

AMERICAN UNIVERSITIES FIELD STAFF

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"HONG KONG AND CHINA TRADE"

In the attached letter discussing Hong Kong's position as a Western-controlled trading center next door to Communist China, A. Doak Barnett reviews the patterns of Hong Kong and China trade and traces the shifts which have come about under the impact of the events of the past four years. He concludes with a summary of the policy questions which are linked to the problem of Hong Kong's survival as an outpost of the West,

Highlighting his findings in a note accompanying the letter, Mr. Barnett writes:

"The history of the trade of Hong Kong clearly shows that the abnormal is the normal....' This comment made in 1950 by a leading Hong Kong businessman certainly is true of the past four years.

"Some remarkable changes have taken place in the trade of both Hong Kong and Communist China during this period. They are the product of revolution, war and political conflict in Asia.

"As a result of Western trade restrictions and Chinese Communist policy since the Korean War, Hong Kong's trade with China has dropped to one-fifth of the colony's total trade. Hong Kong has been forced to diversify and look for other markets. It has also gone through an industrial revolution, and almost one-third of its exports now consist of its own products.

"During this same period, Communist China has carried out a radical reorientation of its foreign trade, whereas fifteen years ago, the U.S.S.R. was responsible for less than one per cent of China's trade, roughly three-quarters of Communist China's foreign trade is now with the Soviet bloc."

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HONG KONG AND CHINA TRADE

A. Doak Barnett

69-B Robinson Road
Hong Kong
February 8, 1954

"The history of the trade of Hong Kong clearly shows that the abnormal is the normal."

This comment, made by the Chairman of the Hong Kong General Chamber of Commerce in 1950, certainly is true of the past four years. Since the Communists came to power on the China mainland in 1949, Hong Kong's trade, and its entire economy, have undergone many remarkable changes. These changes have been the product of revolution, war and political conflict in Asia.

The extraordinary economic problems which Hong Kong has faced, and the adaptations which its resourceful businessmen have been forced to make, have not been to Hong Kong's liking. Anything which interferes with trade is anathema to this stronghold of private enterprise. Hong Kong was created on the foundation of free trade, and free trade is still its fundamental creed. "We are just simple traders who want to get on with our daily round and common task," said the Governor of Hong Kong not long ago. "This may not be very noble, but at any rate it does not disturb others. We do not feel that we have a mandate to reform the rest of the world."

But Hong Kong's non-political outlook has not protected the colony from the political conflicts and forces at work in Asia. The "normal" channels of trade have been affected by political considerations to such an extent that Hong Kong's commercial and industrial development has been diverted in directions which could not have been foreseen a few years ago.

When the Chinese Communists first came to power, Hong Kong experienced the most spectacular trade boom in its history, but it was artificial and short-lived. Two primary factors soon changed the colony's entire economic position.

As a result of the Korean War, the western Powers, led by the United States, imposed severe restrictions on trade with Communist China.

And **Communist** China itself carried out a radical volte-face in its economic orientation. For a hundred years (**since the** Opium War of 1840-42, when Britain acquired Hong Kong), China had faced seaward, and its foreign economic relations were primarily with the West. But the Chinese Communists have done everything possible to reorient their economy in **the** direction of the Soviet bloc, and China once again faces primarily toward the Eurasian continent.

These developments have had a tremendous impact upon Hong Kong. The colony has been the child of China trade, created by it, sustained by it. Every fluctuation in China trade has had a direct effect upon Hong Kong's well-being, and Hong Kong now finds itself in a situation unlike any it has faced in the past. But, as the Chamber of Commerce Chairman said, such abnormality has become **normal**, and Hong Kong, despite the fact that it still faces grave economic problems, has shown great versatility in its struggle for existence,

Hong Kong's Trade. Before World War II Hong Kong lived primarily upon Chinese **imports** and exports. The colony was the gateway to South China, and over 40 percent of its trade was with China. Supplementing this foundation of Hong Kong's commercial economy was a considerable amount of **entrepot** trade between Asia and the West. The basic pattern of the **colony's** prewar trade was the exchange of raw materials from China and other Asian countries for the industrial products of the West.

Hong Kong has many **advantages** as a Far East trading center. Its seventeen-square-mile harbor, rimmed by protecting mountains, is one of the finest in the world. Its location is ideal, astride the major sea and air routes of the Far East and adjacent to the principal river network in South China. On almost any day, the list of destinations of ships loading in the Hong Kong harbor reads like a glossary of exotic **places**: Aden, **Balik Papan** and Chittagong, Djibouti, Khorramashahr and Kuwait, **Rabaul**, Sandakan and Tangier, and, of course, New York, London, Yokohama and many others.

Hong Kong has numerous assets besides its harbor and location. They are assets accumulated over a hundred years as a result of British rule and British and Chinese enterprise. Political stability, law and **order**, and effective policing rank high. Hong Kong's traditional free-trade policies have been **equally** important. And Hong Kong has developed the skills and facilities for efficient handling of trade - excellent wharves and dockyards, numerous banking, insurance and shipping institutions, and business organizations with links all over the world.

After the destructio'n and disruption of World War II, Hong Kong recovered its prewar economic position rapidly and, as a matter of fact, it soon far exceeded the **volume** of its past trade. It was an island of colonial order and efficiency in a sea of political chaos. More and more trade channelled through the colony,

and by 1948 the dollar value of its total trade was close to three times what it had been 10 years previously. (The rise in volume was not so large, of course, since value figures were inflated by price increases which took place during that period.)

Then came the Communists' rise to power on the mainland in China. Instead of being calamitous for Hong Kong, the initial impact of this turn of events proved to be a bonanza for the colony. Refugee capital from China poured into Hong Kong. Direct trade between Communist China and the rest of the world declined due to the Nationalists' efforts to blockade and bomb mainland ports, and an increasing amount of China trade came through Hong Kong. The colony's total trade soared to its peak in 1950-51. In 1950 its trade, in terms of value, reached HK\$7.5 billion, and in 1951 it reached an all-time high of HK\$9.3 billion. (HK\$1.00 currently equals slightly over US\$0.17).

Overall trade figures are often deceiving, however. As a result of the Korean War, the decline in Hong Kong's fortunes actually began in the latter half of 1951, the peak of its boom (according to the statistics on value of trade). The inflation caused by the war concealed the fact that the actual tonnage of trade dropped precipitously, as both Western trade restrictions and Chinese Communist trade policy began to affect the colony seriously. In 1950, over seven million tons of cargo passed through Hong Kong; in 1951 the figure dropped to 5.8 million tons. This decline, approaching 20 percent, hurt.

After 1951, Hong Kong's trade continued on the downgrade. In 1952, total trade amounted to HK\$6.6 billion and 5 million tons. Then the figures levelled off, and total trade during 1953 was roughly the same as 1952 or, to be precise, it was one percent lower in both value and tonnage.

At the moment Hong Kong is experiencing economic doldrums. Although its trade is still larger than before the war, the colony has close to a million more inhabitants to support. In the minds of local people, furthermore, the present slump is compared with the recent boom, and the contrast makes the economic decline seem doubly disastrous. Hong Kong's papers are now full of discussion about "the depression."

Comparing Hong Kong's present trade with that of prewar years, one of the greatest changes has been in the direction of imports and exports. In the past, China trade was the primary reason for Hong Kong's existence, but the tremendous drop in this trade since 1951 has forced Hong Kong to turn its attention elsewhere and to intensify efforts to develop other commercial outlets. Although China continues to be Hong Kong's largest single customer and source of imports, trade with China now constitutes only one-fifth of the colony's total commerce; perhaps over two-thirds of Hong Kong's 1953 trade had nothing at all to do with China. This is a development which was certainly not foreseen by the British "merchant princes" who created Hong Kong as a base for trade with China,

Necessity has forced businessmen in Hong Kong to use every possible method to expand trade with countries throughout Asia, Europe and Africa, and they have done so with considerable success. In short, as Hong Kong's China trade has declined, its trade with other parts of the world has grown. It has bought increasing quantities of goods from the United Kingdom, Japan, Thailand, Germany, Malaya and Pakistan. It has sold more and more to Indonesia, Malaya, Japan, Thailand and the United Kingdom.

