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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** LAUX, DAVID: FILES

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**File Folder** CHINA-FOREIGN RELATIONS-HONG KONG (UNDATED-03/01/1982)

**FOIA**

M09-299/1

**Box Number** 13

COLLINGS

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
92235	PAPER	SCOPE PAPER RE HONG KONG <i>R 6/21/2012 M299/1</i>	4	ND	B1
92236	PAPER	RE HONG KONG TEXTILE EXPORTS TO THE US <i>R 6/21/2012 M299/1</i>	1	ND	B1
92237	PAPER	RE HONG KONG TEXTILE EXPORTS TO THE US <i>R 6/21/2012 M299/1</i>	2	ND	B1
92238	PAPER	RE CHINA-HONG KONG RELATIONS	4	12/1/1981	B1 B2 B3
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Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
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92235

Scope Paper

1979/1980

HONG KONG

Background

Secretary Kreps is the first Secretary of Commerce to visit Hong Kong since the visit of Secretary Stans in 1969. As a complement to her visit to the People's Republic of China, the stopover will demonstrate that the U.S. continues to maintain an active interest in the developing non-Communist areas of Asia while working out a new relationship with the PRC. |

The Secretary's visit will provide the opportunity for an official exchange of views on U.S./PRC/Hong Kong trade and investment possibilities, Hong Kong's role vis-a-vis the PRC, and China's role in the area. Further, it will provide the Secretary with an opportunity for direct contact with U.S. business interests in the area. Hong Kong officials, U.S. Consulate General officials, and U.S. business representatives will seek a report from the Secretary on her discussions with Chinese officials. There will be occasions for the Secretary to express her views on this and other issues in her meeting with Hong Kong's Governor and Financial Secretary, in her speech at the American Chamber lunch which U.S. officials and U.S. business representatives will attend, and in the press conference following the lunch.

Because Hong Kong has virtually no trade restrictions and welcomes foreign investment on a national treatment basis, the United States does not have the kind of trade and investment problems with Hong Kong that it has with countries which have restrictive regimes. The United States does have problems, however, with Hong Kong's exports to the U.S. of textiles, non-rubber footwear, and a few other goods to a lesser degree. These matters will no doubt be raised by Hong Kong officials, but any detailed discussion should be deferred to technical negotiating sessions. Position papers on textiles (Tab N) and non-rubber footwear (Tab O) are included in the Hong Kong book.

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NLRR MD9-299 #92235  
BY AKM NARA DATE 6/21/12



Major U.S. Objectives

(1) To express the United States' continued interest in trade and investment relations with Hong Kong and to emphasize that the Administration will keep any U.S. import restraints on Hong Kong's exports to the minimum necessary to prevent dislocation of the U.S. domestic market.

(2) To urge that Hong Kong be more forthcoming in the MTN and particularly, that Hong Kong adhere to the MTN codes (especially the subsidies code ).

(3) To brief the Hong Kong Government, U.S. officials and the resident U.S. business community on the progress of our trade discussions with the Chinese.

Major Hong Kong Objectives

(1) To stress the Hong Kong Government's concern over what it perceives as increased protectionism in the U.S. and other developed countries.

(2) To emphasize that the roots of U.S. import problems lie within the U.S. domestic industries, particularly textiles and non-rubber footwear, and are not problems that can be attributed to Hong Kong's exports per se.

(3) To underscore Hong Kong's unique role in PRC trade and to obtain a report on U.S. trade discussions with the Chinese.

Issues the U.S. will Raise

1. Hong Kong and the MTN. While we recognize that Hong Kong maintains an extremely liberal trade regime, we should encourage Hong Kong officials to be more forthcoming in this windup phase of the Multilateral Trade Negotiations.

A. U.S. Position - The U.S. has tabled an industrial tariff offer in the MTN worth approximately \$1 billion in terms of Hong Kong exports to the U.S. In order to provide appropriate reciprocity, we believe that Hong Kong should adhere to the MTN codes, especially the subsidies code. We are also interested in revenue duty reductions and bindings for several products already raised in the MTN (as a fallback, we could consider a less-than-50 percent reduction or GATT bindings).



B. Hong Kong Position - The value of the U.S. offer has been significantly reduced by subsequent withdrawals, especially regarding textiles. Hong Kong cannot at present commit itself to the MTN codes. Hong Kong will give further consideration to the U.S. revenue duty requests.

Issues Hong Kong will Raise

1. U.S. Restraints on Imports of Hong Kong Textiles. Two of the three White Paper issues (the setting of the 1979 maximum Hong Kong textile exports level and an anti-surge mechanism) have been resolved with Hong Kong. However, the third issue--establishment of import levels in the 1980 through 1982 period--must await consultations later this year.

A. U.S. Position - Any discussion of how levels for Hong Kong textile exports to the U.S. for 1980-82 will be determined must be deferred pending agreement between the Administration and industry/labor advisors on the method of estimating market growth. The U.S. does not restrict imports from one country to benefit another.

B. Hong Kong Position - Hong Kong needs an indication of how the 1980-82 import levels for Hong Kong will be determined. The White Paper twists the MFA goals. Hong Kong is concerned that its textile exports to the U.S. may be limited to make room for increased U.S. imports of textiles from the PRC.

2. U.S. Restraints on Imports of Hong Kong Non-rubber Footwear. While imports of non-rubber footwear from Taiwan and Korea are limited by orderly marketing agreements, imports from Hong Kong have surged. There is little indication that the recently instituted certificate of origin system is serving to slowdown footwear imports from Hong Kong.

A. U.S. Position - Imports of non-rubber footwear from Hong Kong must decrease substantially from the 1978 import level to prevent disruption of the non-rubber footwear marketing agreements with Korea and Taiwan. Hong Kong must take steps immediately to decrease its shipments of non-rubber footwear to the U.S., or we will have to find alternative solutions.

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B. Hong Kong Position - Hong Kong statistics indicate that shipments of nonrubber footwear to the U.S. are decreasing. The certificate of origin system is sufficient to lower U.S. imports of Hong Kong footwear to agreed levels.

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HONG KONG TEXTILE EXPORTS TO THE UNITED STATES

U.S. POSITION

Any discussion of how levels for Hong Kong textile exports to the United States in the 1980-82 period will be set must be deferred pending agreement between the U.S. Administration and industry/labor advisors on a method of estimating market growth. (Maximum Hong Kong textile export levels for 1979 were agreed upon in the March 21 London understanding.)

HONG KONG POSITION

The Hong Kong Government may state that it needs an indication of how the U.S. Government intends to implement the White Paper commitments that imports in the 1980-82 period will be evaluated and adjusted annually in terms of the estimated domestic market growth rate. Hong Kong may also assert that the White Paper twists the MFA's goals.

The Hong Kong Government may indicate its concern that textile exports from Hong Kong not be further limited to make room for increased imports into the United States from the PRC.

TALKING POINTS

- We appreciate the Hong Kong Government's cooperation in reaching the March 21 understanding on the implementation of the agreement. We believe that the understanding serves the interests of both governments since it fulfills the MFA goals of orderly trade by: (1) providing the United States a mechanism to prevent surges, and (2) providing Hong Kong the assurance of a clearly defined call mechanism for categories "in the basket."
- We hope that the issue of annual import growth and levels in the 1980-82 period can be solved later this year as pragmatically as were issues in London. We will be studying this issue in the next several months and perhaps will informally exchange ideas with Hong Kong.
- We understand the Hong Kong Government's concern that its exports to the United States not be restricted to accommodate increased exports from the PRC. We wish to emphasize that the United States does not restrict imports from one country to benefit another.

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92237

NLRR M299 # 92237

BY KML NARA DATE 6/21/12 Position Paper

HONG KONG TEXTILE EXPORTS TO THE UNITED STATES

ISSUE:

Two of the three White Paper issues have been resolved with Hong Kong: the setting of 1979 maximum Hong Kong textile export levels and an anti-surge mechanism. However, the third issue--establishment of import levels in the 1980 through 1982 period--must await consultations later this year.

U.S. OBJECTIVE:

We should avoid any discussion of how levels in the 1980 through 1982 period will be set pending agreement between the Administration and industry/labor advisors on a method of estimating market growth.

HONG KONG OBJECTIVE:

The Hong Kong Government may seek an indication of how the United States intends to implement the White Paper commitment that imports in the 1980 through 1982 period be evaluated and adjusted annually in terms of the estimated domestic market growth rate. Hong Kong may also assert that the White Paper twists the MFA's goals.

Further, the Hong Kong Government may seek assurance that textile exports to the United States from Hong Kong will not be restricted to make room for more textile exports to the United States from the PRC.

U.S. TALKING POINTS:

1. We appreciate the Hong Kong Government's cooperation in reaching the March 21 London understanding on the implementation of the agreement. That understanding is in the best interest of both governments since it fulfills the MFA goals of orderly trade by:
  - providing the United States a mechanism to prevent surges,
  - providing Hong Kong the assurance of a clearly defined call mechanism for categories "in the basket"

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Subject to General Declassification  
of Executive Order 11652

2. We hope that the issue of annual import growth and levels in the 1980 through 1982 period can be solved later this year as pragmatically as were issues in London. We will be studying this issue in the next several months and perhaps will informally exchange ideas with Hong Kong.
3. We understand the Hong Kong Government's concern over the possible impact of U.S.-PRC trade on Hong Kong's exports to the United States, particularly with respect to sensitive items such as textiles. We do not, however, restrict imports from one country in order to benefit another.

BACKGROUND:

In consultations completed in London on March 21, two of the three White Paper goals with Hong Kong were met: (1) setting of 1979 maximum export levels, and (2) an anti-surge mechanism.

Hong Kong agreed "to assist" the United States by eliminating the specific ceilings on certain sensitive substantially unshipped categories and placing them "in the basket." Categories in the basket are not subject to predetermined fixed ceilings, but to a consultation mechanism that enables the United States to set the ceiling if no agreement is reached during consultations. Hong Kong had feared that the United States might use this provision to roll back trade levels of basket categories and in recent months has sought to establish a more favorable mechanism. The new call mechanism provides that assurance to Hong Kong. The third White Paper provision, 1980 through 1982 import growth based on domestic market growth, will probably be discussed in consultations around September.

Hong Kong is the largest textile and apparel supplier to the U.S. market and at 1 billion square yards equivalent its agreement has the largest aggregate ceiling of all low-wage suppliers. (There is no aggregate ceiling for Japan.) Cotton, wool and man-made fiber textiles and apparel from Hong Kong were 16.6 percent of U.S. imports in 1978 and 26 percent of total U.S. apparel imports. Cotton, wool and man-made fiber textile and apparel imports from all sources rose 15.3 percent in 1978 over 1977, while 1978 imports from Hong Kong rose 17.6 percent above the previous year. Apparel imports from Hong Kong grew by almost 12 percent in 1978 over 1977 compared to apparel import growth from all countries of 17.7 percent. In data through January, Hong Kong filled 90.2 percent of its 1978 agreement aggregate ceiling and 93.5 of its cotton and man-made fiber apparel group ceiling.





United States Department of State  
Bureau of Public Affairs

December 1980



Official Name: Hong Kong

### PROFILE

#### People

POPULATION (1979): 5 million. ANNUAL GROWTH RATE: 2.6%. POPULATION DENSITY: 4,729 per sq. km.; 92% urban. ETHNIC GROUP: Chinese (mostly Cantonese) 98%. RELIGIONS: Majority are Buddhists and Taoists with a small Christian minority. LANGUAGES: Cantonese, English. EDUCATION: *Years compulsory*—9.

*Attendance*—100%. *Literacy*—75%. HEALTH: *Infant mortality rate*—12/1,000 (US=13.8/1,000). *Life expectancy*—73 yrs. WORK FORCE (2.2 million 1979): *Agriculture*—2.6%. *Industry and commerce*—70.7%. *Services*—18.6%.

#### Geography

AREA: 1,061 sq. km. (404 sq. mi.). TERRAIN: Hilly, steep-sloped with excellent natural harbor; 13.5% arable, 8% urban, 78.5% uncultivable. CLIMATE: Tropical, but with seasons—cool, dry, and sunny in autumn, hot and rainy in spring.

#### Government

TYPE: British Crown Colony.  
BRANCHES: *Executive*—Governor (appointed by the Queen of England), Chief Secretary, and Executive Council. *Legislative*—Legislative Council.

*Judicial*—Full Court, Supreme Court, Court of Appeal, High Court, District and Magistrate Courts.

SUBDIVISIONS: Hong Kong, Kowloon, and New Territories.

SUFFRAGE: Limited to 200,000 to 300,000 professional or skilled persons.

GOVERNMENT BUDGET (1978-79): \$2.13 billion.

FLAG: Union Jack (UK).

#### Economy

GDP (1978 est.): \$13.8 billion. GDP GROWTH RATE (1978-79 est.): 12%. PER CAPITA INCOME (1978 est.): \$3,000.

NATURAL RESOURCES: None.

AGRICULTURE: *Products*—vegetables, pigs, chickens, fish.

