

S.L.M.P.
27 December, 1976

1977 trade prospects — leaders are optimistic

By **DENDE MONTILLA**
Business Editor

When the last shipments of Hongkong manufactured goods are entered into the books of the Government, 1976 will prove to be a record year for domestic exports, in dollar terms and percentage growth.

Hongkong will show that it had ridden out smoothly various problems which threatened to set back industry and trade during the year — the growing protectionism in major importing countries, the sharper competition from neighbouring producers, the labour shortage and higher wages, the drastic changes in buying trends round the world, heavily affecting the garment industry in particular, which led the export-oriented recovery of the economy.

Estimates by industry and trade leaders place the growth rate of domestic exports this year at just a shade below 30 per cent to a maximum of 35 per cent.

The leaders remain optimistic over trade prospects in 1977. But their growth predictions for the Year of the Snake are slightly lower than those for 1976.

In their view, the old problems remain. But some new ones have been added. One common concern revolves around the series of labour legislations the Government is planning.

While the various industries may not fare equally well next year — garments, toys, electronics and watches are expected to maintain their strength — early estimates are for a growth in exports ranging from 10 to 23 per cent over an outstanding 1976.

In a series of interviews, the leaders explain their views:

Mr Jimmy McGregor,
Director, Hongkong General Chamber of Commerce:

The New Year will, in my view, be another good year for Hongkong trade and industry. Although it is always dangerous to predict trade movements in fairly precise terms, I am prepared to stick my neck out and suggest that our export trade for the year will be higher in the range of 18 to 23 per cent by value.

Our imports and re-exports should show corresponding increases and our employment situation will remain good with sufficient jobs for everyone during the year.

I think the inflation rate will probably increase but perhaps not too significantly. A good guess might be six per cent.

Much will depend on the two major markets — the United States and West Europe — the key market being the U.S. The chamber has just conducted a detailed survey of business and industry and we shall be publishing the results soon but the overall opinion seems to be favourable.

One of our problems might be the continuing economic difficulties in certain parts of Europe — Britain, France, Italy — which could have a cumulative effect on the other European economies and some trade effect, therefore, on Hongkong and other suppliers.



Mr McGregor

We shall also face demand from labour for increases in wages. This is fine provided the increases are not unreasonably high, especially since our products are no longer the automatic choice of buyers on the basis of price alone.

Competition will certainly increase during 1977. The industries, in my view, likely to do well are garments, electronics, toys and some of the metal industries. I hope we will also see some new industries locating on our first industrial estate at Taipo.

Mr Y. C. Chen, Chairman,
Hongkong Cotton Spinners' Association:

By and large, the cotton spinners of Hongkong do not anticipate any substantial change in the coming year with respect to the volume of sales as compared with their 1976 performance.

However, considering the prospect of raw cotton prices continuing to hold firm at the present high level and outdistance yarn prices, the profit margin of the spinning industry in 1977 is likely to dwindle, probably in many cases to the vanishing point.

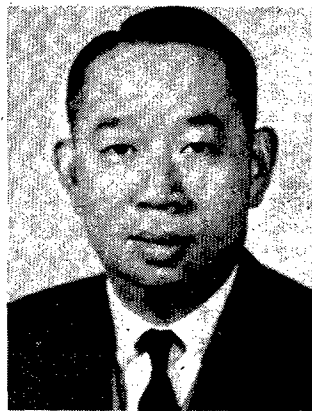
This will hold true even though it is expected there will be a gradual increase in the use of man-made fibres to blend with cotton.

The prospective unsatisfactory cost-price situation, serious enough as it would be to any manufacturer, is moreover being overshadowed by the emerging chain of events arising from the manifest shifting of emphasis in Government policy.

What has caused grave concern to the textile industry is the spate of new labour laws introduced with scant regard to their impact on the producers while they are engaged in a hard struggle in competing with their low-wage counterparts in the adjacent countries, on the one hand, and in fighting against the gathering force of protectionist sentiment in many major importing countries, on the other.

Even more important, the sudden adoption of a string of rigid regulatory measures looks like only a foretaste of what may possibly follow up in the near future. This, despite the harmonious labour-management relations which have basically contributed to the steady growth of Hongkong's industrial productivity.

If Government policy is seen to be heading toward the rapid multiplying of regulatory control, the resulting apprehension and uncertainty can quickly lead to the loss of business confidence, even to the extent of discouraging investments and re-investments in Hongkong.



Mr Chen

Mr Stanley Young,
Executive Director, American Chamber of Commerce:

The U.S. presence in Hongkong continued to expand in 1976, not only in terms of trade performance but also in investments in Hongkong's manufacturing industry.

For the first nine months of 1976 compared to the same period in 1975, exports to the United States were up 62 per cent in value, re-exports 71 per cent and imports increased 39 per cent. The United States is Hongkong's largest trading partner; comparative percentage of market figures for the same periods show the United States taking 34.8 per cent of exports compared to 31.6 per cent for the earlier period, 9.8 per cent of re-exports versus 7.4 per cent and supplying 12.4 per cent of imports as opposed to 11.9 per cent a year ago.