The composition of Hong Kong's trade has also been altered. Instead of serving primarily as a way station for the exchange of manufactured goods from the West and raw materials from the East, Hong Kong's trade is now more diversified. An increasing number of manufactured goods go West as well as East,

The most remarkable development reflected in recent trade figures is the growth of Hong Kong as an important industrial center. Between 25 and 30 percent of Hong Kong's exports now consist of manufactured goods produced in this tiny dot on the map. Hong Kong in the past six years has become an industrial producer to be reckoned with in the Far East. In many respects, this is most illogical. Hong Kong has practically no raw-material basis for industry. But when the Communists took over China, Hong Kong acquired a wealth of industrial capital and skills which fled from the mainland, and particularly from Shanghai. In one of the strange twists of history, China, which learned about modern industry from the West and still has not successfully developed more than a handful of industrial centers, re-exported the industrial revolution to Hong Kong.

In the course of four short years, Hong Kong first experienced its greatest boom, then a serious trade decline. As trade dropped, the colony diversified and shifted the direction of its imports and exports. It became less of a floating wharf for China trade and more of an entrepot for world trade of many sorts. And it developed from merely a trading center into an important center for both industry and commerce. These changes have been so rapid that they are not fully understood even by many people in Hong Kong. They have been largely overlooked by those persons in faraway places who are primarily concerned with Hong Kong as a possible leak in the curtain of restrictions created to cut off the flow of strategic materials to Communist China,

Western Restrictions on China Trade. The most tangible and immediate causes for Hong Kong's recent trade decline have been the restrictions imposed upon China trade by the Western Powers. In 1950 Hong Kong was riding high. Then came the Korean War, and Communist China's intervention, and one restriction followed another,

The first of Hong Kong's restrictions on China trade was imposed on British initiative. In July, 1950, all petroleum exports to Communist China were prohibited. Then, in August, 1950,

about 200 strategic items were embargoed by the British. These controls were intensified in December, 1950, and again in March, 1951.

The most serious blow to Hong Kong, however, came in December, 1950, when the United States suddenly placed an embargo on all American trade, both strategic and nonstrategic, with Communist China (a few imports of strategic goods from China have been excepted from the ban). This was an action designed to cut off any materials which might help the Chinese Communists' war effort, but like many actions taken under military pressure it was precipitous, and hurt bystanders as well as the primary target. Not only did the US embargo block trade between the two countries which had become Hong Kong's major trading partners in the immediate postwar period; it was also applied to many goods needed by Hong Kong for its own industry, since at that time there was no system for guaranteeing that these commodities would not be reshipped to China.

On May 18, 1951, the United Nations adopted a resolution calling for stoppage of trade in strategic goods with China. Almost immediately Hong Kong imposed a general system of import and export controls over strategic materials, effective June 25, 1951. These controls are still operative.

Hong Kong has never liked trade controls. The colony's businessmen are for the most part nonpolitical and dislike all restrictions, whatever their purpose. But the Government of Hong Kong accepted the obligations imposed by the United Nations' resolution, and it has done its best to enforce controls over strategic trade.

There is no doubt that the control system had many loopholes when first established and that smuggling of strategic goods at first was considerable, but gradually the loopholes were plugged and strategic trade through Hong Kong for the most part was stopped.

At present, the system of controls over trade in strategic items is very thorough. It starts with imports. No commodities on the British prohibited list may even enter Hong Kong unless adequate proof is presented that they are for legitimate local consumption or for re-export to "friendly destinations." In the former case, an importer must describe in detail what the goods will be used for, and by whom, before he can obtain an Essential Supplies Certificate and import license required for their entry into the colony. If the goods are to be supplied to a local factory for its use, the Hong Kong Government inspects the factory to determine whether or not the quantities are reasonable. If the goods are for retail sale, only certain approved retail outlets are permitted, and they must make detailed reports to the Government. Fines of up to HK\$100,000 and prison terms for as long as three years can be imposed for false declarations.

It is illegal for shipping companies to deliver any strategic goods to consignees unless they have Essential Supplies Certificates. If such goods arrive in Hong Kong without the certificates, they are "frozen" in four government-designated warehouses. Revenue officers spot-check incoming cargoes to ensure that the regulations are observed,

Export control is also exercised. No licenses are issued for China on any of the strategic items embargoed and spot checks are made both on loadings for export and on junks and ships leaving the harbor.

Export control is difficult because Hong Kong has a land border with China and thousands of small junks in the harbor, but controls have been steadily increased at possible smuggling outlets. On the land border, there are police inspections at railway and road crossings, and a 24-hour roving patrol has been established along the entire border, to supplement the control of regular border posts. Eighteen miles of the 22-mile border have been fenced.

Sea patrols are maintained by the Department of Commerce and Industry, the Police and the Royal Navy. The Department of Commerce and Industry maintains a ship at each end of the main Hong Kong harbor and has two or three ships on patrol within the harbor. Over 20 police launches are distributed at four major beats surrounding Hong Kong and at key points in the outlying islands. The Royal Navy maintains six craft in the area. These various patrol vessels cannot inspect all of the 17,000 registered junks and small craft in Hong Kong, but they constantly make spot checks on vessels leaving the harbor, and on the basis of a network of informers they keep special watch for any ships suspected of smuggling.

There is no doubt that these various controls have reduced smuggling of strategic commodities through Hong Kong to a negligible figure. Strategic goods are still smuggled from the West to Communist China, but practically none of this illicit trade now comes through Hong Kong. It bypasses the colony and goes directly to Communist China.

Understandably, Hong Kong resents the often unjust and distorted charges which are sometimes levelled against it by foreign critics. The colony feels that it has done a good job in enforcing trade controls which it dislikes and which are detrimental to the economy of the colony.

In short, substantially all of Hong Kong's present trade with China is legal in its view - that is, it is restricted to commodities which are not classified as strategic by the British. The British base their list of strategic goods upon that of COCOM, the Coordinating Committee of the Multilateral Consultative Group formed in Paris in November, 1949, to coordinate policies on East-West trade. Neither the British nor

any other major Western power has accepted the American view that all trade with Communist China, in nonstrategic as well as strategic goods, should be embargoed, however, and there have been differences on what should be included under the term "strategic". It is these policy differences, rather than any failure on Hong Kong's part to implement effectively the policies and regulations applied to it, which have provided a basis for some of the foreign criticism of the colony,

Hong Kong-China Trade. Hong Kong could not survive without a minimum of trade with Communist China. This is the first and most fundamental fact which must be grasped for an understanding of the character of that trade.

There are several other characteristics of Hong Kong's China trade which are worth noting at the start.

(1) As already stated Hong Kong's exports to Communist China since 1951 have been limited to commodities which the British define as nonstrategic. This excludes all military equipment and a long list of transportation materials, metals and minerals, rubber products, chemicals, electronic equipment, precision instruments, and industrial machinery, which could contribute to Communist China's war-making potential. The British list does not include, however, some items which the American Government, using a broader definition, believes should be considered strategic, including various chemicals, pharmaceuticals, textile machinery, X-ray machines, and so on,

(2) Hong Kong's imports from Communist China consist largely of China's traditional agricultural export products. Foodstuffs head the list, but included also are many other agricultural products, including a few considered to be of strategic value by the West, such as tung oil and pig bristles. China does not export to Hong Kong, however, those items of its prewar export trade which are of most strategic value, such as tin, tungsten and antimony; these are being reserved for export to the Soviet bloc.

(3) Both Communist China and Hong Kong consider the Hong Kong-China trade to be important. China exercises strict control over all foreign trade and rations scarce foreign exchange to buy much-needed commodities. Most consumer goods have been almost eliminated from its imports from Hong Kong, and its ban against luxury items is so strict that travellers crossing the border from Hong Kong into China are often turned back if they are carrying more than one watch or fountain pen.

From Hong Kong's point of view, even disregarding the importance of trade in general to its commercial economy, a large proportion of its imports from Communist China are literally essential for its survival. The 23,000 acres of cultivated land in Hong Kong provide only a small fraction of the colony's food requirements. For example, in the basic staple, rice, the 16,000

tons produced in Hong Kong in 1952 compared with 200,000 to 300,000 tons imported, mostly from Thailand, and virtually all purchased for local consumption in the colony. Most of Hong Kong's other food requirements, including meat, fruits, vegetables, dairy products, vegetable oils, and animal feed, come from Communist China, and these items make up the bulk of the colony's imports from China at present.

On balance, it is fair to say that although both Communist China and Hong Kong consider this trade to be important, it is actually more essential to Hong Kong than it is to Communist China. If Hong Kong's food imports from China were cut off, or if it had no means to pay for them (i.e., in the last analysis, by exports to China) Hong Kong would have to be placed on some sort of international dole to survive.

