

THE ECONOMIC RELATIONS BETWEEN HONG KONG  
AND THE WEST EUROPEAN NATIONS  
IN THE 1980's

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I

Ever since Hong Kong became a Crown colony of Great Britain some 138 years ago, Hong Kong has developed into an important entrepôt not only for the United Kingdom but also for other Western countries. The entrepôt role dominated the Hong Kong economy until the early 1960's when Hong Kong began to undergo a dramatic transformation to become a most important exporting centre<sup>1</sup>. At present, in terms of trade volume Hong Kong ranks 18th in the world. This miraculous economic growth has undoubtedly intensified the economic relations between the EEC and Hong Kong in the past three decades.

In addition to the traditional role of entrepôt, Hong Kong has been an important outlet for many industrial products from the EEC countries on the one hand and the EEC countries have become the major markets for Hong Kong products on the other. With the inception of the four-modernizations programme in the People's Republic of China, China has become the New Trade Frontier and Hong Kong's traditional role as an entrepôt has gained its all-time importance.

As the technologically advanced EEC countries will actively participate in China's modernization programme, Hong Kong will benefit from its role as an entrepôt not only for goods transactions but also for capital flows between the EEC and China in the years to come.

## II

Although Hong Kong experiences a chronic deficit in her overall visible trade, her trade balances with the EEC countries were systematically in surplus during the 1970's. For instance, in 1970 Hong Kong's total trade deficit stood at HK\$ 2.4 billion but her trade balance with the EEC enjoyed a \$ 50 million surplus. Especially the surplus in the trade with the Federal Republic of Germany was as high as \$ 357 million. In 1978, the surplus in the visible trade with the EEC increased to \$ 2.7 billion, of which about \$ 2.6 billion originated from West Germany alone. But the trade relations vary from one country to another among the EEC. While Hong Kong's trade with West Germany, U.K., Netherland and Denmark have always been in her favor, her trade with Benelux, France and Italy has suffered a chronic deficit. The combined domestic exports from Hong Kong to the EEC countries accounted for about 29 % in the early 1970's; the share dropped to 25-27 % in the mid 1970's and reclinced up to 29 % in 1979. With about 11 % share in Hong Kong's total domestic exports, West Germany has constituted the most important European market for Hong Kong products since 1975. Closely following West Germany is the U.K. market, with its share being around 10 % in 1979. After U.K. come France, Holland, Italy, Belgium/Luxemburg, Denmark and Irish Republic; the combined share in the Hong Kong's exports for these countries is around 8 %.

One distinctive feature of the trade between Hong Kong and the EEC countries is the high degree of complementarity. While Hong Kong exports to the EEC countries such manufactured goods of light industries as apparel, clothing accessories, electronics and electrical apparatus, plastic toys etc., Hong Kong imports from these countries mainly electrical machinery, chemicals, raw materials, road vehicles, textile yarn and many quality consumer goods. A very large portion of the imports has been related to machinery, equipment and raw materials which are used as production inputs of the local industries, whose output is mainly composed of consumer goods, about one third of which are shipped to the EEC markets.

Historical data show that Hong Kong's domestic exports to the EEC have grown at 28 % annually<sup>2</sup>. Assuming that the average annual growth rate will maintain at the level of 20 % during the 1980's, the combined exports to the EEC would reach about \$ 40 billion by 1985 and about \$ 100 billion by 1990. On the other hand, imports from the EEC have grown at 14 % per annum. On the assumption that the growth rate of the Hong Kong economy can be maintained at 8-9 % and the growth rate of its imports from the EEC at 14 % per annum in the next decade, then the combined EEC's exports to Hong Kong would reach \$ 22 billion by 1985 and \$ 44 billion by 1990. Thus Hong Kong's surplus in her trade with the EEC would be steadily increasing in the 1980's.



The successful penetration of the West European markets by the Hong Kong industrial products has been an essential factor for the rapid development of the Hong Kong economy after World War II, which was largely export-propelled. However, flooding the EEC markets with the manufactured goods, especially garments and textiles from Hong Kong and other newly-developed countries in the Far East such as South Korea, Taiwan and Singapore, has caused considerable difficulties to their domestic competing industries, notably textiles. Although the governments of the major EEC countries, like U.K., West Germany, France, Italy have introduced the so-called "Adaptation Subsidy Scheme" to facilitate and smooth out the restructuring process of their domestic industries, these governments, being subject to pressure from domestic interest groups, have frequently invoked, with or without justification, the safeguard Article XIV of the GATT<sup>3</sup> to protect their domestic competing industries, which are basically cost-ineffective. Consequently, the restructuring process of the industries in these countries has been artificially impeded. This strong trend of protectionism has proved to be a main hindrance to the further expansion of the textile and clothing industries in the newly-developed countries, especially Hong Kong.