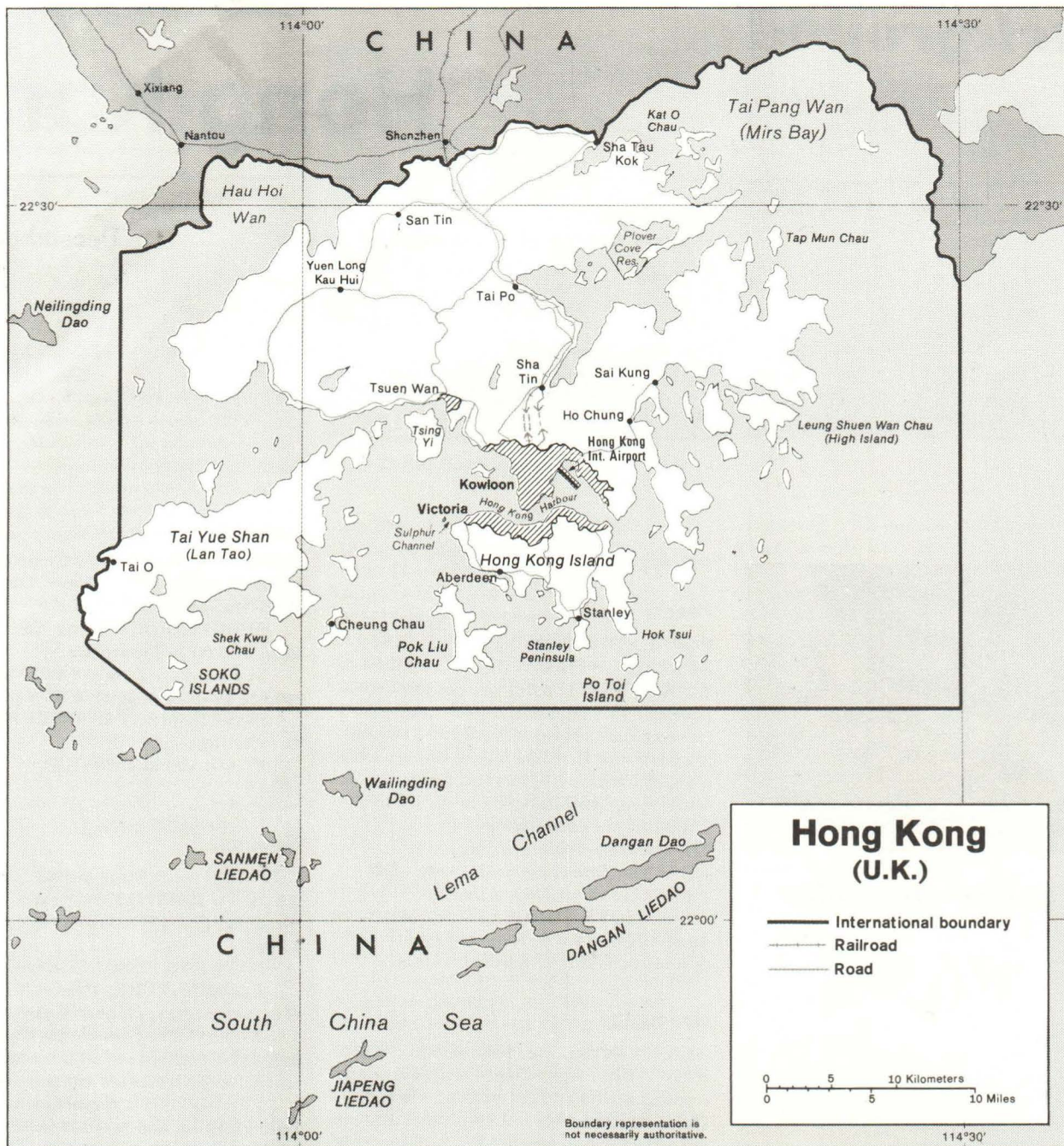
INDUSTRY: *Types*—textiles, clothing, toys, transistor radios, watches, clocks, and electronic components.

TRADE (1979): *Exports*—\$11.9 billion: clothing and textiles (40%), electronics, toys. *Partners*—US (33%), FRG, UK. *Imports*—\$19 billion: raw materials and semimanufactured goods, food, consumer goods. *Partners*—Japan, China, US (12.1%).

OFFICIAL EXCHANGE RATE: The Hong Kong dollar (HK\$5=US\$1) is allowed to float on the world market.

FISCAL YEAR: April 1-March 31.





## PEOPLE

Hong Kong has enjoyed a rapidly rising economy for many years, due mainly to the industriousness and ingenuity of its people and its receptivity to foreign investment. The flow of legal and illegal immigrants has been continuous from China, and more recently, from Vietnam. The population currently consists of about 98% ethnic Chinese, and 2% other races, mostly European.

Cantonese is the Chinese dialect spoken by most of the Colony's population, although English, the other official language, is widely understood.

Only 57% of the population was born in Hong Kong. Nearly 40% of the population is under 20, and the median age is 24.8, compared to 20.7 in 1970. A decline in the birth rate has resulted in a decline in primary school enrollment. Nearly 193,000 students attend kindergarten, more than 555,000 attend primary schools, and another 524,000 are enrolled in secondary schools. More than 102,000 young people and adults attend various institutions of higher

learning. The Hong Kong Government plans to provide a subsidized education for every child from ages 6 through 15 by the end of 1980. Vocational training is increasing, with a fifth trade school scheduled to open in 1980.

## GEOGRAPHY

Hong Kong adjoins the Chinese Province of Guangdong on the southeastern coast of the Chinese mainland. It consists of Hong Kong and Lan Tau Islands, the Kowloon Peninsula, and more than 200 smaller islands. The is-



lands are hilly and steep sloped. The only significant flatland available for agriculture is located in the peninsula's "New Territories." Hong Kong's excellent natural harbor is bordered by the cities of Victoria and Kowloon, which together form the principal areas of urban concentration.

Although situated 160 kilometers (100 mi.) south of the Tropic of Cancer, Hong Kong experiences seasonal changes of weather unusual for the Tropics. Beginning in September, a monsoon wind blows from the north and northeast, bringing with it cool, dry, and sunny weather. In about mid-March, this wind is replaced by a less strong monsoon blowing from the south and southwest which brings hot rainy weather. The average daily temperature ranges from 13°C (55°F) to 17°C (63°F) in February to between 26°C (78°F) and 31°C (87°F) in July.

## HISTORY

British attempts to trade with China by sea began in the early 17th century, but the first successful venture was carried out by the British East India Company in 1699. Until 1834 the East India Company had a monopoly on British trade with China, which it carried on through the Qing (Ching) Emperor's specially appointed merchants at Guangzhou (Canton).

Seriously worried by the increased use of Indian-produced opium in China, the Qing government, in 1839, attempted to end the opium trade. The British retaliated, and the first Anglo-Chinese (or Opium) War (1839-42) ended with the signing of the Treaty of Nanjing (Nanking) in 1842, granting Hong Kong Island in perpetuity to the United Kingdom. During the Arrow War (1850-60), the Kowloon Peninsula was occupied by British forces. The occupation was acknowledged shortly thereafter by a perpetual lease to the 9-square-kilometer (3½-sq.-mi.) area, including Kowloon south of the present Boundary Street. This lease, granted by the Qing viceroy at Guangzhou, was made an outright cession by the Treaty of Beijing (Peking). The New Territories, 949 square kilometers (365 sq. mi.), were leased to the British for 99 years in the Anglo-Chinese Convention of Beijing in 1898.

Declared a free port in 1841, Hong Kong developed as a warehousing and distribution center for British trade with southern China, but was later eclipsed in size and importance by Shanghai. Not until after 1949 did Hong

Kong develop into the leading manufacturing, commercial, and tourist center that it is today.

Aided by prudent fiscal policies, Hong Kong's hard-working and imaginative people have created a standard of living matched by few developing areas. Life expectancy, literacy, per capita income, and other figures all indicate Hong Kong's solid economic and social achievements over the last four decades.

## GOVERNMENT

The Governor of Hong Kong, appointed by the Queen of England, is Commander in Chief. The Chief Secretary is the principal adviser to the Governor and chief executive of the government. The government is also advised by the Executive Council, which is composed of 14 appointed members and is the approximate equivalent of a cabinet. British Acts of Parliament obtain only if specifically applied to Hong Kong.

The Legislative Council (Legco) is presided over by the Governor, who also casts a vote. It currently has 4 ex officio, 15 official, and 22 unofficial members. All but the ex officio members are appointed by the Queen or by the Governor under instructions from the Secretary of State. Legco enacts legislation and approves the budget. Its acts become law after approval by the Governor and the Queen, either of whom may disallow them.

The judiciary is independent of the executive and legislative organs of the government in the performance of its official acts. Judges are appointed. English common law obtains in Hong Kong with certain local variations, mainly derived from Chinese custom.

Administrative functions of the government are carried out by more than 40 departments under 6 cabinet-level secretariats.

Hong Kong Island and Kowloon (total populations 3.4 million) are administered by an Urban Council (of whose 24 members half are elected and half are appointed by the Governor). The Urban Council has regulatory and licensing responsibilities similar to those of a city council in such areas as health, culture, commerce, and recreation. By contrast, the largely rural New Territories are administered by the Secretary for the New Territories and seven District Officers with political, executive, and liaison responsibilities.

Hong Kong's foreign relations are the responsibility of the British Government, but considerable autonomy

## TRAVEL NOTES

**Immigration and customs**—Americans visiting Hong Kong are not required to have a visa for a stay of up to 1 month. Almost all goods can be imported duty free into Hong Kong except liquor, motor fuels, cigarettes, and tobacco.

**Hotels**—Hong Kong has a wide range of hotels to meet various personal tastes and pocketbooks. It is best to make reservations well in advance as hotel space can be tight at certain times of the year, particularly in the first-class, luxury hotels.

**Transportation and communications**—Taxis are inexpensive and plentiful. Buses and streetcars provide a very inexpensive, if sometimes crowded, means of getting around the Colony, and the Star Ferry is a convenient way to travel between Kowloon and Victoria Island. Hong Kong has efficient domestic and international telephone and telegraph service. Recently Hong Kong constructed a modern subway system.

**Health and medicine**—Good medical facilities are available, and there are many Western-trained doctors and dentists.

**Currency and banking**—Hong Kong has an open-market exchange and it is easy to change money. The current rate is about US\$1=HK\$5. A full range of banking services is offered.

**Shopping**—Hong Kong is no longer as inexpensive as it once was, but Hong Kong shopkeepers can supply almost anything. A wide range of Chinese handicrafts is available, and some tailors will still make a suit within 24 hours.

has been permitted the Hong Kong Government in the area of commercial relations.

Hong Kong is defended by units of the British Armed Forces under the Commander of British Forces. The Hong Kong Government contributes to the support of the forces and maintains the Royal Hong Kong Police and an auxiliary defense force.

## Principal Government Officials

Governor—Sir Crawford Murray MacLehose  
 Chief Secretary—Sir Jack Cater  
 Financial Secretary—Sir Philip Haddon-Cave



## READING LIST

These titles are provided as a general indication of the material published on this country. The Department of State does not endorse unofficial publications.

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A commercial attaché at the British Embassy represents the Hong Kong Government in Washington, D.C. (tel. 202-462-1340).

## POLITICAL CONDITIONS

The Chinese Government has refused to recognize treaties made by the Qing government that apply to Hong Kong. The Chinese Government considers these areas Chinese territory temporarily under foreign administration. Despite this, the United Kingdom and China maintained relations after the



View of the Hong Kong Harbor.

founding of the People's Republic. Strong economic ties exist today between Hong Kong and China. Hong Kong continues to exist as a colony and free-trade area because all concerned find it advantageous to maintain the status quo. Hong Kong's residents continue to accept British administration because it assures their personal freedom and a high standard of living. For the Chinese Government, Hong Kong is a major source of foreign exchange, economic contact, and technical assistance in the modernization of China.

## ECONOMY

Hong Kong has little arable land and virtually no natural resources. The Colony has therefore always been extraordinarily dependent on foreign trade. Since the 1950s Hong Kong has developed into a center of light manufacturing and international finance. In 1979 Hong Kong's total foreign trade was valued at \$15 billion. Domestic exports were valued at \$11 billion, of which 33% went to the United States. Reexports of goods from other countries were valued at \$11 billion. Hong Kong imported goods valued at \$17 billion in 1979, of which 12% came from the United States. Goods imported from the United States included heavy machinery, office machines, and fruits and vegetables.

The number of visitors to Hong Kong has steadily increased over the last 20 years. In 1979 an estimated 2.2 million people visited the Colony. Earnings from tourism in 1979 were \$1.2 billion.

The Colony's economic growth has been aided by the government's laissez-faire policy of minimal intervention in the economic process, low taxes, and a conservative fiscal policy.

Operating with pay-as-you-go budgets which usually have surpluses of revenues over expenditures, Hong Kong has generated substantial fiscal reserves. In 1979 government revenue was projected at \$2 billion and expenditures at \$1.7 billion. The Colony's estimated gross domestic product in 1978 was estimated to be \$13.8 billion, for a per capita GDP of \$3,000.

Hong Kong has become a major center for investment, trade, and contact with China. Over 600 U.S. corporations are located in Hong Kong, doing business not only with China, but with the rest of Asia as well.

Hong Kong remains a transportation and communication hub for Asia. Its modern airport is served by 32 regional and international airlines, and its port was visited by over 9,800 ocean-going vessels in 1979. ■

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THE WHITE HOUSE

WASHINGTON

3/6/81

Dear Governor MacLehose:

I am pleased to have the opportunity to convey to you through former President Gerald Ford my personal regards and my hope for continuing close relations with the people of Hong Kong.