The decline of Hong Kong's trade with Communist China has been much greater in the past two years than the drop in the colony's total trade, and, in fact, the general decline can be traced directly to the loss of China trade. In 1951, Hong Kong's China trade amounted to H.K.\$2.5 billion; in 1953 it was roughly H.K.\$1.4 billion, a decline of 40 percent. (Hong Kong's 1953 trade with Communist China was slightly above that of 1952 - HK\$1.39 billion compared to HK\$1.35 billion.) As stated earlier, however, China remains Hong Kong's largest single customer and source of imports.

The drop in Hong Kong-China trade has been almost entirely in exports to China, which declined from HK\$1.6 billion in 1951 to HK\$0.5 billion in 1953, due to the ban on shipments of strategic goods to Communist China. The Chinese Communists have continued to sell almost as much as before to Hong Kong, however, and the figures for 1951 and 1953 are virtually the same (HK\$863 million and HK\$857 million). In maintaining these exports, the Chinese Communists have foregone an excellent opportunity to turn the screws of economic warfare on Hong Kong by cutting off essential food supplies, but they have done so because they are very short of foreign exchange and have been accumulating a Hong Kong dollar balance, much of which they have been able to convert into European currencies (particularly Swiss francs) to make purchases elsewhere.

The principal commodities which Communist China needs and has been able to obtain from Hong Kong during the past two years have been chemicals (the most important being sulphate of ammonia for agricultural fertilizers), pharmaceuticals (particularly antibiotics and sulfa drugs, which the Chinese Communists have used both in the Korean War and in their domestic health program), and dyestuffs (for use in the textile industry). These three categories alone made up over 60 percent of Communist China's imports from Hong Kong during 1952. Another 13 percent consisted of machinery and professional and scientific instruments, the largest items by value being textile machinery, watches, medical equipment, office machines and optical instruments.

Roughly one-half of Hong Kong's imports from Communist China in 1952 consisted of foodstuffs: HK\$405.4 million out of a total of HK\$830.2 million, (It is worth noting that Hong Kong's exports to Communist China, HK\$520.0 million, only exceeded her imports of essential foodstuffs from the mainland by about 25 percent.) The other principal categories of the colony's imports from Communist China were oil seeds and nuts, animal and vegetable products and oils, and textiles, which together made up another 40 percent of Hong Kong's imports from the mainland. The major items included were tung, peanut, rapeseed, teaseed and soya bean oils, soya beans, sesamum seeds, pig bristles and peanuts. Tung oil and pig bristles (strategic materials, although of low priority, from the West's viewpoint) alone accounted for close to 10 percent of the value of Hong Kong's imports from Communist China.

Essentially, therefore, Hong Kong-China trade at present involves the exchange of fertilizers, medicines, dyestuffs and smaller amounts of nonmilitary machines and instruments from the West for Communist China's foodstuffs, which are used in Hong Kong, and certain other agricultural products, which are re-shipped from Hong Kong to various Western destinations. It is doubtful if this trade could be reduced much more without seriously affecting Hong Kong's ability to survive, and in the present balance of trade Hong Kong is receiving more than it is giving in terms of commodities.

~~Communist Policies Affecting China Trade~~ Western restrictions on strategic commodities are not the only causes for the decline in Hong Kong-China trade since 1951. The commercial policies and methods adopted by the Chinese Communists themselves have also been detrimental to this trade.

As soon as the Chinese Communists established a central government in 1949 they began to extend controls over foreign trade and to move in the direction of a state monopoly. Soon after the outbreak of the Korean War they instituted a comprehensive, centralized and rigid system of import and export controls. At present the Chinese Communists require licenses for all imports and exports,

Although Communist China has a "favorable" balance of commodity trade with Hong Kong, it is extremely short of foreign exchange in its overall trade with the West and therefore requires most trade to be carried out on a barter basis. The goods which can be imported and exported are classified in accordance with strategic and economic importance. No luxuries, and very few consumer goods, are imported. What Communist China wants, in addition to strategic goods (which can only be obtained in limited quantities from the West through illicit channels), are primarily industrial supplies and capital goods.

State trading agencies have steadily taken over more and more direct control of Communist China's commerce, and it is

estimated that at present they handle 90 percent of the country's total foreign trade. All trade with the Soviet bloc, as well as state-sponsored deals with non-Communist governments or delegations of businessmen, are handled by these agencies, and the scope of operations for private traders has gradually narrowed. Private importers and exporters are now only encouraged to deal in minor commodities, through a few places such as Hong Kong,

At present it is clearly Chinese Communist policy to buy and sell as much as possible with the Soviet bloc countries, even on terms of trade less desirable than they could get in Hong Kong or other Western trading centers. In general this seems to apply to both imports and exports. As a result, although there are numerous commodities which Communist China would like to purchase from the West, it has very little to sell. Some of China's export commodities which Western traders would be willing to buy are being reserved almost exclusively for the Soviet bloc, and what is being offered to the West for sale is, in many respects, the left-overs. Even these goods the Chinese Communists are trying to sell at very high prices. The prices are inflated, also, by the arbitrary exchange rates set by the Chinese Communists, rates which are divorced from reality since there is no free market for Chinese Communist currency. (The official Chinese Communist rate on sterling, for example, is now CH.\$68,000 to the pound, whereas a more realistic rate would probably be close to CH.\$100,000, in the opinion of Hong Kong businessmen,)

All of these factors tend to limit Communist China's foreign trade with the West, and thereby affect Hong Kong. In addition, more and more of the trade which Communist China is doing with the West now bypasses the colony,

Direct trade between Communist China and Europe is growing. Chinese trade agents have been sent to various centers of Western trade, and a central headquarters operates in East Berlin, which has become second only to Hong Kong in its importance as a buying center for the Chinese Communists. Chinese state trading agencies in East Berlin buy sizeable quantities of goods from Western as well as Eastern Europe. Much of what they buy consists of nonstrategic goods, but included too are some strategic items,

Regular shipping routes from European ports direct to Communist China have been established. The most important point of embarkation in Europe is the Polish port of Gdynia, on the Baltic, and at present goods from many European sources channel through it. Soviet, Finnish, Polish and some Western European ships call there, pick up cargoes and then go directly to Communist China ports. There are several major unloading points in China. Most important is Taku Bar, the port for the North China industrial city of Tientsin. Next in importance are two anchorages in the mouth of the Pearl River, very near to Hong Kong and Macao but not in British or Portuguese waters where they

would be subject to controls. Lap Sap Mei (Lafsamí) Island, fortified by the Chinese Communists, stands guard over these two places, and goods are transshipped from there to Whampoa, port of Canton, in smaller vessels. Until recently, Shanghai has been virtually a dead port, but now a few ships call there. Dairen is also involved in this trade, mainly as a center for exporting Manchurian cereals. It is estimated that currently about six ships a week call at Taku Bar, about four a week at the Pearl Rives transshipment points, and one every ten days to two weeks at Shanghai.

Hong Kong is now being bypassed by Communist China in another way, also. In trading with the West, Chinese Communists have made a number of large deals directly with foreign governments and unofficial trade delegations, Political motives have been clear in almost all of these agreements - one of their purposes is to influence public opinion in the countries involved and thereby help to undermine trade controls on strategic items - and to achieve political purposes the Chinese Communists have sometimes been willing to make sacrifices on the terms of trade,

The Mechanism of China Trade. Hong Kong has been affected adversely by all of these facets of Chinese Communist policy. But this is not all. The methods of foreign trade used by Communist China also have discouraged traders. The Chinese Communists insist on trading only on their own terms, and when they are dealing with private companies these terms are usually tough ones,

Within Communist China foreign trade is now centralized in the Ministry of Foreign Trade, but most of the actual planning and control appears to be done by the China National Import-Export Corporation, which works in close coordination with other state trading agencies and the Customs. In the final analysis, the Import-Export Corporation seems to be the organization which decides who will import and export what, and at what prices.

There are still a considerable number of private import-export companies in Communist China, but they are simply used by the government as brokers because their 'contacts are useful. The majority of these are Chinese companies. Only a few of the larger foreign trading companies still have representatives of their own in China. For the most part foreign companies have decided that although there may be some future for foreign trade with China there is almost no future for foreign traders in China.

The remaining private traders in China act as agents for the state agencies, and many of their transactions are carried out on a commission basis for the Import-Export Corporation. They are also allowed to make some barter deals, which require state approval and supervision. If an importer in Communist China buys goods abroad and sells them directly to the Import-Export Corporation he is usually given, as profit, a low commission amounting to two or three percent. If the government permits him to carry out a barter deal in which he is allowed to sell his imports on

the remaining free market in China, his margin of profit may be larger.

