise and services is absolutely necessary to pay for such imports. Its free port status, and the size of its domestic market preclude the feasibility of any meaningful import-substitution strategy.

□ Fourth, as also noted earlier, the market outlets for Hong Kong goods are predominantly high-income countries. The demand in these countries for labour-intensive manufactures, according to a recent empirical study, is highly elastic with respect both to relative prices and income, though generally income elasticity exceeds price elasticity⁶. It is true that exports of certain "sensitive" goods, particularly clothing, textiles and footwear, are subject to voluntary restraints, quotas, and barriers of one kind or another. However, the curbs imposed by the high-income countries are as a rule meant to regulate excessive growth of imports, rather than to ban

⁵ Patrick Yeung, *Exports, Re-exports and Economic Growth: the Case of Hong Kong*. In: *Malayan Economic Review*, October 1972, pp. 143-154.

⁶ James Riedel, *The Nature of Demand for Export of Labour-intensive Manufactures from Less Developed Countries*, Institut für Weltwirtschaft an der Universität Kiel, Working paper, July 1973.

them altogether. Over the long run, Hong Kong has benefited vicariously from the macroeconomic policies pursued by these countries in maintaining high employment and income. In any case, Hong Kong's export earnings have shown much more stability in comparison with those of many other LDCs.

Finally, manufacturing is not the only sector that is export-oriented. We have already noted the growing importance of tourism as a foreign exchange earner. Income from this sector, together with other invisibles, helps to offset the huge merchandise deficit, and provide Hong Kong with the means of importing capital goods and technology for industrialization. With the exception of a few years, Hong Kong has always managed to achieve payments surplus, so that its external reserves (almost exclusively kept in the form of sterling assets before 1972), increased from £ 94 mn in 1950 to £ 900 mn just before the floating of the pound in 1972⁷. Thus the foreign-exchange constraint, which has been so strongly emphasized by development economists as the limiting factor to growth in most LDCs, has not been operative in the case of Hong Kong. There are few important categories of unexportables that cannot be

used to finance imports. As a result, Hong Kong has been able to achieve its present industrialization virtually without any foreign aid.

Major Growth Determinants

It is impossible to discuss here fully the interaction process, but certain major determinants of Hong Kong's export-propelled growth may be briefly identified. On the demand side, given the high income elasticity of demand for labour-intensive consumer goods in advanced countries, the continued growth of income in these countries is obviously a crucial determinant. During the past quarter of a century Hong Kong has, as noted before, benefited vicariously from the macroeconomic policies in these countries; at the same time, it can hardly be overstressed that Hong Kong's export-dependent economy is peculiarly vulnerable to external shocks.

On the supply side, although Hong Kong is poorly endowed with natural resources, shortage of capital and labour has fortunately not been a serious problem. Indeed, the massive influx of capital, entrepreneurs, and skilled labour in the late forties from China provided the necessary impetus to full-scale industrialization. Subsequently, China ceased to be a source of capital supply, but funds continued to pour in from South-east Asia and overseas Chinese communities, and

⁷ A more detailed analysis of Hong Kong's monetary system and balance of payments is contained in my "Banking and Currency in Hong Kong: A Study of Postwar Financial Development", London (forthcoming).

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while no doubt a large part of such funds represented "hot money", the rest was direct investment in manufacturing and construction. Except for some abnormal years (1967 and 1973), Hong Kong has managed to attract net capital inflow annually during the post-war period. On the other hand, with its own birth rate sharply declining, and immigration under strict control, Hong Kong can no longer be said to be a labour-surplus economy. Wages in Hong Kong are now much higher than those of its main competitors, South Korea and Taiwan. Attention is therefore being directed to the upgrading of the quality of the labour force⁸.

The Role of Entrepreneurship

Entrepreneurship, however, has always been in abundant supply, encouraged undoubtedly by the *laissez faire* regime. While the early pioneers were drawn mostly from former industrialists in Shanghai, a new generation of local entrepreneurs is constantly enlarging and diversifying Hong Kong's industrial base. The Hong Kong entrepreneur is well-known for his flexibility and mobility, always ready to respond to market opportunities. Indeed, he has been criticized for his excessive propensity to move into a new line at the slightest incentive, resulting sometimes in ruinous competition. However, this exposure to fierce competition, both domestic and international, has probably made him less prone to managerial slack, or what Leibenstein has called "X-inefficiency"⁹. In any case, the adaptability of its entrepreneurs has stood Hong Kong in good stead in meeting the challenges of changing patterns of world demand, particularly in constantly "trading up" in the face of increasing competition from other low-cost countries.

Another important determinant is the high rate of investment. According to the latest estimates, the share of gross capital formation in GDP during 1966-72 ranged from 15.9 p.c. to 25.1 p.c. with a mean of 20.7 p.c. Investment in plant, machinery and equipment ranged from 8.6 p.c. to 13.5 p.c., with a mean of 10.7 p.c.¹⁰ It is to be noted that the period reviewed includes two abnormal years, when investment sharply declined as a result of political disturbances. Given more normal conditions, the capital formation ratio could have been even higher. The significance of a high capital formation ratio for a developing country is that, in addition to expanding export capacity and increasing productivity, it may also give rise to various linkages, externalities, and

induced innovations. Where such fixed capital formation is financed by foreign direct investment, the resultant package transfer of technology and knowledge is particularly important¹¹.

Cloudy Demand Conditions

Last but not least, mention must be made of the institutional framework highly conducive to export-led growth: low taxation, free exchange market, constantly improving infrastructure, relatively peaceful industrial relations, and governmental non-interference in economic activity. In recent years, in recognition of the vital importance of export-led growth, the government has taken a much more positive role in promoting exports and improving industrial productivity. In 1966 the Trade Development Council was formed to publicize and promote Hong Kong products. It now has a network of offices all over the world. In the same year the Hong Kong Credit Insurance Corporation was set up to insure exporters against risks not normally accepted by private insurance companies, overthrow of foreign governments, etc. Then in early 1967 the Hong Kong Productivity Centre was established to collect and disseminate information regarding new developments in productivity, and provide training schemes for industrial firms. All these are public bodies financed entirely by government. A very recent development is the government's new industrial land policy, under which adequate land is made available to special industrial projects by private treaty rather than auction. Hitherto the high price of land, owned and sold by government through auction, has been a deterrent to land-intensive industries. The projects eligible for such preferential treatment must be concerned with the production of essential industrial raw materials, or can generate employment and introduce advanced technology. Thus last December a 10-acre site was awarded to the Dow Chemical to build a plant, reputedly one of the world's largest for producing polysterene.

In conclusion, then, Hong Kong's remarkable economic growth and transformation during the post-war era can be attributed largely to the export-propelled mechanism. Hitherto both demand and supply conditions have been, on the whole, highly favourable to this growth process. But while Hong Kong's internal economic structure and government policy remain flexible and adaptable, world demand conditions have become much more cloudy, following recurrent currency turmoils and the oil crisis. The coming months will therefore see Hong Kong's proverbial resiliency put to a severe test.

⁸ N. Owen, Manpower Deficiencies and Industrial Training. In: Hong Kong Economic Papers, September 1972, pp. 45-59.

⁹ H. Leibenstein, Allocative Efficiency vs. X-inefficiency. In: American Economic Review, June 1966, pp. 392-415.

¹⁰ Census and Statistics Department, Estimates of Gross Domestic Product 1966-72, Hong Kong, 1974.

¹¹ R. Hsia, Technological Change in the Industrial Growth of Hong Kong. In: B. R. Williams (ed.), Science and Technology in Economic Growth, London, 1973, pp. 335-353.