As a center of American business in Asia, as a trading partner, and as a first haven for thousands of refugees, Hong Kong holds an importance disproportionate to its size. I look forward to working with you to advance our common interests.

Sincerely,

R.R.

His Excellency  
Sir Crawford Murray MacLehose, G.B.E., K.C.M.G.  
Governor of Hong Kong

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- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.



## An Opec price cut next year?

Middle Eastern sources have told FOREIGN REPORT that Saudi Arabia will not agree to change its oil price until the end of the first quarter of next year at the earliest. This means that the Opec ministerial meeting which opens in Vienna on December 19th will probably decide nothing and be devoted to mutual recrimination. If the price is reduced next year, because the world recession is continuing, it may be from \$34 to \$32 a barrel.

The Saudis have cut their production from more than 10m barrels a day to about 6m b/d, enabling poorer Opec members to produce more oil and maintain their income despite a dramatic drop in world demand. What irks the Saudis is that Nigeria, Libya and arch-enemy Iran have been producing oil at rates well above the ceilings agreed by Opec's ministerial meetings this year. Some have also been selling small cargoes at well below official prices.

The Saudis, whose output is about 32% of total Opec production, hope oil demand will pick up by the end of the first quarter of 1983. It has dropped by 13% in the past two years and it is more likely to continue to fall. This will oblige the Saudis to drop their price by as much as \$2 a barrel. They may also increase production, since their development programmes are already being cut by falling revenues and they will want to stop this trend.

Talk of the official price falling to below \$28 a barrel can be discounted, we have been told. Opec will do its utmost to prevent this happening. International banks and oil companies will resist as well. Many of their huge investments are based on stable prices of more than \$30 a barrel. New investments in high-cost production areas like the North Sea and Alaska, aimed at reducing western dependence on the Middle East, would become uneconomic and be cancelled.

At their meeting on December 19th, Opec ministers will probably allow some member countries to rejig their prices by small amounts up or down, ostensibly because of their oil's superior quality or proximity to consumers. This will amount to tinkering. The real decisions will not be made until the first Opec meeting of the new year, probably in Vienna in May.

## Where will Hongkong move?

As Hongkong's nerves tingle about the 1997 expiry of Britain's lease over much of the colony, other countries in the region are waking up to the fact that Britain's loss could be their gain. So far, few of these countries have done much about luring Hongkong's investment capital and entrepreneurial skills. While there has been a well-publicised increase in the amount of jittery Hongkong capital going to North America and Europe, the flow to most Asian countries so far appears to be no more than a trickle. **This could change.**

Of all the countries in the region, **Thailand** appears to have fewest misgivings about chasing the Hongkong dollar and is doing the most to attract it. Thailand is attractive to Hongkong Chinese because it already has a large and well-assimilated Chinese population which has managed to build a strong position for itself in the Thai economy without arousing too much enmity among the tolerant Thais. Labour costs are low and Thailand is patently in need of foreign investment.

NYK

Dec. 2, 1982  
Foreign Rpt.



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In October, a task force was set up under the industry minister, **Chatichai Choonhavan**, ostensibly aimed at improving the investment climate for all comers—but with Hongkong particularly in mind. One suggestion was that permanent residence be granted to investors who pay a bond of \$500,000. Thailand's central bank has reported an unusual spurt in September in the amount of short-term private remittances arriving from Hongkong. The same month saw a surge of activity in the usually somnolent Thai stock exchange, which could have been due at least partly to increased arrivals of Hongkong funds.

In **Singapore**, rumours circulated recently that up to 6,000 applications from Hongkong had been made for residence status, but the reports were officially denied. The Singapore government has doubts about the value of a large influx of Hongkong entrepreneurs, who are accustomed to free-wheeling, no-holds-barred business activity which might not blend well in the more ordered Singapore economy. Singapore also looks askance at the stress the colony's business community puts on property development. Singapore has itself suffered from the effects of speculation in property, and does not want a recurrence.

The **Philippines** is more enthusiastic but there are doubts over whether the country has the right investment climate to attract the colony's money. The fee for gaining residence in the Philippines is \$200,000—much less than Singapore's \$500,000—but the disadvantage is that the money must be invested in a depressed area. There are Filipino plans to establish a free port, with tax concessions and loose entry regulations, as a way of luring Hongkong capital looking for a new home. But they are still on the drawing board. The Philippines still lacks the kind of free trade environment and efficient telecommunications that the Hongkong business world needs.

**Taiwan** sees itself as the logical and most plausible beneficiary of a major flight of capital from Hongkong, because it has strong ties of race and culture with the British colony. It is relatively simple for non-mainland Chinese to set up home and start a business in Taiwan. But Taiwan has deep-seated apprehensions about Hongkong's clouded future, stemming from the Nationalist-ruled island's unique relationship with the Chinese mainland. If China does what it says it will do with Hongkong—establish some sort of Chinese sovereignty over the colony—any subsequent loss of business confidence could rub off on Taiwan. Foreign investors might take the view that, if Hongkong comes under the red flag, Taiwan may not be far behind.

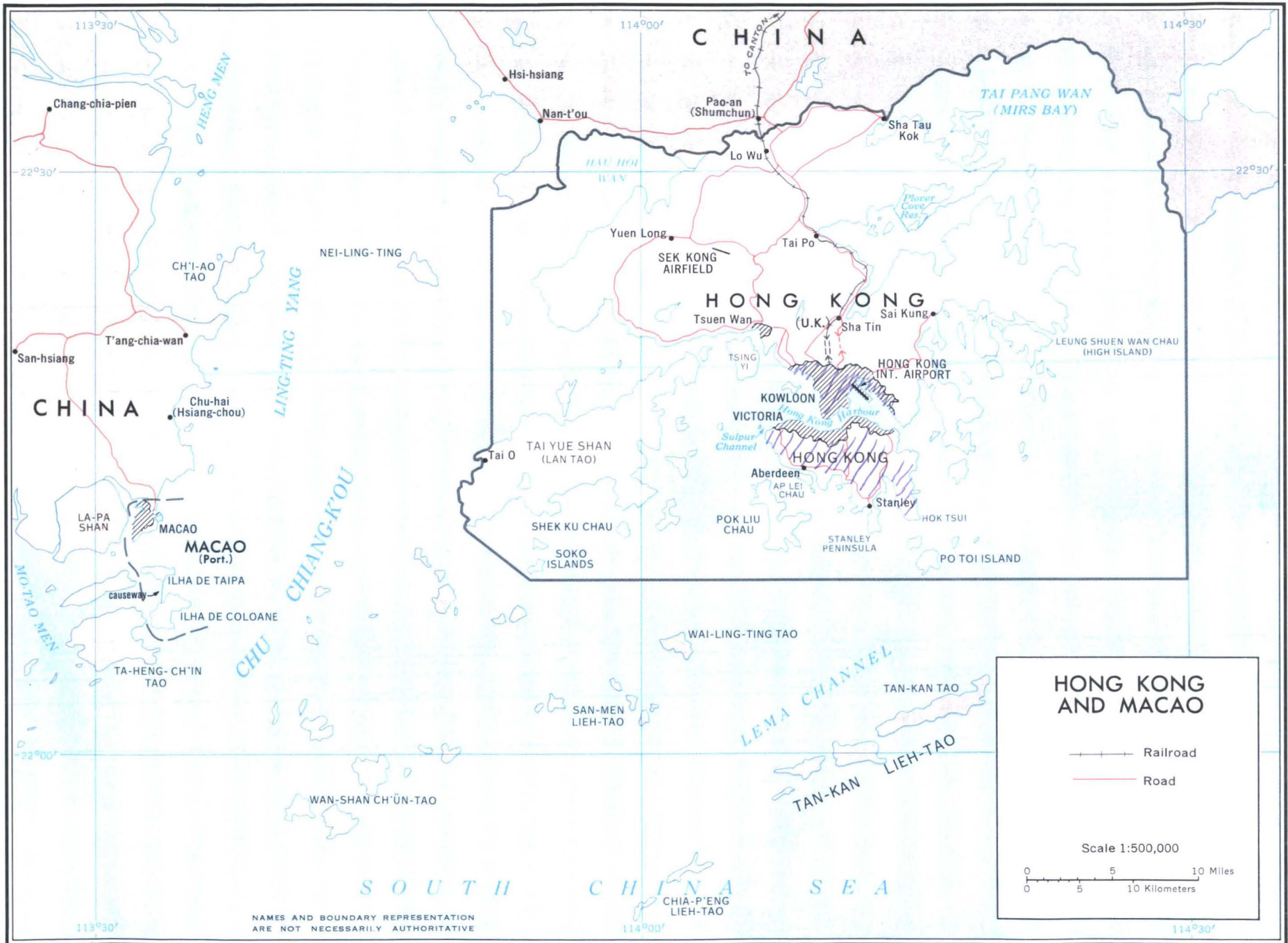
## Soviet build-up in the Far East Foreign Report Dec 2, 1982

The American defence secretary, **Caspar Weinberger**, returned from his five-nation tour of the Pacific in November with renewed determination to build up American security commitments there and to encourage the nations of the region to build up their own military forces. He is convinced that the United States has fallen too far behind the Soviet rate of expansion in the Pacific and may have been concentrating too much on Europe.

FOREIGN REPORT has obtained a copy of a secret defence department report which says that "trends in the Pacific region are unfavourable to the United States, Japan and China". China is in the worst position. The report says:

In the past 10 years, the dollar size of the Soviet military effort toward China has been





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## A Foreign Office China expert is Hongkong's next governor

# Mandarin on the move

By Philip Bowring and Mary Lee

After equivocating for nine months, London has appointed the man it first thought of as the next governor of Hongkong. Sir Edward Youde, a former ambassador to Peking and currently deputy under-secretary of state at the Foreign Office, will take up the post in May, following the retirement of Sir Murray MacLehose after an extended 10-year stint.

Youde — known as "Teddy" — was acclaimed by leaders of Hongkong local interest groups. No other reaction could be expected because for almost all of them Youde is so far just a name and a title. And as far as most of the people of Hongkong are concerned he can be judged only on how he performs as governor, not on whether his experience makes him the most suited Briton to take on the job.

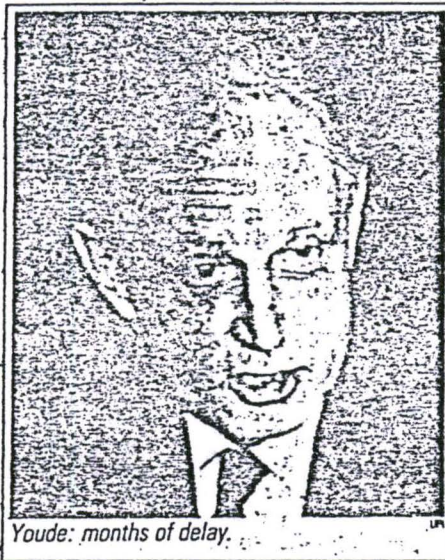
The delay in making the appointment — first suggested by officially inspired leaks early this year (REVIEW, Mar. 13) was partly occasioned by Youde's heart trouble which necessitated a heart bypass operation in August, followed by the need to determine whether or not he was fit enough to take on Hongkong. But delay was also due to continuing doubts in London over what sort of man was best suited to be governor. London's inability to settle on a successor was one reason why MacLehose's tenure was extended three times. Over Youde there were also doubts, raised even within the Foreign Office, over whether his personal qualities were necessarily the most appropriate.

Only time will establish the fitness of his personal qualities. But there will be a continuing debate as to Whitehall's thinking behind the appointment of a top diplomat with more experience of dealing with China than anyone else in the Foreign Office. The Foreign Office clearly wanted to keep the governor's job to itself. However, the fact that Foreign Secretary Lord Carrington eventually went along with his department rather than looking to the ranks of soldiers, politicians, businessmen or administrators for a successor to MacLehose seemed to indicate a feeling that experience of dealing directly with China was of major importance: there is a growing awareness in Hongkong that the question of 1997 — the date of the expiry of the lease on 89% of Hongkong's territory — must somehow be settled with China and the continuity of British, or at least stable, administration beyond that date assured.

Youde's experience in China is massive. He speaks Mandarin fluently and reads Chinese, served four times in China, beginning in the days of the Kuomintang in 1947 and has been involved in Far East affairs from London. His political experience has also been given added weight by a stint as private secretary to Harold Wilson when

prime minister in 1969-70. His career path has in fact many similarities to that of MacLehose.

If London perceives the question of relations and negotiations with China as being a major factor in the choice of governor, the local perception is that the first job of governor is to govern. The powers and responsibilities of governor are massive. He has, if he cares to exercise it, almost unquestioned personal authority exercised through a captive, appointed legislature and a formidable 141,000-strong bureaucracy. But it also requires a politician's



Youde: months of delay.

sense of responding to domestic political pressures from Hongkong society which does not compromise the basis of the economy or sound administration.

Hongkong people are now more conscious of their own interests than ever before. The rise of an educated middle class has created a variety of pressures for change and participation in decision-making, and produced a situation infinitely more complex than the old one of industrial entrepreneurs/colonial bureaucracy/refugee workforce. Youde arrives at a time when even the credibility of the governor's trusted advisers in the legislature and committees has been subjected to much questioning by working and middle-income pressure groups.