The Chinese Communists keep a close watch over all private companies and no real freedom of action is allowed. Recently, for example, foreign traders in China received written instructions informing them that with a few exceptions all their dealings must be directly with the Import-Export Corporation. They were told not to expect any payment until 15 days after delivery of cargoes, and were warned that they must quote "the lowest possible prices,,"

In Hong Kong the Chinese Communists have set up a number of companies which serve as "fronts" for state trading organizations in dealing with the colony's businessmen. These companies have obvious advantages in buying and selling on the Hong Kong market, but partly due to the inexperience of their personnel the Communists have had numerous difficulties with them. At first the Communists tried to centralize operations in a few companies, but they soon discovered that sharp-witted Hong Kong businessmen watched them carefully and often were able to anticipate their demand and raise prices on commodities they were buying. As a result, operations were decentralized, and over 30 companies and many agents were employed. But under this setup control slackened, and the Communists soon discovered that different agents of theirs were driving up prices by competing against each other. About six months ago, they again centralized and tightened up their system. At present there are six major trading companies active as agents for the Chinese Communists in Hong Kong; the most important one is called the China Resources Company.

Financing of the Communist China trade through Hong Kong is done primarily by nine Communist-controlled banks in the colony. Coordinating them, and controlling all of their foreign exchange and remittances, is the Bank of China. This bank also sends detailed price and market reports to state trading agencies in China, and concentrates on financing foreign trade outside of the dollar bloc. Much of the financing of dollar bloc trade is done by the Nanyang Bank, one of the nine banks under the Bank of China's supervision,

There are several alternative ways in which a Hong Kong company can make a trading transaction with Communist China. Those companies which still have representatives, home offices or branches on the mainland can deal through them, and they in turn deal with Communist government agencies on the China end. Many Hong Kong companies, however, deal with the front companies established by the Chinese Communist state trading agencies in Hong Kong.

The Chinese Communists' methods of payment in foreign trade transactions with Hong Kong stack the cards in the Communists' favor and make Hong Kong businessmen take all the risks. The

Chinese Communists refuse to use letters of credit (which enable an exporter to collect payment as soon as he has shipped his goods). All trade now must either be on a barter basis or paid for by a new device, invented by the Chinese Communists, called a letter of guarantee.

From the Hong Kong businessmen's point of view, barter deals are generally undesirable, but most of the colony's businessmen are forced to accept this method if they want to trade with China at all. The only companies which are able to avoid it, and obtain payment by letter of guarantee, are a few larger ones (including most of the foreign companies), and those dealing in difficult-to-obtain commodities; these companies have more bargaining power than the others.

In a typical barter deal, a Hong Kong trader will offer a specified quantity of certain goods, quoting prices, and in return he will be offered a choice of several Chinese export commodities. For example, exporter A in Hong Kong may offer 100 adding machines to private importer B in Tientsin. If the Import-Export Corporation and Customs approve the importation of these machines, they will tell importer B that he may offer to pay with X quantities of tung oil, Y quantities of peanuts, or Z quantities of pig bristles. The Chinese Communist authorities decide what value to place on these things. The man in Hong Kong can only take it or leave it; he must accept one of the commodities offered if he wishes to carry out the deal. Then, if he accepts, he must ship his machines first. Only after receiving them will the Communists allow the export goods to be sent out of the country.

In this procedure, the Hong Kong businessman has almost no bargaining power. He must accept, and then try to resell, goods about which he may know nothing. The prices of the goods he receives are generally overvalued. And his capital is tied up for a long time, since he must ship his goods first and wait for delivery of the return shipment. The advantages of this method from the Chinese Communists' point of view are obvious; the terms are set in their own favor.

Many Hong Kong businessmen have actually taken considerable losses on the goods received from Communist China in these barter deals. They have been willing to make the deals either because their profit margin on exports to Communist China more than covered losses on goods received, or because they have considered it important to keep on trading, even at a loss, just to stay in business.

The letter-of-guarantee method is generally preferred to barter by Hong Kong businessmen, but the risks involved are almost as great.

A letter of guarantee is a promise to pay for goods not at the time of shipment (as in the case of a letter of credit)

but within a specified time - usually ten days to a month - after the goods have arrived and been inspected at their destination. For example, an exporter shipping chemicals to Communist China may receive a letter of guarantee promising payment two weeks after the shipment arrives and is approved in Shanghai. He can take this letter to one of the Communist-controlled banks in Hong Kong and obtain a loan up to perhaps 80 percent of its value. Then he must wait. If the shipment is accepted, he can then collect the remainder, minus commissions. But the big risk involved is that the Communists may reject the goods. If this happens, the goods are returned at the exporter's expense, and he must try to dispose of them elsewhere. And he must repay the advance received from the bank.

Rejection of goods has taken place enough times to shake the confidence of many Hong Kong businessmen in this procedure. In the summer of 1953, for example, several very large consignments of medicines were returned to Hong Kong, and a sizeable proportion of them were useless by the time they got back. Whenever the Communists reject shipments, they claim that the goods are not according to specifications, but the general opinion among businessmen in Hong Kong is that the pharmaceuticals shipped last summer were perfectly satisfactory and that the Communists' real reason for refusing them was that they needed less medicines after fighting stopped in Korea and decided to use their limited foreign exchange for other purposes. In any case, the victimized Hong Kong businessmen had no recourse.

Both the barter and letter-of-guarantee methods of trading are indications of the Chinese Communists' general attitude toward trade with the West. There are certain things which the Chinese Communists need and want to obtain from the West, but at present they insist on dealing only on their own terms - and setting the terms in their own favor.

All of this is a far cry from free trade, price negotiations, irrevocable letters of credit, cash-on-the-line and similar ideals of a trading community such as Hong Kong. And there is no doubt that Chinese Communists' present foreign-trade methods in themselves tend to discourage the Hong Kong-China trade.

China's Foreign Trade. Although China's trade with the West stands at a low level compared to pre-Communist days, and Hong Kong-China trade has nose-dived since 1951, this does not mean that the Chinese Communists are disinterested in foreign trade. On the contrary, foreign trade is absolutely essential to Communist China's plans for military and economic development, and China's total foreign trade has steadily increased since 1949 to the point where it is now estimated to approximate the volume (and exceed the value) of China's prewar foreign trade in 1936.

Exact statistics on Communist China's foreign trade are impossible to obtain. The Peking regime, which classifies many

kinds of ordinary economic information as "state secrets," has not published them. But commercial experts in Hong Kong estimate that Communist China's total foreign trade rose to about US\$1 billion in 1950, exceeded US\$2 billion in 1951, dropped slightly in 1952, and then increased moderately in 1953 to above the US\$2 billion figure. These are merely guesses, which may be inaccurate due to the difficulty of estimating trade on which there are no detailed statistics, but they are the best guesses available. (China's total foreign trade in 1936 amounted to US\$863 million; adjusted to the 1951 value of the U.S. dollar, this is equal to about US\$1.9 billion.)

The most surprising aspect of Communist China's present foreign trade, if compared to China's commerce in the past, is the fundamental shift in the direction of trade, dictated wholly by political and military considerations. Commodities exchanged with the Soviet Union represented less than one percent of China's total foreign commerce in 1936; they never exceeded two and one-half percent before the Communists came to power in China. Since 1949, however, the Peking regime has turned away from the West and has closely linked itself with the economy of the Soviet bloc. According to official Chinese Communist statements, by 1951, 61 percent of China's foreign trade was carried on with the Soviet bloc; the figure for 1952 was 72 percent, and the percentage for 1953 is believed to be about the same. In short, from a "normal" prewar situation in which China traded primarily with the U.S., Japan, Britain and Germany, and had virtually no significant trade relations with the Soviet Union or Eastern Europe, Communist China has now made such a complete about-face that three-quarters of its foreign commerce is with the Soviet bloc, and the trans-Siberian railway is now China's trade lifeline. The Chinese Nationalist coastal blockade in 1949-50, and Western trade restrictions thereafter, were not the basic causes of this change. The shift has clearly been the result of conscious Chinese Communist policy.

Present trade between Communist China and the Soviet bloc is all on a barter basis. The Chinese are obtaining a wide variety of goods from the Soviet bloc, including military supplies, oil, heavy machinery, machine tools, metals, electrical supplies, agricultural machinery, industrial chemicals and dyes, paper and pulp, gasoline and trucks. The largest amounts come from the Soviet Union, which alone is responsible for over one-half of Communist China's total trade, but Czechoslovakia, Poland, East Germany and the other satellites are also sources of supply. Although industrial goods predominate in China's imports, some important consumer goods such as sugar, cotton piece goods, cameras and films are also included.