As the adaptation process is lengthy and painful, I think the protectionistic mood in the European countries is likely to continue to prevail in the early part of the 1980's. Under this circumstance, the further diversification of the Hong Kong industry is therefore imperative in order to sustain the dynamics and momentum of Hong Kong's economic performance in the future. If the various recommendations, as put forward by the Advisory Committee on Diversification in its Report released recently are successfully implemented, the Hong Kong economy will in future depend to a lesser degree on the textile and clothing sector (which is the *prima facie* target of the protectionistic movements in the Western industrialized countries), and the local industrial production will be moving up-market, producing higher quality products which are free from quota restrictions. In this perspective, and under the assumption that the diversification effort will bear fruition in the medium range future, I foresee that in the later part of the 1980's the present frictions relating to the visible trade between Hong Kong and the EEC countries will largely be removed.

### III

In the last two years, there has been a resurgence of Hong Kong's re-exports. The increased transshipment activities certainly have something to do with the post-Mao liberalization of China's trade policy. In 1979, the total re-export reached an estimated figure of HK\$ 20 billion, representing an increase of some 52 % over the previous year. The bulk

of Hong Kong's re-exports went to the U.S.A., Japan, Taiwan, Indonesia and Singapore, and only a relatively small fraction of 8 % of her re-exports had reached the destinations in the EEC region, mainly U.K. (around 1.4 %), West Germany (2 %), France (1 %) and Netherlands (0.6 %); but the EEC countries have been one of the major sources of Hong Kong's re-exports besides China. In 1979, around 12 % of Hong Kong's re-exports originated from there. We expect that the transshipment volume through Hong Kong in the 1980's will expand substantially due to the following reasons.

Firstly, China has launched the four-modernizations programme, whose successful implementation will necessarily require a massive import of capital goods from the advanced industrialized countries, and an estimated 20 % of the imports will come from the EEC region. The China-EEC trade agreement of April 1978, and the China-EEC textiles agreement of July 1979, have resulted in increased trade volume between the West European countries and China. As trade volume grows, Hong Kong's transshipment activities will naturally expand as well.

Secondly, the Far East economic region has become and will continue to be the fastest growing region in the world. On the one hand, besides Japan and Hong Kong, the three newly developed countries South Korea, Taiwan and Singapore have already developed their industrial foundations and their growth momentum will continue into the 1980's; on the other hand, the economies of the ASEAN countries, richly endowed with natural resources, will also experience rapid growth in the 1980's and their trade volumes will increase drastically. Since the Far East region has (excluding China and North Korea) a population of more than 400 million, a rapid economic growth in this region will generate a great quantity of imports from the EEC, capital goods as well as quality consumer goods, and the region will export a variety of light industry products in addition to the raw materials, fuels, timbers, olive oil and other natural resources to the EEC countries.

With Hong Kong's port facilities, efficient telecommunication and banking facilities, her excellent commercial network as well as her unique strategic location, the Hong Kong cargo transshipment business is bound to benefit greatly from the anticipated growth in the trade volume between the EEC and the Far East.

#### IV

The relations between the EEC countries and Hong Kong will be further strengthened in the 1980's by the timely development of Hong Kong into a very important financial centre in the Far East. At present, there are



already 115 licenced banks in Hong Kong, and 62 of them are incorporated outside of Hong Kong; 20 of the foreign banks have their headquarters in the EEC region. These highly developed banking facilities will definitely play a significant role in arranging the much needed credit for China to implement her modernization programme. It has been estimated that between 1979 and 1985 the total investments needed to finance China's modernization plans could reach as high as US\$ 1 trillion<sup>5</sup>. Capital equipment imports from the West could amount to US\$ 30 billion in these years, about 20 % of which will be provided by the EEC countries. It is reasonable to say that a sizable share of all these funds will be channelled to China through Hong Kong's banking system. So, in addition to the traditional remittances by the overseas Chinese, the banking system will transmit a great amount of funds from the West into China in the years to come; and as such, Hong Kong will become an entrepôt not only for the transshipment of visible goods but also for the transfer of capital funds between the East and the West.

#### Notes:

- 1) An overall evaluation is given in: T. B. Lin, R. P. L. Lee and U. E. Simonis: *Hong Kong. Economic, Social and Political Studies in Development*, White Plains: M. E. Sharpe Inc., Folkstone, Kent: Dawson and Sons Ltd., 1979.
- 2) Cf. T. B. Lin, R. P. L. Lee and U. E. Simonis, *op. cit.*, pp. 225-273, and pp. 297-331.
- 3) This article enables a member country to impose quantitative restrictions on imports which have caused, or threaten to cause, serious injury to its domestic industry.
- 4) The Hong Kong banking system has e.g. been analyzed by Y. C. Jao: *Banking and Currency in Hong Kong*, London: Macmillan, 1974.
- 5) In 1979, China's foreign borrowing arrangements were in the order of around US\$ 30 billion.