Externally, the job requires a determination to represent the interests of Hongkong vis-à-vis both Peking and London, rather than serve as a conduit for the interests of the supervising powers. Some sources suggest that the governor should play only an advisory role in any negotiations over 1997, rather than be the pivot. His dealings with China should be on specific

issues affecting both Hongkong and China — which are growing in number and complexity as economic and commercial contacts increase. The relationship with China may be good. But it is a lot more complex than before and conflicts of interest between Hongkong and China are unavoidable.

One criticism of diplomats generally is that their whole previous experience is that of policy formulators and spokesmen rather than decision-makers, that there is a natural tendency of the products of Whitehall to be programmed to respond rather than initiate. However, there should be no reason why Youde, like MacLehose himself, should not rise to the occasion and prove to have a mind of his own and the political judgment to execute right policy.

Another criticism of diplomats is that they lack administrative experience. This is not so with Youde, who will come straight from the main administrative position in the Foreign Office and with a reputation for attention to and grasp of detail. He describes himself as "an administrator diplomat."

But whether grasp of detail will be an asset will be debatable if it detracts from attention to the major political issues and leads to any friction with Chief Secretary Sir Philip Haddon-Cave. The former financial secretary not only knows more about the workings of the Hongkong Government than anyone else, but clearly took the chief secretary's job, the clearing house of administrative decision-making, with a view to making it more pivotal than under MacLehose.

Haddon-Cave's guideline is that "a government which attempts more than it ought will perform less." How this will square with Youde, who will arrive with a reputation both as a man of principle and wanting to oversee anything done in his name, remains to be seen.

Youde's personal qualities include physical bravery — during the Amethyst incident on the Yangtze in 1949 — and expectation of high standards of personal conduct and discipline. (He banned gambling among his colleagues while ambassador in Peking.) A strong dose of principles may be necessary medicine for Hongkong. But sometimes the line between honesty and puritan meanness can be a fine one. And if this ascetic opponent of gambling can finally kill the canard that "Hongkong is run by the Jockey Club, the Hongkong Bank and the governor — in that order" so much the better.

On the administrative side, Youde will have a lot to learn about some basic problems: housing — which MacLehose made his first priority but in the end failed by miles even to meet his targets despite a



buoyant economy; transport — where billions have been invested in the Mass Transit Railway to service existing population centres, while other infrastructure has been relatively starved of funds; education — where basic principles are under question as are the quality and quantity of post-secondary education.

Youde will also take office at a time when the public finances themselves are in disarray due to rapid growth of spending and over-reliance on land as the source of revenue. Luckily for him, he will arrive after the first budget of Financial Secretary John Bremridge. The MacLehose tendency to throw more government money at problems may have to be revised and priorities more clearly established.

Youde has no experience of economic management and little contact at all with the kind of entrepreneurial business spirit that is the lifeblood of Hongkong. He will arrive at a time when Hongkong may be facing its greatest economic difficulties since 1975, as recession in the United States and the fallout from the recent property boom combine to raise unemployment and make further inroads into real wages.

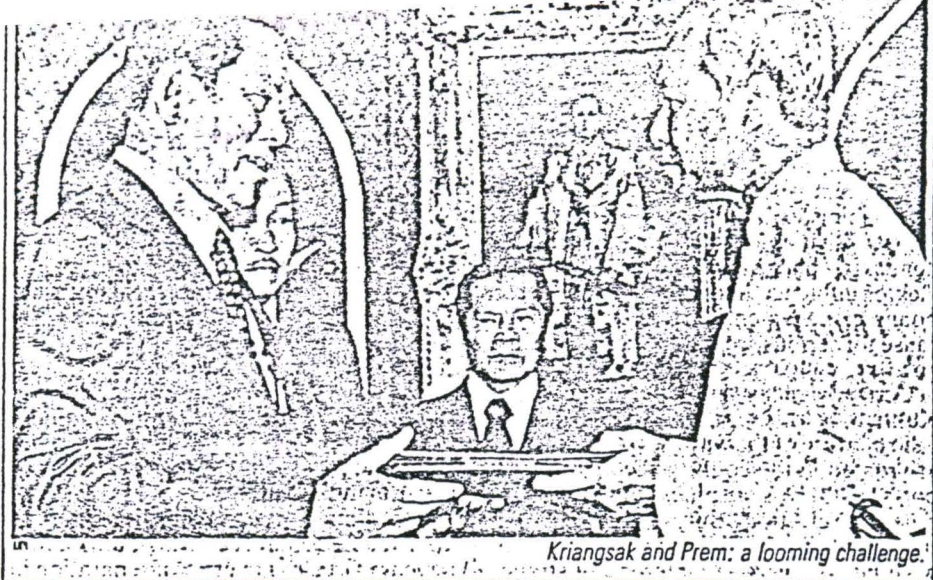
Youde admits that MacLehose's achievements make him "a hard act to follow." But it would be a mistake if he tries to follow too closely in the footsteps of his predecessor. After 10 years, a fresh mind and new ideas are needed, just as MacLehose made some fundamental changes in government when he first arrived. Youde may need to start by recognising that whatever MacLehose's overall achievements some things have gone badly wrong. Not only have some specific policies proved ineffective, but the administration has also been seen to be in need of a sense of purpose. It appears to lack any philosophy to guide it in its decision-making. As a result it has become prey both to indecision and to pressures from sectional interest groups.

But Youde's diplomatic skills and China experience should, however, prove of value in tackling two major specific issues where Hongkong economic decisions and China's interests are inseparable:

► A decision on a new airport. It is seen to be bogged down by hydra-like consultants' studies whereas a key question — how and where can it be developed to serve China as well — is being evaded, at least publicly.

► The Tin Shui Wai private new town project in the New Territories proposed by a China Resources-led consortium. The Hongkong Government does not want to seem to be under pressure from China so it has delayed any decision on the project (again using the pretext of interminable consultants' studies). In the absence of any clear policy statement on 1997, Tin Shui Wai and the new airport will be the best "money-where-your-mouth-is" gesture that will allow investors to "put their hearts at ease" over Hongkong's future.

It is issues like these that will determine whether the diplomat-China scholar is also a governor able to translate Hongkong's hopes and interests into reality. □



## THAILAND

# Prem secures his flank

The SAP meekly agrees to rejoin the coalition, giving Prem the strength he needs to defend his parliamentary position

By John McBeth

Bangkok: A looming parliamentary challenge from former premier Kriangsak Chomanan prompted Prime Minister Prem Tinsulanond to reshape his coalition government last week, bringing back the biggest parliamentary power, the Social Action Party (SAP). The SAP appeared to have gained little in the way of important portfolios from this return to the coalition only nine months after it left in a storm of controversy over an oil deal.

But, in parliament, the SAP's re-entry has considerably strengthened the hand of Prem, whose administration has been appearing somewhat battered recently as it moves sluggishly towards a general election scheduled for April 1983. Despite Prem's problems and Kriangsak's new parliamentary muscle, there is a growing feeling that his administration will survive the coming months.

The question in most minds was why the SAP decided to sign on again at all given the fact it could have continued supporting the government in parliament without committing itself to a role in the decision-making firing line. After negotiating from what it clearly considered a position of strength in mid-year, the party — which has the largest block of votes in the 301-member lower house — slowly relented to the point where it made major concessions to return to the government. Indeed, in the end Prem, who has no party himself, was able to edge the SAP back into the fold with a scattering of crumbs and only a minimum of disturbance to the existing coalition members led by the Chart Thai and Democrat parties.

It is still not completely certain what contributed most to the removal of the primary obstacle to the SAP's return, deputy party leader Boonchu Rojanasathien. It was Boonchu who had insisted that the

main condition for the party rejoining the government was that it obtain all the economic portfolios. This condition was formulated after the party dropped out of the coalition in March at the height of a bitter wrangle with Chart Thai over a Saudi Arabian oil deal (REVIEW, Mar. 6).

Although he later denied it, Prem is on record as laying down a condition of his own: that he would entertain the SAP's return only if Boonchu was excluded from the cabinet nominees. While there is certainly no evidence of acrimony between the premier and Boonchu, his former economics minister, it was no doubt clear in Prem's mind at least that bringing him back would create the sort of upheaval the premier desperately wanted to avoid.

Whether he said it in so many words is difficult to determine, but once the message got out it appeared to fan the embers of the long-smouldering conflict within the SAP itself between Boonchu and old-guard secretary-general Kaseem Sirisamphan. The climax came on December 4 when an overwhelming majority of members voted to accept Prem's overtures and rejoin the administration — on Prem's terms.

Boonchu, still acknowledged as Kukrit's eventual heir in the party, promptly resigned from his party post in a surprise move. Some of his supporters now consider that this resignation has improved his standing even though the fact that he is not an MP remains a chink in his political armour which is often exploited. The view that Boonchu has bettered his position may even be reinforced following the announcement of the new cabinet line-up on December 19. For this left Chart Thai's seven slots unchanged while the SAP had little of importance to show, apart from