As far as it is known, Communist China is required to pay, with its exports, for all imports from the Soviet bloc, including most military supplies. No economic aid to Communist China in the form of grants has been announced, and to date the only loan publicly revealed has been the 1950 Soviet five-year loan

of US\$300 million earmarked for electrical, metallurgical, engineering, mining and transport equipment. This loan specified repayment over a ten-year period, with interest of one percent per year, by shipments of Chinese raw materials, tea, gold and U.S. dollars. (The fact that this loan is the only known financial assistance from the Soviet bloc to China makes it doubly amazing that in November, 1953, Communist China promised to write off "all supplies given and expenses incurred" in North Korea and to give North Korea a grant - not a loan - equivalent to roughly US\$350 million over a four-year period.)

The burden of exporting goods to the Soviet bloc under existing barter arrangements is very heavy, therefore, and Communist China is sending sizeable quantities of some commodities which are in very short supply within China. The outstanding example of this is foodstuffs. Large amounts of grain, pork and vegetable oils - all of which are in such short supply within China at present that rationing has been adopted in a number of places - are being shipped to the Soviet bloc. Other important Chinese exports in that direction include mineral ores, soya beans, meat, tea, tobacco, fruit, wool, silk, hides, and the whole range of agricultural products which China formerly exported to the West.

There is considerable evidence that the terms of trade in this barter exchange are very unfavorable to Communist China. (Peking's state trading agencies don't have the bargaining advantage in negotiating with their Soviet counterparts that they do in relation to private traders dealing in Western goods.) In recent months commodities such as pig bristles, sesame seeds and vegetable oils have appeared on Western European markets - after having passed through the Soviet Union - at prices below those which prevail in China, and it is believed that China grants preferential tariff rates as well as very low prices on trade with the Soviet bloc. There is also evidence that many commodities from the Soviet bloc are not only of poor quality but are overvalued in barter deals with China. Russian trucks, East German chemicals and Czechoslovakian saccharine, for example, are advertised in the Chinese Communist press at prices several times what equivalent goods cost in nearby Hong Kong.

At present, Communist China is actually in a much more disadvantageous position in relation to its total balance of payments than prewar China was. Strict control over available foreign exchange resources, and a domestic currency system divorced from all foreign exchange, have meant that the foreign exchange which Communist China does earn can be devoted to essential imports. But many prewar sources of foreign exchange have declined. In 1937, for example, China had almost a 25 percent deficit in its commodity balance of trade and was able to import more than it exported largely because of a sizeable amount of foreign loans and investments and remittances from overseas Chinese. These have now either stopped or decreased, and Communist China must export more to obtain the imports which it needs.

This the Chinese Communists are attempting to do by squeezing the maximum out of the Chinese population and exporting foodstuffs which it can ill afford to spare - and which, in fact, have been imported rather than exported in the past.

In 1950, Chinese Communist leaders claimed that China, for the first time in its history, had an export surplus. This claim was dubious at the time - it has not been put forward recently - and it is now believed that the Chinese are falling behind on deliveries to the Soviet Union and are not obtaining all that they desire from the Soviet bloc.

Trade with the West is still important to Communist China, therefore, despite the fact that Soviet bloc trade takes first priority. Even with the ban on strategic goods to China, the Chinese Communists are able to obtain some things from the West which they badly need - and which apparently cannot be fully provided by the Russians and Eastern Europeans. Raw cotton from Pakistan, rubber from Ceylon (which has not cooperated in the UN. embargo on strategic goods), fertilizers, chemicals, medicines, and some types of machines and vehicles have been bought in sizeable quantities. In 1952, Communist China exported roughly US\$325 million of goods to the West and was able to import over US\$250 million, and it is believed that during 1953 this trade probably increased.

The Chinese Communists' attitudes toward trade with the West have not been constant, however. When they first came to power, they showed a good deal of enthusiasm and interest in trade with everyone, and frequently quoted Article 57 of their Common Program which approves of all Foreign trade "on a basis of equality and mutual benefit." After the Korean War, from mid-1950 on, they were outwardly cool toward trade with the West - although they continued to buy and stockpile needed goods. Then in April, 1952, they once again began actively bidding for a revival of trade with Western countries. At the Moscow International Economic Conference, the Chinese Communists made "trade agreements" with "representatives" of 11 Western countries, amounting to over 200 million pounds sterling. (Many parts of these agreements obviously could not be implemented, in view of Western restrictions on strategic trade.)

Since 1952, Communist China has talked more and more of trade with the West, and the promotion of such trade has now become a major theme in Peking's propaganda output. In mid-January, 1954, for example, Vice-Minister of Foreign Trade, Lei Jen-min, stated: "New China has always wished to restore and develop, subject to the principle of equality and mutual benefit, her trade relations with other countries. This includes trade with both governments and peoples of countries in the capitalist world." He went on to assert that "the demand for the establishment and development of trade relations with China is increasing and growing stronger daily."

In furthering this line the Chinese Communists have concluded trade agreements with several non-Communist countries including India, Ceylon, Pakistan, Finland and Indonesia, and with groups of private businessmen from Britain, Japan, France, West Germany and various other countries,

These statements and actions should not be interpreted, however, as indicating any change in Communist China's basic orientation toward the Soviet bloc in its foreign economic relations. They do indicate that Peking would like to undermine existing restrictions on the China trade to enable Communist China to purchase certain much-needed commodities. They also show that Peking recognizes the political and propaganda value of the trade issue.

The political element is quite obvious in a majority of the agreements which have been signed both with governments and private businessmen. Shipping grain to India could only be done at the cost of considerable sacrifice by Communist China. The prices paid by Peking for Ceylon rubber have been exceptionally high. And the Chinese Communists have been willing to pay more for many commodities offered by foreign business delegations in Peking than they would have had to pay for similar purchases in competitive markets such as Hong Kong. The motives for such actions on the part of an economically hard-pressed country are clear. In the case of agreements with non-Communist governments, the Chinese Communists have hoped that the trade deals would exert a direct influence on the countries involved. In the case of delegations of foreign businessmen, Peking has hoped that these people would return to their own countries and lobby against the embargo on strategic goods and for trade and friendly relations with Communist China.

Needless to say, the effects of political influences of this sort on the pattern of trade have been disadvantageous to Hong Kong.

Hong Kong's Slump, Hong Kong at present is in a state of uncertain expectancy. It has hit a low point on a roller coaster ride, but it is not sure whether to expect a levelling off, a climb upward, or another downward plunge,

The current economic slump which worries both government officials and ordinary people is a curious thing in many respects. You cannot see it clearly in the trade statistics; total trade in 1953 was about the same as in 1952. It is not to be seen in the shop windows; they are bulging with an amazing cornucopia of goods from every part of the world. Yet it is felt throughout the colony. During the past year, business activity has steadily slackened, companies have cut payrolls and salaries, and ordinary people have had less and less money to spend.

One reason the slump is partly concealed is that Hong Kong is a place of great contrasts of wealth and poverty, and the

wealthiest and the poorest people have not been radically affected. Several hundred thousand refugees from mainland China have been living on the brink of complete destitution ever since they came to Hong Kong. Their lot may have become slightly worse since the trade decline began, but it could hardly get much worse than it was when they first arrived. On the other hand, big business has had a lot of financial fat, accumulated from the profits of better days in the past, and this fat is far from used up. One reputable local newspaper estimates, for example, that there are today over a thousand individuals in Hong Kong - the majority of them refugee Chinese merchants and industrialists from the mainland - who maintain bank accounts in excess of HK\$10 million. Three years ago, when the flight of private capital from China had just taken place, Hong Kong acquired the reputation of possessing "the greatest concentration of millionaires in the world"; many of these millionaires are still in the colony.

The people who have been hurt most by the present slump are the great mass of people in the middle - small businessmen, white-collar employees, and the regularly employed working class. During the past year they have seen job opportunities and incomes shrink.

There are over 600 general importers and exporters in Hong Kong, and the majority of them are small companies which depended on China trade. These small businessmen have not been able to switch easily to trade with other areas - such as Indonesia and Japan - in the way that some of the larger companies have done, and consequently many of them are currently doing very little business at all.

The slowdown in business turnover is reflected in the increasing gap between imports and exports. In 1952 Hong Kong imported 30 percent more goods than it exported. In 1953 the figure was close to 40 percent. What these figures mean is that the colony has become an overstocked warehouse full of commodities which are not moving or going anywhere.