Exports of clothing were 66 per cent higher.

The 1976 improvement in manufacturing investment is equally impressive. Thanks mainly to the completion of Dow's polystyrene plant, Government's November 30, 1976 "Overseas Investment in Hongkong Manufacturing Industry Breakdown by Source" figures credit the United States with 52.6 per cent of such investment compared to 47.5 per cent a year ago.

These figures do not include Esso's enormous investment in Peninsula Electric Power Ltd. (60 per cent Esso, 40 per cent China Light and Power), Mobil's total investment of \$600 million in Mei Foo Sun Chuen, six U.S. banks serving nearly 10 per cent of the market, dozens of representative banking offices, finance companies and merchant banks, a major insurance presence, major airlines, shipping companies, worldwide public accounting firms — the list is endless.

There had been a healthy increase in the number of tourists from the States.

So anyway you look at it American participation in its many forms is basic to the continued success of Hongkong's economy.

In 1977 I forecast a continued increase in American trade, investment and tourism — but at a considerably lower percentage rate than 1976, if only because 1976 was such an outstanding year.

I see no major problems with the textile quota system but do suggest a continuing and increasing need for Hongkong to concentrate on producing higher quality product; the Korea and Taiwan competition is tough — and will be getting tougher.

Also it should be noted that at such time as relations between the People's Republic and the United States are



Mr Young



Mr Sousa

normalised, China will no longer be under a tariff disadvantage and then possibly become a new major competitor.

I do not anticipate any meaningful change in United States-Hongkong relations under the President-elect, Mr Jimmy Carter's administration. The press indicates he will endeavour to stimulate the American economy and this should help the stateside retail market.

American businessmen are concerned over the continuing presence in the American Congress and Senate of many members who can only be defined as anti-big business, and there is a continued need for "less Government in business and more business Government."

And it is to be hoped that the new President can be successful in practising operating economics in Washington and reduce the bureaucratic presence.

There is a real need for Washington to appreciate the contribution made by American business abroad and to eliminate such artificial barriers as pernicious tax treatment of American expatriate businessmen.

I could go on but in summary I think that the Year of the Snake in wine vintage term will be a very good one, but not great.

Mr J. P. Lee, Secretary General, Chinese Manufacturers' Association:

In the first nine months of 1976, exports rose by 46 per cent compared with the same period in 1975. While growth has stabilised by the latter part of the year, there is no indication that trade will return to the depressive state of two years ago. Orders books are generally three months full, and in some cases they extend to six months.

Forecasts suggest moderate growth in national income in our major markets next year, and Hongkong should be able to share the benefit of steady development.

Garments, electronics and watches have fared very well this year, and it appears likely they will maintain a satisfactory increase in trade, unless protectionist measures artificially restrain their potential, as is happening in textiles in certain markets.

Hongkong should contain inflationary pressures brought about by factors both domestic and abroad. The remarkable trade performance of some developing countries in 1976 such as Taiwan and South Korea should warn us sufficiently that we must not be complacent: the private sector should endeavour to improve production and marketing and the public sector should not be

over-confident of Hongkong's "flexibility and resilience" so much so that public policies would undermine ultimately our economy.

While a rising living standard in general is an objective, public policies should avoid the temptation of underrating the importance of producing wealth.

We have been legislating to increase production cost and cut our own flexibility, and further burdens will severely impair our ability to produce and to compete.

Mr Nelson Sousa, Chairman, Hongkong Exporters' Association:

This year is one of Hongkong's record years. During the first four months of 1977, our factories are well covered. I have just returned from Europe where I learned that many had bought short, purchasing about two thirds of their requirement.

Buyers will be coming to Hongkong in January to buy for summer and spring.

Sales reports during the holidays in the United States and Europe will have a big bearing on future orders. In the U.S. sales were quite encouraging and that will help bring the buyers to Hongkong.

No information has yet come in from Europe regarding Christmas sales. But we are expecting a large number of buyers in January, as by then they will have known what their position is.

There are several factors which will influence Hongkong's trade growth. The oil price increase will indirectly affect our industry. This may mean an increase in production cost of two to five per cent, depending on how much oil the particular industry uses.

The imposition by Canada of global quotas on garments and its abrogation of our textile agreements is unfortunate. This must be settled quickly otherwise other countries will be encouraged to take the same action.

In Hongkong, we are faced with labour laws. People feel that there should be freedom of choice whether to work or not. What is dreadful is the prospect of compulsory paid holidays which will affect us quite a bit as our main wealth is in our human resources and we must export to survive.

Why discriminate against industry which is the lifeline of the economy? It appears that the proposed legislation does not cover the retail trade, for instance.

It there are no further increases in oil price, our exports will maintain a slight growth of five to 10 per cent in 1977. My prediction for the whole of 1976 is a growth of above 25 per cent, or even close to 30 per cent.