- 1933-70. Federal Pres., Australian-American Assoc., 1960, 1962-64, 1966-67, 1972; NSW Pres., Australian-American Assoc., 1957-63, 1965-74; Pres., Aust. Soc. of Accts, NSW, 1959. Rep. Australia at Internat. Congress of Accts, 1957, 1962; Internat. Congress of Inst. of Management, 1957. Member: Adjudicating Panel for best Annual Report in Australia (since inception of Annual Report Award); Bd. Scottish Hosp., Sydney. Mem. Adv. Bd. Presbyterian Foundation. Chm., The Presbyterian Church (NSW) Property Trust, 1964-75. Annual Research Lecturer, Aust. Soc. of Accts. Univ. Sydney, 1951; Univ. WA, 1952; Univ. Tas, 1953; Univ. Melb., 1959; Edgar Sabine Memorial Lecture, Adelaide Univ., 1959; Guest Lectr., Jubilee Convention of NZ Soc. of Accts, 1960. *Publications*: (several books reproduced in other countries, such as UK, India and New Zealand; numerous standard text books (some jointly) on accounting, law and company practice (mostly with 2-6 edns) including: Australian Company Director, 1932; Australian Shareholders Guide, 1958, 3rd edn 1971; Australian Commercial Dictionary, 1945, 5th edn 1972; Limited Liability Companies in Australia, 1956; Twentieth Century Commerce and Book-keeping, 12th edn 1960; Costing Procedures, 1951, 5th edn 1976; Advanced Accounting, 1948, 8th edn 1978; Elementary Accounting, 1952, 5th edn 1975; Company Law in New South Wales, 1947, 3rd edn 1968; Company Law in Victoria, 1955, 2nd edn 1959; Accounting Fundamentals, 1949, 7th edn 1976; Australian Mercantile Law, 1939, 15th edn 1978; Annual Reports of Companies, 1958; Australian Secretarial Practice, 1936, 6th edn 1978; Company Secretary's Guide (NSW), 1946, 2nd edn 1950; Company Secretary's Guide (Victoria), 1948, 2nd edn 1952; Company Secretary's Guide (Queensland), 1947; Company Law, 1962, 3rd edn 1968; Proprietary and Private Companies in Australia, 1939, 2nd edn 1952. *Address*: 29 Trafalgar Avenue, Roseville, NSW 2069, Australia.
- YOST, Charles Woodruff; Special Adviser, Aspen Institute, since 1976; Honorary Co-Chairman (formerly Counsellor), United Nations Association; b 6 Nov. 1907; s of Nicholas Doxtater and Gertrude (Cooper); m 1934, Irena Oldakowska; two s one d. *Educ*: Hotchkiss Sch.; Princeton Univ. (AB); Univ. of Paris. Entered US Foreign Service, 1930; served: Alexandria, 1930-32; Warsaw, 1932-33. Journalist, 1933-35. Dept. of State, 1935-45; Asst. to Chm., Dumbarton Oaks and San Francisco Confs, 1945; Sec.-Gen., US Delegn, Berlin Conf., 1945; Political Adviser to Comd'g Gen., India-Burma Theatre, 1945; Chargé d'Affaires, Bangkok, 1946. Pol. Adviser to US Delegn to UN, 1946; Prague, 1947; Vienna, 1948-49; Pol. Adviser to US Delegn to UN, 1949; Dir, Office of Eastern European Affairs, 1949-50; Minister in Athens, 1950-53; Dep. High Comr for Austria, 1953-54; Laos: Minister, 1954, Ambassador, 1955-56; Minister in Paris, 1956-57; Ambassador to Syria, 1957, to Morocco, 1958-61; Dep. Rep. to UN Security Council, 1961-65; Career Ambassador, 1964; Dep. Perm. Rep. to UN, 1965-66; Senior Fellow, Council on Foreign Relations, 1966-69; Ambassador and Perm. Rep. of US to UN, 1969-71; Distinguished Lectr on Foreign Policy, Columbia Univ. Sch. of Internat. Affairs, 1971-73; Pres., Nat. Ctee on US-China Relations, 1973-75; Sen. Fellow, Brookings Instn, 1975-76. Hon. LL.D. St Lawrence Univ., 1963; Princeton Univ., 1969. Rockefeller Public Service Award, 1964. *Publications*: Age of Triumph and Frustration, 1964; The Insecurity of Nations, 1968; The Conduct and Misconduct of Foreign Affairs, 1971; History and Memory, 1980. *Recreations*: swimming, riding, literature, arts. *Address*: 2801 New Mexico Avenue, NW, Washington, DC 20036, USA. *Clubs*: Century, Princeton (New York); Cosmos (Washington).
- YOUDE, Sir Edward, KCMG 1977 (CMG 1968); MBE 1949; HM Diplomatic Service; Deputy to the Permanent Under-Secretary of State and Chief Clerk, Foreign and Commonwealth Office, since 1980; b 19 June 1924; m 1951, Pamela Fitt; two d. *Educ*: Sch. of Oriental Studies, Univ. of London. RNVF, 1943-46. Joined Foreign Office, 1947. First Secretary: Washington, 1956-59; Peking, 1960-62; Foreign Office, 1962-65; Counsellor and Head of Chancery, UK Mission to UN, 1965-69; a Private Secretary to the Prime Minister, 1969-70; IDC, 1970-71; Head of Personnel Services Dept, FCO, 1971-73; Asst Under-Sec. of State, FCO, 1973-74; Ambassador to China, 1974-78; Dep. Under-Sec. of State (Chief Clerk), FCO, 1978. *Recreations*: walking, theatre, music. *Address*: c/o Foreign and Commonwealth Office, SW1.
- YOLDS, Edward Ernest; His Honour Judge Youlds; a Circuit Judge, Bedford, since 1972; b 21 Nov. 1910; s of late Edward Youlds. *Educ*: Bickenhead Sch.; Magdalene Coll., Cambridge. BA, LLB (Hons) Cantab. Called to Bar, Gray's Inn, 1936. Practised on Northern Circuit as Barrister-at-law. Served 1940-45, France and Germany (despatches, 1945). Dep. Chm., Lancs County Sessions, 1961-66; County Court Judge, 1966-69; Puisne Judge, High Court, Uganda, 1969-72. *Address*: Bedford County Court, May House, Goldington Road, Bedford.
- YOUELL, Rev. Canon George; a Residentiary Canon of Ely Cathedral since 1970, Vice-Dean and Treasurer, since 1973; b 23 Dec. 1910; s of late Herbert Youell, Beccles, m 1936, Gertrude Barron, d of late J. Irvine, West Hartlepool; two s three d. *Educ*: Beccles; St Michaels; Hartley Coll., Manchester; St Stephen's House, Oxford; Univ. of Keele (MA 1969). Ordained, 1933; Curate, St John's, Chester, 1933; Clerical Dir of Industrial Christian Fellowship, 1937; chaplain attached to 2nd Bn Grenadier Guards (BEF and Guards Armoured Div.), 1939; Sen. Chaplain to Forces: Nigeria, 1942; Woolwich and SE London, 1944; Nigeria and Gold Coast, 1945; Rector of Ighitefield with Calverhall, Salop, 1947; Rural Dean of Leek, 1952-56; Vicar of Leek, 1952-61; Archdeacon of Stoke-upon-Trent, 1956-70; Vicar of Horton, Leek, 1968-70; Chaplain, Univ. of Keele, 1961-68; Hon. Canon, Lichfield Cathedral, 1967-70. *Publications*: Africa Marches, 1949; contributor on colonial and sociological affairs to the Guardian, 1947-51. *Recreation*: fell walking. *Address*: The Almonry, Ely, Cambs. T: Ely 2067.
- YOUENS, Ven. Archdeacon John Ross, CB 1970; OBE 1959; MC 1946; Chaplain to the Queen since 1969; Treasurer, Corporation of the Sons of the Clergy, since 1976; b 29 Sept. 1914; e s of late Canon F. A. C. Youens; m 1940, Pamela Gordon Lincoln (née Chandler); one s (two d. dead). *Educ*: Buxton Coll.; Kelham Theological Coll. Curate of Warsaw, Notts, 1939-40. Commissioned RA Chaplains' Dept, 1940; Aldershot and SE Comd, 1940-42; Sen. Chaplain: 59 Inf. Div., 1942; Chatham, 1943; 2nd Army Troops, June 1944; Guards Arm'd Div., Nov. 1944-45; 3rd Inf. Div. in Egypt and Palestine, 1945-48; 7th Arm'd Div. in Germany, 1948-50; Aldershot, 1950-51; DACG, Egypt, 1951-53; Tripoli, 1953-54; Sen. Chaplain, RMA Sandhurst, 1955-58; DACG, Gibraltar, 1958-60; ACG War Office, 1960-61; Rhine Army, 1961-66; Chaplain General to the Forces, 1966-74; Hon. Archdeacon, 1974. Mem. Council, Keston Coll., Centre for the Study of Religion and Communism, 1975. *Recreation*: golf. *Address*: Bullfigs, Hook Heath, Woking, Surrey GU22 0QE. T: Woking 68031. *Clubs*: Army and Navy, Cavalry and Guards (Hon. Mem.), MCC.
- YOUENS, Sir Peter (William), Kt 1965; CMG 1962; OBE 1960; b 29 April 1916; 2nd s of late Canon F. A. C. Youens; m 1943, Diana Stephanie, d of Edward Hawkins, Southacre, Norfolk; two d. *Educ*: King Edward VII's School, Sheffield; Wadham College, Oxford, MA (Oxon), 1938. Joined Colonial Administrative Service; naval service, 1939-40. Sub-Lt, Cadet S. L., 1939; Asst Dist Comr, 1942; Dist Comr, 1948; Colony Comr and Member, Sierra Leone Legislative Council, 1950; Asst Sec., Nyasaland, 1951; Dep. Chief Sec., 1953-63; Secretary to the Prime Minister and to the Cabinet, Malawi, 1964-66 (Nyasaland, 1963-64); Mem., Nyasaland Legislative Council, 1954-61. Retired, 1966. Exec. Dir, Lonrho Ltd, 1966-69. Non-Exec. Dir, 1980; Partner, John Tyzack & Partners Ltd, 1969-81; Dir, Oxford Playhouse Company (Anvil Productions Ltd), 1978. *Address*: The Old Paragon, Hurstborne Priory, Whitechurch, Hants. *Clubs*: East India, Devonshire, Sports and Public Schools; Vincent's (Oxford).
- YOUNG, family name of Baron Kennet, Baroness Young and Baron Young of Dartington.
- YOUNG; see Hughes-Young, family name of Baron St Helens.
- YOUNG; see Mackworth-Young.
- YOUNG, Baroness *cr* 1971 (Life Peer), of Farnworth in the County Palatine of Lancaster; Janet Mary Young; Minister of State, Department of Education and Science, since 1979; Co-Chairman, Women's National Commission, since 1979; b 23 Oct. 1926; d of John Norman Leonard Baker and Phyllis Marguerite Baker (née Hancock); m 1950, Geoffrey Tyndale Young; three d. *Educ*: Dragon School Oxford, Headington School, and in America; St Anne's Coll., Oxford; MA (Politics, Philosophy and Economics), Baroness in Waiting (Govt Whip), 1972-73; Parly Under-Sec. of State, DoE, 1973-74. A Vice-Chm., Cons. Party Organisation, 1975; Dep. Chm., 1977-79. Councillor Oxford City Council, 1957; Alderman, 1967-72; Leader of Conservative Group, 1967-72. Dir, UK Provident Instn, 1975-79. Mem., BR Adv. Bd, Western Reg., 1977-79. Hon. FIMunE. *Recreation*: music. *Address*: House of Lords, SW1A 0PW.
- YOUNG OF DARTINGTON, Baron *cr* 1978 (Life Peer), of Dartington in the County of Devon; Michael Young, BSc (Econ), MA, PhD; Director, Institute of Community Studies since 1953; Deputy Chairman, Dartington Hall, since 1980



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Secretary to Secretary of  
Counsellor 1963; Private  
the Prime Minister 1963;  
Ambassador Copenhagen 1966;  
temporary attachment to  
Government of Northern Ireland at  
Chief Clerk, F.C.O. 1970;  
Secretary of State F.C.O.  
2 Marjory Osborne (3 s.  
1950).

John Campbell, OBE (1973);  
Secretary (Institutions) UKREP  
July 1975; born 31.5.32;  
1965; First Secretary  
1968; F.C.O. 1972; m. 1958  
Mrs Binnie (1 s. 1963; 2 d.

Dorothy; F.C.O. since  
born 3.7.18; Nairobi 1963;  
Lesotho Government 1967;  
Nairobi 1973; Grade S.2.

Erica Mary, MBE; Managua  
1974; born 15.7.20; Wash-  
ington 1967; Accra 1969;  
London 1972; Grade S.2.

Richard Henry; Second-  
Service Department as  
Secretary to the Prime Minister  
1974; born 28.6.31;  
1955; M.E.C.A.S. 1956;  
1957; Second Secretary  
Private Secretary to H.M.  
Washington 1960; First  
Secretary 1963; Private Secre-  
tary to Permanent Under-Secretary  
1965; First Secretary  
Chancery Cairo 1968;  
Resident Bahrain 1971;  
East Department, F.C.O.  
Virginia Anne Gaffney  
1 d. 1963).

Albert William, MBE  
Secretary (Admin.) Tehran  
1955; born 30.4.28; Foreign  
and Commonwealth Office  
1948-50; H.M.  
Bahrain 1950; Bucharest  
1951; Guatemala 1957;  
1962; Rio de Janeiro  
Secretary 1965; Second  
Secretary Buenos Aires 1966; Second  
Secretary Jeddah 1968 and Con-  
sultant later First Secretary  
1952 Shirley Avril Moir  
1964).

George; Nairobi since  
10.10.26; Royal Navy  
Office 1955; Osaka  
1958; Foreign  
1962; Santo Domingo  
1969; F.C.O. 1971;  
Margaret Alice Bond  
d. 1962, 1964, 1966).

WRIGHT, Stephen John Leadbetter; Director  
of Policy and Reference Division and  
Consul (Inf.) New York (B.I.S.) since  
October 1975; born 7.12.46; Third Secre-  
tary F.C.O. 1968; Havana 1969; Second  
Secretary F.C.O. 1972; First Secretary  
1975; m. 1970 Georgina Susan Butler.

WRIGLEY, Michael Harold, OBE (1971);  
Counsellor F.C.O. since May 1974;  
born 30.7.24; H.M. Forces 1943-47;  
Foreign Office 1950; Brussels 1952;  
Foreign Office 1954; Second Secretary  
Bangkok 1956; Singapore 1959; First  
Secretary Bangkok 1961; Foreign Office  
1965; Bangkok 1966; Counsellor Kuala  
Lumpur 1971; m. 1950 Anne Phillida  
Brewis (2 s. 1955; 1960; 2 d. 1951, 1962).

WYATT, Arthur Hope; Deputy High Com-  
missioner Valletta since March 1975;  
born 12.10.29; H.M. Forces 1947-50;  
Foreign Office 1950; Third Secretary  
Ankara 1952; Second Secretary Phnom  
Penh 1956; Ankara 1959; First Secretary  
Foreign Office 1962; First Secretary  
(Inf.) Bonn 1966; First Secretary F.C.O.  
1970; Counsellor and Head of Chancery  
Lagos 1972; m. 1957 Barbara Yvonne  
Flynn (2 d. 1958, 1960).

WYATT, David; Bangkok since October  
1972; born 18.4.46; D.S.A. 1965; Lusaka  
1968; S.O.A.S. London 1971; Grade 9; m.  
1969 Rosemary Elizabeth Clarke (1 s.  
1972; 1 d. 1974).

WYATT, David Joseph; On secondment to  
Northern Ireland Office since March  
1974; born 12.8.31; Foreign Office  
1949; H.M. Forces 1950-52; Berne  
1954; Foreign Office 1957; Second Secre-  
tary Vienna 1961; First Secretary Can-  
berra 1965; F.C.O. 1969; Ottawa 1971;  
m. 1957 Annemarie Angst (2 s. 1960, 1961;  
1 d. 1967).

WYETH, Jean; New York since July 1973;  
born 13.1.43; Mbabane 1968; Moscow  
1971; Grade S.2.

WYNBURNE, Mark Barry; Islamabad since  
May 1974; born 29.3.45; Army 1963-64;  
Foreign Office 1966; Prague 1967; F.C.O.  
1968; Grade 9.

WYNN, Thomas; Zurich since March  
1974; born 19.8.33; Ministry of Labour  
1959; Department of Employment and  
Productivity 1966; Common-  
wealth Office (later F.C.O.) 1967; Saigon  
1969; Bucharest 1972; Grade 9; m. 1970  
Pamela Fisher (1 d. 1971).

WYPER, Robert Ballantyne; Kampala since  
March 1973; born 18.12.46; D.S.A.O.  
(later F.C.O.) 1966; Bangkok 1970;  
F.C.O. 1972; Grade 9; m. 1969 Lynn  
Bridges Cook (1 s. 1969).

## Y

YAPP, John William; Kuala Lumpur since  
December 1975; born 14.1.51; F.C.O.  
1971; Islamabad 1973; Grade 9; m. 1973  
Elizabeth McNaught McLean.

YAPP, William Carlyle Nicholas; Tehran  
since June 1974; born 28.7.14; Karachi  
1965; Jakarta 1967; Budapest 1968;  
Amman 1971; Prague 1972; Grade  
S.S.O.2; m. 1947 Pamela Mary (2 s.  
1951, 1954).

YARNOLD, Patrick; First Secretary (Comm.)  
Bonn since May 1973; born 21.3.37;  
H.M. Forces 1955-57; Foreign Office  
1957; Addis Ababa 1960; Belgrade  
1964 (Second Secretary 1965); Foreign  
Office (later F.C.O.) 1966; (First Secretary  
1967); First Secretary and Head of  
Chancery Bucharest 1970; m. 1961  
Caroline Martin (2 d. 1962, 1964).