During the past year capital which formerly went into trade, creating jobs and wages, and stimulating overall business activity in the colony, has been tied up in commodities or has flowed into the local stock market. The amount of capital in Hong Kong has actually expanded, as confidence in the political and military security of the colony has increased, and during the past few months there has been a reverse flow of capital from the United States and Southeast Asia. But much of this capital is now idle in Hong Kong. (One peculiar result has been a building boom, created by money which would normally go into trade.)

The downward spiral in local business is reflected in retail trade of all kinds. The business of big department stores in Hong Kong has dropped off by about 10 percent in the past twelve months, and many retail stores now have a turnover 20 percent smaller than a year ago. Ordinary people have less money to spend.

As stated, the effects of Hong Kong's current slump have been hardest on small business and all the people dependent on it, but many of the loudest complaints have come from big business. These complaints are understandable, but they are by no means fully justified. Three years ago, many trading companies were making a tremendous margin of profit on imports and exports - one which could not have been expected to last indefinitely. Now their margin has been cut to more reasonable proportions, and they, being human, are very unhappy about it.

What worries Hong Kong Government officials most about economic conditions, however, is their effects upon employment. They have a very legitimate cause for concern. If unemployment becomes too widespread, a real threat to the internal security of the colony could develop.

With a swollen population, almost double the prewar figure, Hong Kong faces a tremendous problem in creating new job opportunities. Even at the peak of the colony's boom three years ago, there were many thousands of jobless in Hong Kong, and the number of unemployed and underemployed has steadily risen as trade has declined.

There are no accurate statistics on unemployment in the colony, but Hong Kong officials estimate that even in local industry - the one sector of the economy in which total employment has grown rather than declined during the past two years - the level of unemployment is serious. Of the total factory working population (in registered factories and workshops), it is estimated that at present there are 20,000 unemployed and another 25,000 underemployed (working only part-time); these two figures amount to over a third of the total working force connected with modern industry,

The fundamental problem facing Hong Kong is how its present population of 2-to 2½-million people is going to make a living. There are no quick solutions to the problem in sight. If restrictions on trade with China are eased, or lifted, the position of the colony would immediately improve, but many thoughtful observers believe that the hope for a spectacular revival of China trade would prove to be a mirage, even if restrictions were removed. The Chinese Communists' shortage of foreign exchange, foreign trade policies and trading methods will, in their opinion, prevent the level of Hong Kong-China trade from rising to the peak figures of a few years ago,

There is one bright element in the picture, however, and that is the growth of modern industry in the colony. The industrialization of Hong Kong during the past four years has been a remarkable development, and the future of both the colony's internal economy and its external trade has become inextricably bound up with this new industry,

Hong Kong's Industry and Trade. Prior to 1947 the only

large modern industry in Hong Kong was one intimately connected with trade - shipbuilding and ship repair. A few small light industries had been established during 1914-18 to provide goods for local consumption, and the introduction of imperial Preference in British Empire trade in the 1930's provided a slight stimulus to industry in Hong Kong, but the colony was in no sense an industrial center. Businessmen in Hong Kong were interested in buying and selling, not producing,

This is no longer the case. When the victory of the Communists on the mainland of China appeared imminent, a sizeable number of Chinese industrialists moved to Hong Kong. They brought their capital, and some machinery, and began to build. A large number of skilled Chinese industrial workers also migrated to Hong Kong, and the industrial revolution in the colony got under way.

In the past six years, Hong Kong has suddenly become an important producer of manufactured consumer goods, exporting significant quantities of its products to destinations all over the world. This development of industry has followed the classic pattern of "natural" development in which economic factors rather than the political and military aims of government authorities have determined investment. Virtually all of the new industries in Hong Kong produce light consumer goods,

The textile industry predominates, but the range of other products is extremely varied. Most important among them are foodstuffs, enamel ware, rubber shoes, chemicals, thermos bottles, flashlights, aluminum ware, paint, lanterns, plastics, cigarettes and matches, but there are many more including pens, furniture, buttons, Chinese handicrafts, electric fans, needles, ceramics and even clocks. The raw materials for almost all of these industries must be imported, and a large proportion of the output is exported,

The phenomenal growth of this light industry is reflected in the development of electric power in Hong Kong. Since 1946 the colony's power generating capacity has more than doubled, from 61,000 kw to 146,500 kw, and power consumption has increased 10 times. The growth can be seen more directly, of course, in the statistics on registered factories and workshops (establishments using power machinery or employing 20 or more persons in manual labor for industrial purposes). It is estimated that in 1940 there were only 800 factories and workshops in Hong Kong with a total employed labor force of about 30,000. In 1947 this had grown to 1,275 establishments with over 64,000 workers. Since 1947 the number of factories and workshops has almost doubled. There are now approximately 2,300 industrial establishments in the colony with 103,000 workers, and the number is still increasing.

These figures on registered factories and workshops do not reveal the whole picture. Small-scale "cottage industries"

have also grown tremendously during this period, and there are now between 100,000 and 200,000 industrial workers in scattered establishments which do not use modern machinery or power.

The importance of these new industries to Hong Kong's economic welfare at present can hardly be overestimated. Last year's trade statistics show that exports of products identified as locally-manufactured goods amounted to HK\$635 million. This was over 23 percent of Hong Kong's total exports, and it is believed that if the statistics were more detailed the percentage would be approximately 30 percent,

Without the products of these new industries, Hong Kong would have faced an impossible economic crisis during the past two years. It is these products, rather than the traditional re-export commodities, for which the colony's businessmen have been able to discover and develop new markets, primarily in Southeast Asia and the British Empire.

In Southeast Asia, nonindustrialized countries such as Indonesia, Thailand and Malaya have become major markets for Hong Kong-produced consumer goods, and in these areas the colony's businessmen have to date been successful in meeting the stiff competition of Japanese exports. Indonesia has become particularly important as a customer for Hong Kong; in 1953 it was the colony's second largest export market, and of the HK\$372 million of goods sent there, HK\$218 million consisted of Hong Kong products.

The British Empire is the second most important area for the marketing of Hong Kong's new industrial produce, primarily because of the existing system of Imperial Preference. Under this system, if 25 to 50 percent of the costs of production, (materials and labor) of a commodity are of "Empire origin," the commodity is granted duty-free entry into areas which are a part of the British Empire,

(The development of industry in Hong Kong is likely to be an important long-run factor altering the colony's traditional orientation toward China. Communist China is not purchasing from the West consumer goods of the kind Hong Kong now produces, and in 1953 less than one-tenth of one percent of the exports of Hong Kong products went to Communist China,)

As stated earlier, the most important single industry which has developed in Hong Kong during the past six years is cotton textiles, and in many respects the immediate economic future of the colony depends to a great extent upon this industry alone. In 1946 there was not a single modern cotton textile industry in Hong Kong. Today, there are 14 modern spinning mills with 213,000 spindles (another 45,000 spindles will be added soon) and over 20 modern weaving factories with approximately 6,000 looms. Cotton spinning, weaving and knitting, and garment-making industries allied to them now employ 33,000 workers, or roughly one-third of the total labor force in registered factories and

workshops. And in 1953, cotton textile products (piece goods, yarn and various articles of clothing) made up 65 percent of the exports of Hong Kong products.

There are differences of opinion in Hong Kong on the question of how much more development of industry can be expected in the colony, but the optimists believe the potentialities are still great. They point out that Hong Kong has large amounts of capital which might be attracted into industry, that managerial skills and skilled labor are both plentiful, that cheap money, cheap labor and low taxes give Hong Kong a considerable competitive advantage and that there are likely to be good Asian markets in the foreseeable future for the kinds of consumer goods which the colony can manufacture. The problem, they state, is to attract idle capital into industry (one needed step is to provide cheap industrial sites; land is a major cost item in overcrowded Hong Kong) and actively to develop new markets.

But there are many unpredictable elements which might affect the future. Japanese competition is one of them. At present, Japanese industry's costs of production are higher than they were prewar, but if they are reduced Hong Kong might have great difficulty competing for Southeast Asian markets. The size of Japanese industry is an advantage to it, for the Japanese can accept large-scale orders which Hong Kong cannot touch. And Japanese industry is actively supported by the government, which is capable of subsidizing, bargaining for cheap raw materials and making trade agreements, whereas Hong Kong industry is on its own, under a government which wants it to develop but which follows a laissez-faire policy.

Government restrictions are another imponderable and could seriously affect Hong Kong's future export of its industrial products. During the past year, import restrictions in Indonesia, Thailand and several other countries have hindered Hong Kong's exports for short periods. Most of these restrictions have been due to foreign exchange difficulties rather than to political considerations, but the effects of them on Hong Kong have not been less because of this fact.

Hong Kong faces many uncertainties, therefore, even in that portion of its trade which has nothing to do with China, but there is no doubt that export of its own industrial products will be one of the basic determinants of its economic welfare in the future,

Questions of Policy. The economic position of Hong Kong constitutes only one minor facet of the complicated issue of China trade, but it is one which should not be overlooked.

A good case can be made for the fact that Hong Kong is a valuable outpost of the non-Communist world. It is a place where law, order, administrative efficiency and justice in the Western sense are vigorously promoted. As such it has had, and

will undoubtedly continue to have, a significant influence on neighboring areas. It is strange, perhaps, that this is so, because Hong Kong is also a vestige of colonialism, without any representative government. But it is true that the colony has exerted a great influence on many Asians, including Sun Yat-sen, leader of China's Nationalist revolution in the early years of this century.

"Where and how did I get my revolutionary and modern ideas?" Sun Yat-sen asked in a speech to Hong Kong University students in 1923. "I got my ideas in this very place; in the colony of Hong Kong, more than thirty years ago I was studying in Hong Kong and spent a great deal of spare time in walking the streets of the colony. Hong Kong impressed me a good deal because there was orderly calm and because there was artistic work being done without interruption. I compared Heung Shan with Hong Kong, and, although they are only fifty miles apart, the difference of the governments impressed me very much. We must carry the English example of good government to every part of China."

Hong Kong's role as a symbol of certain ideas is no less important than it was thirty years ago; in fact, it is more important, now that the regime which borders it has become a part of the Soviet bloc,

The colony is also a refuge for hundreds of thousands of refugees from Communist China and, without doubt, it is the most important political sanctuary in Asia. It is also the principal Asian listening post for the West on the edge of the Communist bloc, and it is a military and political outpost of considerable value.

If one accepts the premise that Hong Kong's ability to survive, and to provide a livelihood for its swollen population, is important to the West, it would follow that the colony's special economic problems should be given consideration in the formulation of general policies on China trade. A complete stoppage of all China trade would be disastrous for Hong Kong.

When the U.S. first imposed its embargo on trade with Communist China, the general feeling in Hong Kong - even among anti-Communist refugees from the mainland - was that the Americans were unsympathetic and callous to Hong Kong's problems. Many people spoke of the embargo as if it were aimed at Hong Kong as well as Communist China,

There was some basis for this attitude. The export of many U.S. raw materials essential to Hong Kong was cut off for a long period, until the bugs were worked out of the colony's Essential Supplies Certificate system. U.S. restrictions on imports from Hong Kong continued to affect the colony even longer. The Foreign Assets Control Regulations of the U.S. prohibited importation of any goods originating in Communist China, and a wide range of commodities which formerly had been imported mainly

from China were "presumed" to be of Chinese origin. These "presumption" items included numerous Hong Kong products. It took a long time for this problem to be solved, but now a system of Comprehensive Certificates of Origin enables authorized Hong Kong companies to export to the U.S. colony-produced goods in over forty categories of "presumption" goods,

Trade between the U.S. and Hong Kong has remained at a fairly low level, however. In 1947 16.3 percent of the colony's trade was with the U.S.; in 1951 it was 5.8 percent; last year it was 4.3 percent. The disruption of normal commercial channels by the trade restrictions has not yet been overcome, and legal trade between Hong Kong and the U.S. has not revived to the extent which the colony hopes for,

Hong Kong's success in adapting itself to the new and difficult situation created for it by restrictions on China trade has been due to the enterprise of its own businessmen, therefore, and not to any assistance from foreign countries. Despite the fact that U.S. officials in Hong Kong have attempted to ease the colony's problems, U.S. policy has hurt Hong Kong,

In the future, assuming that the U.S. embargo on China trade continues, it would be desirable for the U.S. Government to take a more active role in assisting Hong Kong to solve its economic problems. Promotion of legitimate Hong Kong-U.S. trade would be an important step in this direction,

Hong Kong is, of course, only a side issue in the broad question of China trade, and it will remain so,

Debate on the problem of economic policy toward China has become increasingly widespread ever since active fighting stopped in Korea. The issues involved are really more political than economic, and the debate is charged with emotion,

There are two divergent schools of thought on the subject. One, led by the U.S. (the only country to embargo all trade with Communist China), advocates long-term restrictions on trade with China as a weapon of economic warfare. Every effort should be made, it is argued, to slow down the Chinese Communists' military and economic buildup, at least until they show signs of willingness to make concessions in their dealings with the West. There is no doubt that the restrictions during the past three years have increased Peking's economic problems, although it is difficult to estimate how decisive this has been, or how it has affected the Chinese Communists' attitudes,

It is further argued, by supporters of this school, that Communist China is an economic drain on the Soviet bloc, that Chinese-Russian relations are likely to be complicated by economic problems created by the trade restrictions and that it would be unwise to allow any large-scale revival of Communist China's trade with countries such as Japan which might draw these countries toward the Soviet bloc,

The opposition school of thought, which advocates relaxation of controls on the China trade, maintains that trade contacts might help to draw Communist China away from the Soviet bloc, ~~that~~ restrictions merely increase Peking's dependence upon Moscow, that expanded trade can be to the net advantage of the West, that the contrast of Western and Soviet bloc goods can have desirable psychological effects in China and that it is impractical to attempt to carry out long-term economic warfare against Communist China now that fighting has stopped. Trade is one of the few weapons for Bargaining with, and influencing Communist China, in the opinion of supporters of this viewpoint, and should be used as such,

The debate is not all on the level of cool, rational consideration of these complicated issues, however. Pressures from business groups advocating relaxation of the controls on China trade are growing rapidly in many countries. This is true in Britain. Even though trade with China is less than one percent of the United Kingdom's total foreign trade, the lure of additional trade ~~with~~ China and the belief that all trade is important have created widespread sentiment for reducing controls. It is also true in Japan. Formerly China was a vital source of raw materials and a major market for Japan, and increased trade with Communist China is considered highly desirable by many Japanese. (Some Japanese businessmen are undoubtedly overestimating-future possibilities of China's trade with the West; if unrestricted, it is still unlikely to approach prewar dimensions.) Pressures are beginning to come even from some American businessmen on the West Coast of the U.S. and in Japan.

The period ahead is one, therefore, in which Western policies on trade with Communist China will be under scrutiny and re-examination. One of the questions which Americans will be forced to decide is what kind of policy the U.S. can carry out successfully. This decision will have to take into Consideration the problems and attitudes of many non-Communist countries, for a unilateral American policy of economic warfare against Communist China would have little chance of success. A policy of long-term restriction of trade with Communist China can only be successful if it is formulated in such a way that it obtains wide support from the major non-Communist countries, and this will become increasingly difficult in the period ahead.

A. Oak Barnett

Statistical AppendixTable 1Long-Term Development of Hong Kong's Trade:
(By value, in millions of U.S.\$)

	<u>1937-38</u> <u>Average</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>
Imports	186.8	523.3	628.7	662.8	852.3	661.4
Exports	148.1	398.7	528.6	650.2	775.7	507.3
Total	334.9	922.0	1157.3	1313.0	1628.0	1168.7

(Note: In terms of purchasing power, the U.S. dollar is now worth roughly one-half of its 1937-38 value. The 1952 figures should be almost halved to obtain a fair comparison with 1937-38.)

Source: United Nations figures, reprinted in Far Eastern Economic Review, December 10, 1953.

Table 2Recent Trends in Hong Kong's Trade, By Value:
(By value, in millions of HK\$)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Imports	3,787.7	4,870.3	3,779.4	3,872.7
Exports	3,715.6	4,433.0	2,899.0	2,733.7
Total	7,503.3	9,303.3	6,678.4	6,606.4

Source: Hong Kong Trade Returns.

Table 3

Recent Trends in Hong Kong's Trade, By Cargo Tonnage:
(In long tons,)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Imports	4,400,349	3,795,930	3,537,138	∅
Exports	2,684,035	2,049,556	1,537,536	∅
Total	7,084,384	5,845,846	5,074,674	5,021,866

(∅ Figures not published at date of writing.)

Source: Hong Kong Department of Commerce and Industry,
Annual Departmental Reports.

Table 4

Changing Pattern of Hong Kong's Trade:

(% of total Hong Kong Trade, by value.)