YATES, Thomas Walter Alan; Brussels since  
January 1973; born 15.10.26; H.M. Forces  
1946-48; Foreign Office 1955; Peking  
1958; Rome 1961; Bucharest 1964;  
Foreign Office 1965; F.C.O. 1967; Grade  
8; m. 1958 Ruby Acllyn Owen (1 s. 1962;  
1 d. 1960).

YORKE, Valerie Margaret Berridge; F.C.O.  
since October 1974; born 1.6.46; Grade 9;  
m. 1972 Michael Piers Yorke.

YOUDE, Edward, CMG (1968); MBE (1949);  
H.M. Ambassador Peking since August  
1974; born 19.6.24; R.N.V.R. 1943-46;  
Foreign Office 1947; Third Secretary  
Nanking and Peking 1948; Foreign Office  
1951; Second Secretary Peking 1953;  
First Secretary Washington 1956; Peking  
1960; Foreign Office 1962; Counsellor  
and Head of Chancery New York  
(UKMIS) 1965; Private Secretary (Over-  
seas Affairs) to the Prime Minister 1969;  
Imperial Defence College 1970; Head of  
Personnel Services Department, F.C.O.  
1971; Assistant Under-Secretary of State,  
F.C.O. 1973; m. 1951 Pamela Fitt (2 d.  
1955, 1959).

YOUNG, David Junior; First Secretary  
(Admin./Cons.) Belgrade since January  
1975; born 23.4.34; Foreign Office  
1951-52; H.M. Forces 1952-54; Berlin  
1955; Ankara 1958; Pretoria/Cape  
Town 1961; Second Secretary D.S.A.O.  
1965; Second Secretary (Inf.) Port Louis  
1968; F.C.O. 1972; m. 1954 Kathleen  
Brooks (2 d. 1955, 1967; 2 s. 1958, 1964).

YOUNG, Edna Irene; Third Secretary Bonn  
since October 1975; born 30.8.51; F.C.O.  
1974.

YOUNG, Eric; First Secretary and Head of  
Chancery Reykjavik since July 1973;  
born 16.11.24; Royal Navy 1943-46;  
Deputy Director U.K. Information Office  
Tanganyika and Zanzibar 1960; First



written in 1981.

HONG KONG

Setting

The British Crown Colony of Hong Kong consists of Hong Kong Island, the Kowloon Peninsula, the New Territories north of Kowloon, and some 235 surrounding islands. With over 5 million people crowded into its 404 square miles, the Colony is one of the most densely populated areas in the world. Over 90% of the population is Chinese. Hong Kong Island and Kowloon were ceded to the British in perpetuity in 1842 and 1860 respectively following the Opium Wars; the New Territories were leased to Britain for 99 years in 1898. The PRC has renounced these and other "unequal" treaties, but has not moved to reclaim control from the British.

Hong Kong has become a major center for investment, trade and contact with China. Over 600 U.S. corporations are located in Hong Kong, doing business not only with China, but with the rest of Asia as well.

Government

now Sir Edward Youde)

Hong Kong is a British Crown Colony administered by the Hong Kong Government. The Government is headed by a Governor (formerly Sir Murray MacLehose) who is responsible to the Secretary of State for Commonwealth Affairs in London and governs with the advice of the local Executive Council. Legislation for the Colony is enacted by the Legislative Council. Membership of both councils consists of ex officio government department heads and appointed notables. Some 30 executive departments are organized along functional lines with the exception of the New Territories Administration, which has geographic responsibilities.

The Urban Council is the only body with members elected by popular vote -- 12 of 24 are elected. Only a small percentage of eligible voters actually vote. The Council's statutory responsibilities are limited to functions in such fields as public health, environmental sanitation, recreation, housing, etc.

US-Hong Kong Relations

The United States enjoys an excellent and cooperative relationship with the Hong Kong Government. Our relations with the Colony have recently been focused on the problem of refugees from Southeast Asia and economic matters involving textiles and the GSP. In addition, with the approaching 1997 termination of the British lease on the New Territories, Hong Kong is concerned that uncertainty about its future status may lead to a decline in investment in the Colony and subsequent economic stagnation.

Refugees

Since 1975 Hong Kong has granted first asylum to about 105,000 boat refugees from Vietnam, of whom some 13,000 still await permanent resettlement in third countries. The Colony has generously provided facilities and support for language and cultural orientation programs and has allowed the refugees to work temporarily. Hong Kong allowed 9,000 early arrivals to settle permanently and has also accepted 5,000 more who flew directly to the Colony from Vietnam under an orderly departure program. Due to extreme over-population and continued legal immigration from the PRC, (currently about 50,000 per year) Hong Kong now allows only those refugees with close relatives in Hong Kong to settle permanently. Thus far the U.S. has accepted about 45,500 Indochinese refugees from Hong Kong.

The refugee situation was complicated in 1981 by the arrival in Hong Kong and Macau of several thousand of the approximately 260,000 ethnic Chinese who fled overland from Vietnam to China since 1978. These people are not considered refugees since they were granted permanent resettlement by China. Chinese authorities have generally allowed Hong Kong to return these persons to China.

Future of Hong Kong

Hong Kong's future is clouded somewhat by the 1997 expiration of the lease of the New Territories. The PRC long ago repudiated all "unequal" treaties such as the New Territories lease, but has not moved to reclaim control from the British. The Chinese have made reassuring statements that investments in Hong Kong will be secure, but Hong Kong officials worry that failure to reach a formal agreement may scare away long-term capital as the deadline approaches.



## Textiles

The textile and apparel industry is the largest manufacturing sector in Hong Kong, providing for 44% of the manufacturing labor force and accounting for 41% of the valued added in the manufacturing sector and 43% of Hong Kong's exports. The United States is Hong Kong's single largest market for textiles and apparel; in 1980 Hong Kong was the second largest supplier (after Taiwan) of apparel to the U.S. market.

Bilaterally, the U.S. has long had a formal agreement restraining Hong Kong exports of textiles and apparel to the United States. We meet several times a year to discuss implementation of the bilateral agreement. Past negotiations have often been difficult but we have always, in the end, reached an understanding. The current agreement expires in December, 1982. *New agreement, recently reached, permits .5% growth next year in sensitive categories, and 1.5% in non-sensitive. A good agreement for US; tough on HK.*

Multilaterally, both Hong Kong and the U.S. are major participants in the renegotiation of the GATT Multi-Fiber Arrangement, the 42-country agreement which governs world trade in textiles and apparel and expires at the end of 1981.

## Generalized System of Preferences (GSP)

Hong Kong was the beneficiary most affected by discretionary graduation decisions announced March 19, 1981. Those graduations were designed to eliminate GSP eligibility for products for which Hong Kong has been determined to be fully competitive as well as to distinguish between highly competitive beneficiaries and poorer and less-developed countries. We discussed the need for these graduation decisions during consultations in June. Hong Kong understands our position, but will nonetheless continue to press for reinstatement of GSP eligibility for the affected items. Hong Kong remains eligible for 2800 of the 2850 items on the U.S. GSP list. GSP duty-free imports from Hong Kong increased from \$629 million in 1979 to \$804 million in 1980, making Hong Kong the second ranking GSP beneficiary after Taiwan. About \$220 million of this trade was affected by the March decisions.



## YOUR VISIT TO HONG KONG

### Background

From the sleepy fishing villages of 100 years ago, Hong Kong has grown into one of the most important trading and industrial areas in Asia. The Consulate General is located on Hong Kong Island in the city of Victoria (commonly called Hong Kong), which is the site of the Colony's governmental, commercial, and financial activities. Kowloon, across the harbor, is Hong Kong's major industrial area, but also contains residential and shopping districts, including numerous shops that cater to tourists.

Victoria and Kowloon are bustling, cosmopolitan cities which never seem to sleep. Goods from around the world are available and restaurants serve almost every variety of food known to man.

### Attractions

Although a fascinating city, Hong Kong is quite different from Paris, for example, where one begins with a list of several "must see" attractions. Hong Kong's particular appeal is best absorbed by browsing through its streets and markets, absorbing the atmosphere with its unique blend of East and West.

Yet there are several things to see and do which will reveal much of Hong Kong's charm and atmosphere. The Star Ferry, which crosses the harbor between Victoria and Kowloon, offers views of one of the world's busiest ports and may also pass traditional Chinese junks. The peak tram, which begins its steep run across the street from the Consulate General, provides spectacular views across Victoria's high-rises, the harbor, and Kowloon, to the New Territories beyond. Take your camera. Macau, a small Portuguese enclave about 40 miles west of Hong Kong is a favorite spot for gambling and for relief from the hustle and bustle of Hong Kong. However, it requires a full day's excursion by a variety of modern ferry or hydrofoil vessels.



### Restaurants

One of the great advantages of a visit to Hong Kong is the incredible range of restaurants found there. Chinese food in all its varieties (Cantonese, Sichuanese, Northern, Shanghai, etc.) is obviously predominant, but any of your favorite cuisines may be sampled, be it Mexican, Japanese, Hungarian or Kosher. Many visitors enjoy the floating restaurants of Aberdeen. Sanitation is generally good.

### Shopping

Another traditional activity for visitors to Hong Kong is shopping -- both for bargains on stereo equipment, cameras, calculators, and the like and for high-quality handwork from China and other countries. Clothing remains a bargain, though large American sizes can be a problem. The major shopping district is the Tsim Sha Tsui area of Kowloon, including the Ocean Terminal complex next to the Star Ferry landing. Also popular are the Central and Causeway Bay districts on Hong Kong Island. Goods from the PRC are available at China Arts and Crafts and China Resources stores in Victoria and Kowloon, as well as innumerable smaller shops. Bargaining is permissible, almost expected, in small shops, but not in the major stores.

### Climate

Hong Kong lies 100 miles south of the Tropic of Cancer and has a tropical, monsoon climate. Summers, from April to September, are hot, humid, and rainy; winters are mild, but cooler and drier.

	<u>Mean Air Temperature</u>	<u>Average Rainfall</u>
July	84 degrees	12.7 in.
January	60 degrees	1.1 in.



REF 35

**CITIBANK** 

# Monthly Economic Letter

**Hong Kong**

April 1981

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## GENERAL ECONOMIC CONDITIONS

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Under the influence of high interest rates and unfavorable economic climate worldwide, business activities in the external sector showed a slack trend in the first quarter of 1981. There was, however, a slowdown in the rate of inflation, due mainly to a stabilisation in the prices of imports with the exception of fuels. On the demand side, property market activities were hardly hit under the current tight money market conditions whereas the slowdown in private consumption remained limited so far. Domestic demand for bank credits softened somewhat in recent months, resulting in a reduced growth rate of monetary aggregates. On the foreign exchange market, the Hong Kong dollar remained weak vis-a-vis the U.S. dollar. Interest rates are expected to stay at high levels in the coming quarter as policymakers attempt to slow inflation and to prevent further depreciation of the exchange value.

An analysis of the sources and uses of funds in the Hong Kong banking system indicated an imbalanced situation between the domestic bank loan and traditional bank deposit outstandings. The domestic bank loans / deposits ratio stood at 112.1% at the end of February, comparatively higher than the 1980 year-end ratio of 107.3%. This implies that many of licensed commercial banks in Hong Kong, foreign banks in particular, continue to rely heavily on the interbank money market for loanable funds. Total interbank liabilities amounted to HK\$28,825 million at the end of February 1981, equivalent to 28% of the domestic bank loan outstanding. In a way to strength their liquidity position, to meet the domestic capital formation needs of Hong Kong and to provide additional opportunities for investors to convert temporary cash surpluses into liquid interest-bearing investment, foreign banks as well as finance companies in Hong Kong have been actively participating in the development of the secondary money market by issuing short-term debt instruments, mainly



negotiable certificate of deposit.

In a relatively short period of time, the CD market grew to be a major sector of the money market in Hong Kong. A total of 34 CDs were issued in the local money market over the last four years ending 1980, with the volume of outstanding CDs increased substantially from HK\$250 million in 1977 to HK\$2,600 million at the end of 1980. Seven new CDs were issued through a public tranche during the first quarter of 1981, bringing the total volume of outstanding CDs to HK\$3,100 million. U.S. Dollar denominated CDs accounted for one-third of this total. It can be expected that, as the economy grows and matures, competitive forces will contribute to the growing sophistication of an active secondary money market in Hong Kong.

The total assets of the Hong Kong banking system amounted to HK\$279,328 million at the end of February. The largest asset item was loans and advances, accounting for 48% or HK\$133,821 million of total assets. The second major asset item on the balance sheet was amounts due from banks abroad which expanded by more than 32% to HK\$94,083 million in a 12-month period ending February 1981, highlighting the implicit capital outflow due to interest rate differential factors.

On the equities side, amount due to banks abroad accounted for a lion share of 44% or HK\$122,835 million of total. The second largest liability items was traditional bank deposits which totalled HK\$92,185 million at end-February 1981, claiming a 33% share of total equities. Although no official figure on total net worth of the Hong Kong banking system has elsewhere been published, available data indicated that total net worth should be equivalent to 6-7% of the total equities of the Hong Kong banking system.