	<u>U.K.</u>	<u>U.S.A.</u>	<u>China</u>	<u>Japan</u>	<u>Indonesia</u>
1938	6.9%	9.4%	41.1%	2.0%	4.9%
1947	7.3%	16.3%	23.2%	1.9%	2.7%
1951	9.0%	5.8%	26.5%	6.3%	3.6%
1952	8.2%	5.0%	20.2%	9.1%	8.3%
1953	9.0%	4.3%	20.2%	9.2%	6.3%

Source: Commercial Guide to Hong Kong, 1953.

Table 5

Major Countries of Hong Kong Trade, 1952 and 1953:

(millions of H.K.\$)

	<u>H.K. Imports</u>		<u>H.K. Exports</u>	
	<u>1952</u>	<u>1953</u>	<u>1952</u>	<u>1953</u>
United Kingdom	470.4	<u>474.4</u>	83.4	119.3
Malaya	163.9	177.5	417.6	<u>337.2</u>
Pakistan	90.0	116.4	55.0	26.4
U.S.A.	221.0	224.9	113.5	62.4
China (mainland)	830.3	<u>857.1</u>	520.0	<u>540.3</u>
Indonesia	27.9	44.6	528.0	<u>372.0</u>
Japan	482.2	<u>384.0</u>	123.6	221.6
Thailand	204.7	289.8	243.1	206.7
West Germany	118.9	212.7	33.9	21.9
Netherlands	108.1	119.2	37.6	27.1
Switzerland	109.9	105.2	2.6	2.8
Totals, all countries	3,779.4	3,872.7	2,899.0	2,733.7

(underlined figures indicate best sources
and customers for Hong Kong in 1953.)

Source: Hong Kong Department of Commerce and Industry,
Departmental Report, December, 1953.

Table 6

Major Categories of Hong Kong Trade, 1953:
(millions of H.K.\$)

	<u>Imports</u>	<u>Exports</u>
Live animals, chiefly for food	110.8	Under 1
Dairy products, eggs and honey	98.4	35.8
Cereals and cereal preparations	371.7	26.9
Fruits and vegetables	245.7	175.9
Textile fibres and waste	232.5	79.6
Sugar and sugar preparations	115.8	101.1
Animal and vegetable crude materials, inedible	168.7	134.6
Animal and vegetable oils, fats, greases, derivatives	133.4	95.9
Dyeing, tanning and coloring materials	108.6	121.2
Medicinal and pharmaceutical products	223.0	245.1
Paper, paperboard and manufactures thereof	87.6	51.7
Mineral fuels, lubricants, related materials	112.6	4.7
Textile yarn, fabrics, made-up articles, and related products	454.4	462.1
Base metals	115.4	17.0
Manufactures of metals	53.1	99.0
Machinery other than electric	98.9	48.0
Clothing	33.7	223.3
Professional, scientific and controlling instruments, photographic and optical goods, watches and clocks	159.5	78.0
Misc. manufactured articles	79.9	105.7

Source: Hong Kong Department of Commerce and Industry,
Departmental Report, December, 1953.

Table 7

Long-Term Development of Hong Kong-China Trade:

(Figures include both Mainland China and Formosa.
By value, in millions of U.S.\$)

	<u>1937-38</u> <u>Average</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	
Imports	67.2	108.4	137.7	150.1	161.9	153.1	(Mainland) 145.3
Exports	63.7	70.6	126.8	255.7	305.0	127.3	(Mainland) 91.0
Total	130.9	179.0	264.5	405.8	466.9	280.4	(Mainland) 236.3

Source: United Nations figures, reprinted in Far Eastern Economic Review, December 10, 1953.

Table 8

Recent Trends in Hong Kong-China Trade:

(Figures include only China Mainland.
By value in millions of H.K. \$.)

	<u>1951</u>	<u>1952</u>	<u>1953</u>
Imports	863.1	830.2	857.1
Exports	1,603.8	520.0	540.3
Total	2,466.9	1,350.2	1,397.4

Source: Hong Kong Trade Returns.

Table 9

Major Categories of Hong K o-China Trade, 1952^ø

(millions of H.K.\$.. Includes all categories
'over \$10 million.. Figures include China
mainland only,)

	<u>Imports</u>	<u>Exports</u>
Live animals, chiefly for food	126	under 1
Dairy products, eggs and honey	50	under 1
Fish and fish preparations	16	1
Cereals and cereal preparations	18	none
Fruits and vegetables	153	under 1
Coffee, tea, cocoa, spices, etc.	11	2
Feeding stuffs for animals	25	under 1
Oil seeds, nuts, kernels	81	under 1
Textile fibres	15	29
Animal and vegetable crude materials, inedible	88	13
Animal and vegetable oils, fats, greases, etc.	121	2
Chemical elements and compounds	2	116
Dyeing, tanning and coloring materials	5	61
Medicinal and pharmaceutical products	1	151
Explosives and misc. chemical products	2	11
Paper, paperboard and manufactures thereof	18	27
Textile yarns, fabrics, made-up articles etc.	45	12
Manufactures of metals	under 1	11
Machinery other than electric	under 1	31
Electrical machinery, apparatus, appliances	under 1	11
Professional, scientific and controlling, instruments, photographic and optical goods, watches and clocks	under 1	26
Misc. manufactured articles	11	2

(1952 - Total imports from China 830.2
Total exports to China 520.0)

(ø Detailed breakdown of total Hong Kong-China trade
for 1953 is not available at time of writing.)

Source: Hong Kong Trade Returns, December, 1952.

Table 10

Major Items of Hong Kong-China Trade, 1953
(Millions of H.K. \$. Figures include China mainland only)

<u>Imports from China:</u>		<u>Exports to China:</u>	
Pigs	69.5	Coal-tar dyestuffs	51.4
Poultry	26.6	Indigo	28.7
Eggs	52.9	Pharmaceuticals	179.5
Fresh Water fish	11.9	Sulphate of ammonia	50.6
Noodles etc.	14.4		<u>310.2</u>
Fresh vegetables	17.9	(Total Exports	540.3)
Raw silk	15.6		
Pig bristles	28.2		
Plants etc.	58.6		
Peanut oil	16.1		
Silk fabrics	17.4	Source: Hong Kong Department of	
Bed linen etc.	21.9	Commerce and Industry,	
	<u>351.2</u>	<u>Departmental Report,</u>	
(Total Imports	857.1)	<u>December, 1953.</u>	

Table 11

Development of Hong Kong Industry

<u>Year (end of Year)</u>	<u>Registered Industrial Establishments</u>	<u>Workers</u>
1947	1,275	64,499
1948	1,266	63,873
1949	1,426	81,571
1950	1,752	91,986
1951	1,961	95,207
1952	2,088	98,126
1953 (estimate)	2,330 (est.)	103,000 (est.)

(Registered factories and workshops include only those using modern machinery or employing over 20 workers. It is believed there are an even larger number of workers in unregistered cottage-type industry; published government estimates place the number at 100,030; unofficial government estimates place the number nearer 200,000.)

Source: Hong Kong Directory for Washington State Third International Trade Fair, 1954.

Table 12
Hong Kong Products (mainly Industrial) Exports, 1953.
(millions of HK\$)

Total Hong Kong Exports	2,733.7
Total Exports of Hong Kong Products	635.3
Major Exported Items of Hong Kong Products	
Cotton yarns	100.2
Cotton piece goods	157.5
Towels	17.0
Household utensils, enamel ware	44.2
Flashlight batteries	13.7
Flashlights	35.9
Cotton singlets	72.2
Shirts	54.3
Footwear	52.7
Major Export Markets of Hong Kong Products	
United Kingdom	35.1
Malaya	68.4
Pakistan	24.1
British West Africa	19.5
British East Africa	16.9
Burma	18.1
Indonesia	218.0
Philippines	19.1
Thailand	75.7

Source: Hong Kong Department of Commerce and Industry, Departmental Report, December, 1953.

Table 13
China's Total Foreign Trade:
(Millions of US\$)

	<u>1937</u>		<u>1952</u>	
	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>
Russia and Eastern Europe	15	10	950	625
Japan	52	25	1	14
Other Far East Countries	9	7	4	2
Sterling Area, Including Britain	102	87	195	221
Western Europe	94	41	31	44
North America	54	72	1	29
Other Countries	9	15	18	15
Total Trade	<u>\$335</u>	<u>\$257</u>	<u>\$1200</u>	<u>\$950</u>

(Note: Figures on trade with Soviet bloc are estimates. 1952 figures for North America imports represent Canada; U.S. has made no shipments to China since 1950. The sterling area includes Hong Kong; of 1952 imports from sterling area, \$12.8 million came from Britain itself.)

Source: New York Times, August 9, 1953, based on United Nations statistics and other sources.