Total assets of the 317 Deposit-Taking Companies (DTCs) in Hong Kong expanded by 8% during the first two months of 1981 to HK\$140,182 million in February,

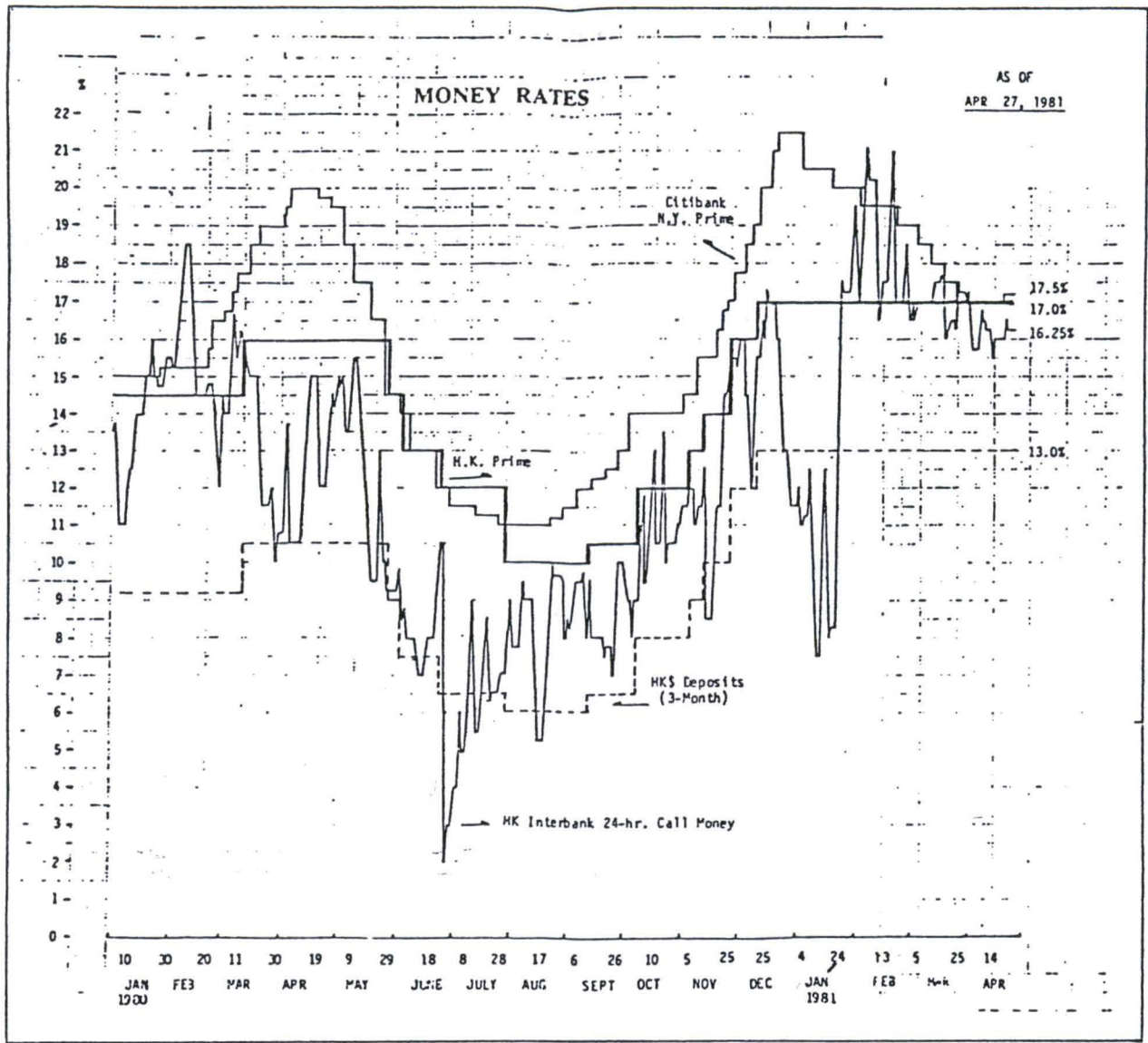
attributable mainly to an impressive increase in loans and advances. Total DTCs loans and advances amounted to HK\$64,780 million at the end of February, up 8.7% over year-end 1980 total. Domestic loans constituted roughly 50% of total DTCs loans and advances in February, whereas the proportion of domestic bank lending to total bank loan portfolio is 77% for the commercial banking sector.

Partly affected by the current high interest rate level, signs of some moderation in credit demand are becoming more evident in recent days. Total domestic credit to the economy improved by 2.3% in February to HK\$134,789 million, much less than the increase of 6% in the preceding month. A breakdown of the components of total domestic credit to the economy indicated a 2.5% increase in bank loans to HK\$103,335 million and 1.6% increase in DTCs lending to HK\$31,454 million. These totals represented respective increases of 49% and 106% over the year-earlier outstandings.

Alongside the restraining growth in total domestic credit to the economy, money supply, M3, rose by a mere 0.7% in February, well down from an increase of 4.9% in January.

Money market conditions remained tight throughout the first quarter of 1981. The 1st quarter averages of interbank money rates of all tenors were 16.14% for 24-hour call money; 17.29% for 1 month; 16.74% for 2 months; 16.53% for 3 months; and 15.88% for 6 months. These averages were roughly 100 basis points higher than the corresponding averages of 1980. Notwithstanding the continuation of a downtrend in U.S. interest rates and some recent slowdown in credit demand, the local prime rate remained unchanged at 17% throughout the first three months of 1981. The prime rate is expected to remain at this level for a couple of weeks ahead because of growing concern over the impact of capital outflows on the exchange rate of the Hong Kong dollar at a time of hefty





trade deficits.

Shortly after the proposals made by the Financial Secretary in his 1981-82 Budget Speech to create a new category of deposit-taking company, two Bills to amend the Deposit-Taking Companies Ordinance have been presented to the Legislative Council for discussion. The first Bill which passed on April 8, 1981, empowered the Governor rights to instruct the Commissioner of DTCs to suspend temporarily consideration of any application for registration as deposit-taking company received after noon on March 17, 1981. The exemptions to this amendment are those applicants which are wholly-owned subsidiaries of banks. The second Bill was gazetted on April 10, 1981, aiming at classifying the existing DTCs in

Hong Kong into two broad categories, namely, registered DTCs and licensed DTCs. The Bill provides a 24-month transitional period for all existing registered DTCs to manage their funding positions according to the proposed deposit-taking criteria established earlier in the Budget Speech. A licensed DTC will be required to have a minimum paid-up capital of HK\$100 million, or an equivalent amount in any other currency, whereas the minimum paid-up capital of a registered DTC remained unchanged at HK\$2.5 million. There were 332 registered DTCs operating in Hong Kong at the end of March 1981.

A total of 33 new bank branches were opened during the first quarter of 1981, bringing the total number of banking offi-



ces in Hong Kong to 1,179 at the end of March. Of this total, 743 were operating by 34 locally licensed banks and the remaining 436 banking offices belonged to 81 foreign banks established in Hong Kong. In addition to these banking offices, there were 115 bank representative offices in Hong Kong at the end of March.

Hong Kong's inflation rate, although still high by international standard, has declined slowly to 12.7% for the first two months of 1981, versus a 15.5% hike for 1980. Further improvement can be expected for the second quarter of the year, although the prospects for a sustained reduction to single digit inflation remain bleak.

In sharp contrast to a 27.6% increase in 1979, civilian visitor expenditure rose by a mere 2.3% in 1980 to total HK\$6,060 million. This unfavorable record was due mainly to a 17% decrease in Japanese visitor expenditure which traditionally accounted for more than 20% of total incoming visitor spending. Shopping is by far the largest expenditure item, constituting roughly 60% of total civilian visitor expenditure in 1980. Hotel bills made up another 23% of aggregate expenditure. Incoming visitors numbered 335,511 in the first two months of 1981, up 5.4% over the same period of last year. Noticeable increases were recorded in tourist arrivals from the U.K. and Taiwan, whereas Japanese visitors dropped in numbers.

.....  
**FOREIGN TRADE**  
.....

External trade activities slackened somewhat in the month of February, with total exports and imports dropping by 30% and 15% to HK\$6,816 million and HK\$9,091 million, respectively. The sharp shortfall in export receipts during February has resulted in a deterioration in the trade account. The accumulated trade deficit of HK\$3.286 million for the first two months of 1981 was up 43% over the corresponding total for the matching period of last

year. Compared with January-February 1980, Hong Kong's domestic exports in the first two months of 1981 improved by 12.7%; re-exports by 61.8% and imports by 29.6%. Indicative of the growing intra-regional trade activities, re-exports now accounted for more than 40% of Hong Kong's total export value, the corresponding proportion in 1978 was 24%.

According to an official business survey recently conducted by the Census and Statistics Department, the 1981 export outlook for watches and clocks, electrical and electronic goods and metal products appeared promising whereas the textile industry might registered a 2% fall in demand during 1981. As of February 1, 1981, the clothing industry has orders-on-hand sufficient for 4.6 months; textile industry, 2.3 months; plastic industry, 3.6 months; fabricated metals, 3.6 months; and electrical and electronic products, 4.9 months.

.....  
**FOREIGN EXCHANGE**  
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The Hong Kong dollar effective exchange rate index was relatively stable in the month of March, hovering around the 88 - 89 index level. Reversing its downward trend in the first two months of 1981, the Hong Kong dollar posted a 1.4% appreciation against the U.S. dollar in March, ending the month at HK\$526 / US\$100. Much of the gain can be attributable to the successive reductions in U.S. short-term interest rates. However, a strong resurgence of the local currency against the dollar is unlikely in the near future unless there is a tremendous improvement in Hong Kong's trade performance. The net depreciation of the Hong Kong dollar vis-a-vis the U.S. dollar in the first quarter of 1981 was 2.8%.

The Hong Kong dollar posted a 1.2% decline against the Pound Sterling in March, ending the month at HK\$11.880 / £1. This reduced the cumulative appreciation of the Hong Kong dollar in the first



quarter of 1981 to 2.7% vis-a-vis the Pound Sterling.

The Hong Kong dollar continued its upward trend vis-a-vis the Japanese Yen in March, appreciating by 2.1% during the month to close at HK\$2.50825 / ¥100. This represented a net appreciation of 4.8% for the first quarter of 1981.

Against the Chinese Renminbi, the Hong Kong dollar appreciated by 1.2% during March to a mid-rate of HK\$325.10 / RMB¥100. In the first quarter of 1981, the Hong Kong dollar has appreciated by 2.1% against the Chinese Renminbi, versus a 1.2% depreciation in 1980.

### SECURITIES

Stock market activities turned listless during March with share prices drifting lower across the board in moderate market turnover. The Hang Seng Index of Share Prices (1964=100) slipped 118.23 points to close the month at 1,369.65. This represented a cumulative loss of 7% from the year-end 1980 index level. Transactions volume amounted to HK\$9,094 million in

March, raising the total market turnover for the first quarter of 1981 to HK\$28,308 million. This represented an increase of 94% over the first quarter turnover of 1980, but was comparatively lower than the market turnover of HK\$42,173 million for the December quarter of last year.

### GOVERNMENT FINANCE

In February 1981 there was a transfer of HK\$2,735 million from the General Revenue Account to the Mass Transit Fund, bringing the total Government expenditure for the month to HK\$5,366 million. Government revenue, on the other hand, reduced by 33% during February to HK\$3,335 million, but was 30% well above the year earlier total. Actual Government revenue and expenditure for the first 11 months of fiscal 1980-1981 amounted to HK\$26,611 million and HK\$20,666 million, respectively, netting a budgetary surplus of HK\$5,945 million. The accumulated fiscal surplus of the Hong Kong Government stood at HK\$15,284 million on February 28, 1981, representing an increase of 62% over previous total.

## HONG KONG GOVERNMENT ACCOUNTS

(HK\$ Million)	Actual 11 Months Ending February 1981	Official Estimate Fiscal 1980 - 81	Official Estimate Fiscal 1981 - 82
Government Revenue	26,611	29,000*	32,524
Government Expenditure	20,666*	19,677	24,643
Budgetary Surplus		9,323*	7,881
Actual Surplus Carried Forward	5,945	6,000	7,826
Accumulated Fiscal Surplus	15,284	15,340	23,166

Note: Including a transfer of HK\$3.815 million to the Development Loan Fund and the Mass Transit Fund.  
 \*Including a net addition of HK\$2,735 million to total expenditure from the General Revenue Account.



# CITIBANK SPOTLIGHT



## THE CLOTHING INDUSTRY IN HONG KONG

Foreign trade is the mainstay of the Hong Kong economy. The value of total exports and imports taken together was HK\$209.9 billion in 1980 or about twice the size of Hong Kong's gross domestic product, at current market prices. Because of its heavy dependence on international trade, Hong Kong's nominal GDP advanced at much the same rate as its domestic exports, averaging 19% per year during 1971-80. In turn, the rate of growth of domestic exports has tended to be the same as the growth of clothing exports which still represented over 34% by value of total domestic exports in 1980.

Clothing industry is the largest manufacturing industry in Hong Kong, not only as a foreign exchange earner but also in terms of both employment and number of establishments. Clothing industry is heavily export-oriented and about 90% of its total production are for overseas sales. In September 1980, there were 8,991 establishments in the clothing industry, employing a total of 255,700 workers or 29% of total manufacturing workforce.

In terms of absolute amount of national accounting value added which measures the net contribution to the total output of all manufacturing industries, clothing industry accounted for 27% of the value added of all industry groups in 1977 (latest data available), compared with the relative shares of 16% for textiles and 13% for

electronics. An analysis of the inter-industry contribution indicated that outer garments have traditionally contributed more than 77% of the national accounting value added and about 60% of total gross output of the industry. The second major commodity group is the undergarments / nightgarments, contributing about 7% to the clothing industry, in value added terms.

Financial analysis based on reported data in the Official 1977 Census Industry indicated that the Gross Margin / Net Sales ratio of the clothing industry shifted upward from 34% in 1973 to 37% in 1977. However, operating expenses with labor cost accounting for 75% of the total, were on an upward trend, attributable mainly to higher payment for new workers against the background of a tight labor market condition in the manufacturing sector by the time. The profitability of the clothing industry, as measured by the Net Income / Net Sales ratio, was 6.4% in 1977, comparable to 7% in 1973.

An analysis of the cost structure of the clothing industry indicated that the costs of consumption of raw materials, fuels and industrial services traditionally account for over 60% of the total production cost. Logically, the import cost of raw materials is one of the key determinants affecting the profitability growth of the clothing industry. Thus, the clothing sector as a whole enjoyed comparatively higher profit margins un-

### FINANCIAL PERFORMANCES OF THE CLOTHING INDUSTRY

	1973	1974	1975	1976	1977	1973	1974	1975	1976	1977
	(HK\$ Million)					(Expressed as % of Sales)				
Net Sales	6000	7361	9558	12603	12964					
Cost of Goods Sold	3983	4935	6208	8005	8179	66.4	67.0	65.0	63.5	63.1
Gross Margin	2017	2426	3350	4598	4785	33.6	33.0	35.0	36.5	36.9
Operating Expenses	1607	1911	2612	3743	4173	26.7	26.0	27.3	29.6	32.2
Net Operating Income	410	515	738	855	612	6.8	7.0	7.7	6.8	4.7
Net Income Before Tax	424	515	738	877	827	7.0	7.0	7.7	7.0	6.4

Source: Census of Industry, 1973, 1974, 1975, 1976, & 1977.



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der a seller's market condition in 1975 and 1978, accompanied by relatively cheaper costs of imported raw materials. Labor cost accounted for another 25% of the total production cost in 1977.

Except for a 2.7% decline in clothing exports in 1977 due to sluggish demand in major overseas markets, Hong Kong's domestic exports of clothing have registered comfortable increases over the last decade. Since 1973, Hong Kong has been the world's largest exporter of clothing. In 1980, exports of all types of clothing increased by 16%, in value terms, to HK\$23 billion accounting for a 34% share of Hong Kong's aggregate domestic exports.

Broadly speaking, Hong Kong's clothing exports can be divided into five major product categories, namely, textile clothing, leather clothing, plastic clothing, fur clothing and clothing accessories. The top two items of textile clothing remained to be trousers and shirts which collectively accounted for some 36% or HK\$8 billion of total domestic clothing exports in 1980. Fur clothing exports from Hong Kong reached HK\$804 million in 1980, up 11% over 1979; export of fur clothing in 1971 was a mere HK\$1 million. Fur clothing, as most of other clothing items, is largely for export sales as further expansion of local sales is limited by climate conditions in Hong Kong. At present, over 70% of clothing exports are outerwear, whereas the market share of undergarments / nightgarments continued to account for 22% of the total.

About two-thirds of Hong Kong's clothing exports are traditionally accounted for by the top three markets, namely, the U.S.A., West Germany and the U.K. The U.S.A. has been Hong Kong's largest clothing export market ever since 1965 and its share in Hong Kong's clothing exports worldwide also increased steadily from 32% in 1976 to 40% in 1978 before falling back to 35% in 1980 due to the continuing efforts of local manufacturers towards market diversification. Indicative of Hong Kong's successive efforts in market diversification, clothing exports to other medium markets (those sharing between 1% and 3% of total clothing exports) have shown significant growth over the past few years. Compared with the 1979 export value, clothing exports to Switzerland, Saudi Arabia and France have achieved impressive growth rates in excess of 30% in 1980. These three markets collectively accounted for 5% of total domestic clothing exports in 1980; the comparative market share in 1979 was less than 4%.

At present, some 50% of total consumption of textile fabrics by the clothing industry are met by imports, partly due to insufficient production capacity of the local textile sector. Besides, the inability of the local textile sector to produce high quality piecegoods with standards coping with the requirements of the garment sector, too, make it necessary for increased textile fabrics imports. Major imports items of the clothing industry include woven cotton fabrics, woven man-made fibre fabrics and fabrics of silk. Hong Kong's imports of cotton fabrics and silk fabrics are placed chiefly with China, claiming respective shares of 30% and 60% of total import values of these two items.

Ever since the conclusion of the first restrictive arrangement governing Hong Kong's textile exports to the U.K. in 1959, there has been increasing protectionism in international markets over the last two decades. At present, textile trades between importing countries and exporting countries are governed by the Multi-Fibre Arrangement (MFA) which expires on December 31, 1981. Under the provisions of the MFA, Hong Kong has succeeded in concluding renewed agreements with the U.S. and the EEC member countries in late 1977. These renewed agreements which provide predetermined growth in Hong Kong's clothing and textile exports are valid for five years beginning January 1, 1978 until the end of 1982. 1980 was the third year of the current HK / US and HK / EEC textile agreements. Clothing exports to these two market outlets increased by 14% to HK\$17 billion in 1980, accounting for 74% of the global export total of clothing. Garment and textile exports to Australia, Switzerland, Finland, Sweden and Canada are governed by separate bilateral agreements.

According to an official survey "Hong Kong's Economic Prospects 1981", export sales for the clothing industry are anticipated to increase by 2% in 1981, in volume terms, against a 6% expected growth in local demand. West Germany will be the major source of the anticipated increase in overseas orders. The same survey indicated that the employment growth in the clothing industry should register a 2% increase in 1981, with the wage rates for operatives averaging 9% higher than those in 1980.

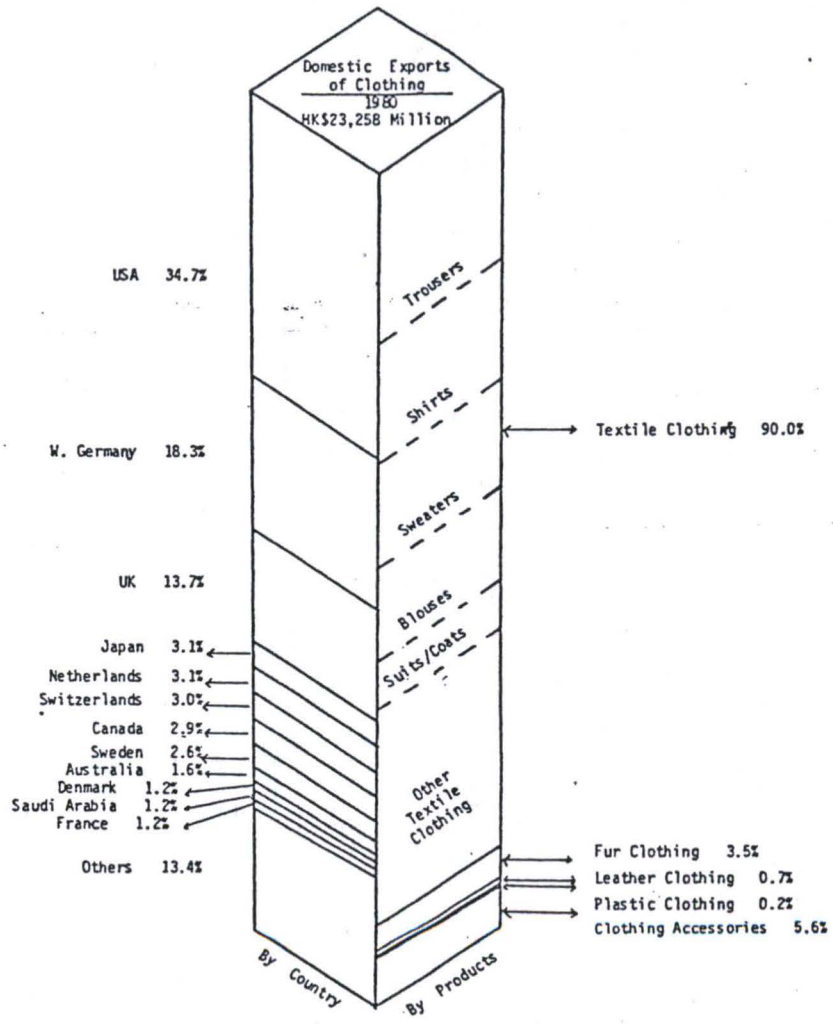
In light of the keen competition in exports of textile fabrics to major developed importing countries, most of the top-tier textile setups in Hong Kong has been aggressively diversifying out of the production of textile fabrics into high-quality clothing. Since other neighbouring coun-



tries continue to invest heavily on textile fabrics production, whereas Hong Kong has gradually been moving up to the high-end of the market, the leading position of Hong Kong's garment exports in international markets is expected to remain unchallenged in the long run despite the fact that the volume of garment exports in next few years will depend crucially on the foregoing negotiations under the Multi-Fibre Arrangement.

Another major factor determining the future development of the clothing industry is the mobility of labor. Labor cost accounted for over 60% of total census value added in 1977 for the

clothing industry. Increased payment for labor costs in the near future will cut sharply into the profit margins of the clothing industry. In order to maintain stable rates of return, the garment sector will have to continue their trading-up process to produce high value-added and good quality products and be flexible and adaptable to new market trends. In this aspect, overseas market researches should be conducted to facilitate the production and selling technique. Product diversification within the clothing sector has been carried out and continuing improvement in quality control will assure the competitive edge of Hong Kong's garment exports in the long run.





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## SELECTED ECONOMIC STATISTICS

### FOREIGN TRADE (HK\$ Million)

	1980			1981			%Change in	
	Jan	Feb	Jan- Feb	Jan	Feb	Jan- Feb	Feb '81 over Feb '80	Jan-Feb '81 over Jan-Feb '80
	Total Exports	7044	5919	12963	9674	6816	16490	+15.2
-Domestic	4997	4131	9128	6346	3938	10284	- 4.7	+12.7
-Re-Export	2047	1788	3835	3328	2878	6206	+61.0	+61.8
Imports	8132	7124	15256	10685	9091	19776	+27.4	+29.6
Trade Balance	-1088	-1205	-2293	-1011	-2275	-3286		

### TRADE WITH USA (HK\$ Million)

	1979		1980		1981		%Change in	
	Dec	Jan- Dec	Jan	Dec	Jan- Dec	Jan	Jan '81 over Jan '80	Jan-Dec '80 over Jan-Dec '79
	Total Export	1927	20792	1701	2182	25677	2593	+52.4
-Domestic	1760	18797	1515	1855	22592	2222	+46.7	+20.2
-Re-Export	167	1995	186	327	3085	371	+99.5	+54.6
Imports	902	10365	873	1245	13210	1120	+28.3	+27.5
Trade Balance	1025	10427	828	937	12467	1473		

### BANKING STATISTICS (HK\$ Million)

(End of Period)	1980			1981		%Change in	
	Jan	Feb	Dec	Jan	Feb	Feb '81 over Feb '80	Dec '80 over Dec '79
	No. of Licensed Banks (Operating)	106	106	113	114	115	+ 8.5
Total Bank Deposits	70063	70065	88490	92689	92185	+ 31.6	+ 30.2
-Demand	13853	13493	15752	16551	14535	+ 7.7	+ 16.1
-Time	23071	22473	29929	34301	36149	+ 60.9	+ 41.4
-Savings	33139	34099	42809	41837	41501	+ 21.7	+ 28.7
Amount due to DTCs	21641	23006	28992	28435	31467	+ 36.8	+ 44.8
Bank Loans & Advances	86928	90791	124403	130935	133821	+ 47.4	+ 49.9
-Domestic Loans	66223	69306	94970	100830	103335	+ 49.1	+ 52.6
-Offshore Loans	20705	21485	29433	30105	30486	+ 41.9	+ 41.7
<u>Domestic Loans</u> % Deposits	94.5	98.9	107.3	108.8	112.1		
Amount due from DTCs	11323	11983	20790	20224	20553	+ 71.5	+ 81.4
Currency in Circulation	9524	9888	10464	12121	10823	+ 9.5	+ 19.1
Money Supply, M <sub>1</sub>	21226	21647	24124	26607	23615	+ 9.1	+ 15.7
Money Supply, M <sub>2</sub>	77436	78219	96862	102745	101265	+ 29.5	+ 28.7
Average Liquidity (%)	53.6	53.6	48.4	46.3	46.1		
No. of Registered DTCs	272	272	302	312	317	+ 16.5	+ 12.3
Deposits	27596	29551	42716	43685	46488	+ 57.3	+ 74.4
Loans & Advances	37742	39060	59549	62504	64780	+ 65.8	+ 55.4
-Domestic Loans	14552	15304	29317	30965	31454	+105.5	+116.1
-Offshore Loans	23190	23756	30232	31539	33326	+ 40.3	+ 22.0
Money Supply, M <sub>3</sub>	105032	107770	139578	146430	147753	+ 37.1	+ 39.9
Total Deposits of Banks & DTCs	97659	99616	131206	136374	138673	+ 39.2	+ 41.9
Total Domestic Loans of Banks & DTCs	80775	84610	124287	131795	134789	+ 59.3	+ 64.0