

Hongkong-made products: business is good.

ECONOMIES

A reprieve from recession

Good fortune, as much as official policies, must get the credit for Hongkong's remarkable gains, but there is reason to worry.

By Anthony Rowley

Hongkong: Exports have performed remarkably well so far in 1980, helping to keep Hongkong's trade deficit within manageable proportions and to put the economy as a whole in somewhat better balance. This, claims Financial Secretary Sir Philip Haddon-Cave, is a vindication of his laissez-faire approach to economic management.

In his half-term review of the economy on September 12, Sir Philip suggested that the "remarkable" (though also somewhat mystifying, as he admitted) buoyancy of exports "is a tribute to our free enterprise economy and, of course, is a vindication of the government's non-interventionist policy stance — a stance which is not always understood or appreciated."

It was a neat apologia by the financial secretary though he might equally well have thanked good *feng shui* (luck) and the policies of Chinese Vice-Chairman Deng Xiaoping. Luckily, Hongkong's exports to the United States have held up surprisingly well while China's foreign trade growth has fortuitously boosted Hongkong's entrepôt function.

Domestic exports grew by 33% in value terms in the first half of 1980 and by 18% in real (inflation-adjusted) terms, thanks mainly to a 20% real growth in exports to the all-important US market. "It is difficult to explain the strength of our performance in the US market," Sir Philip conceded frankly, "but the rundown of inventories held by importers and wholesalers in 1979 and a switch to more competitively priced

products must have exercised some influence."

But exports to Hongkong's two other main markets, West Germany and Britain, were "more consistent with prevailing economic conditions" — in other words, sluggish. And the financial secretary does not expect demand from the US for Hongkong goods to remain buoyant. "The state of order books at present is not particularly promising and seems unlikely to improve given the impact on personal disposable incomes of the negative growth rate of the US economy in the second quarter of 1980 and the likelihood that demand for non-



Sir Philip: remarkable, mystifying.

durable consumer goods will fall off as the economy moves into the later stages of recession."

Moreover, imports of the Organisation for Economic Cooperation and Development (OECD) countries as a whole are forecast to grow by only 1.5% this year against 8% in 1979 as the economic growth of this group falls, from 3% to 1-1.5%. All this suggests that the impact of international recession has yet to bite, not that Hongkong's exports have already weathered the storm.

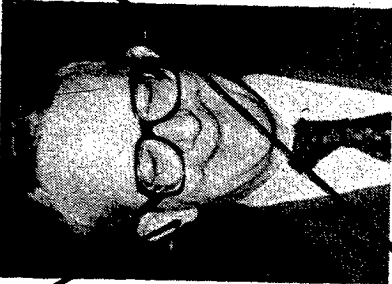
Re-exports from Hongkong, meanwhile, grew by 44% in money terms during the first half of 1980 and by 29% in real terms, thanks largely to the re-emerging entrepôt trade with China. This chance development (certainly one attributable more to China's planned policies than to Hongkong's hands-off stance) means that Hongkong's re-exports are likely to grow by no less than 27% (at constant prices) in 1980 to just over HK\$15 billion (US\$3 billion) where they will be equivalent to 39% of domestic exports (HK\$38.9 billion).

Thanks too to this rapid growth of re-exports, overall export growth should remain ahead of the projected strong growth (17%) in imports (to HK\$60 billion). So, the visible trade "gap" — a term the financial secretary insists on using, and which measures the trade deficit as a proportion of imports rather than in absolute terms — looks like narrowing this year instead of widening as Sir Philip forecast in his February budget. This is just as well given that Hongkong's invisible earnings look like growing only by a modest 4% in real terms (to HK\$5.8 billion) in 1980 because of an unexpected drop in the number of tourists coming here and an increase in the number of Hongkong residents travelling abroad.

Hongkong can hardly expect to avoid higher imports. They are part of the price to be paid for higher exports, largely because of the need to import raw materials and capital goods to produce domestic exports; even more so now that re-exports figure so large in the total trade picture. But the fact that demand for imports of consumer goods is building up again (after being dampened by the rising value of the Hongkong dollar) is not a favourable portent.

The upshot of the export-led growth in the first half of 1980 (plus a sharp, 25% rise in investment in plant and machinery expected this year) is that the financial secretary has marginally revised upwards his estimate of overall economic growth (in gross domestic product — GDP) this year to 10% compared with 9% forecast at the budget and 11% achieved last year.

That is an impressive enough target by international standards but the 14% inflation in the consumer price index (CPI), as against 13% forecast at the budget, that is expected to come as part and parcel of this growth is uncomfortably high, at least by Asian standards (see page 115). CPI inflation in Hongkong has accelerated from a rate of 5.8% in 1978 through 11.6% in 1979 and now is set to go to 14% — slightly



SIR PHILIP

Increase in land supply will lead to slowdown in spiral - Sir Philip

GOVT VETROLES RENT CONTROLS

THE financial secretary yesterday flatly denied the Government would control rent increases for commercial and industrial properties.

In a statement which will draw sighs of relief from property companies and further dismay the small businessmen now rallying to the cause of rent control, Sir Philip

by **Les Nicholls**
Business Editor

Haddon-Cave said the Government has no intention of holding down rent increases in the commercial and industrial sectors as it has with residential properties.

Speaking in a panel discussion following a speech on inflation in

Hongkong, Sir Philip said Government action to increase the supply of land suitable for shops, offices and factories would, over the next few years, lead to a slowdown in rent increases.

In presenting his paper earlier at a seminar on Living With Inflation, he said there are limitations on the scope for directly controlling inflation. But he also indicated that the Government would not remain entirely passive in its effort to restrain inflation.

Sir Philip said office space coming on to the market this year and in 1981 would increase the accommodation available at the end of 1979 by 35 per cent or 760,000 square metres.

"...and so, in all logic, and stress, in all logic, the rates of increase in prices and rentals should slow down," he added.

Sir Philip calculated that prices for good office space in Central had recently increased by almost 40 per cent a year while rents had gone up by about 16 per cent a year.

"Compared with residential and commercial property, the purchase prices and rentals for industrial property increased less rapidly between 1977 and 1979," Sir Philip said. He attributed this to the more stable demand for factory space.

"To the extent that prices and rentals of some factory space have risen quite sharply recently, along with a high level of vacancies, this reflects a mismatch in respect of types and locations," he said.

However, Sir Philip did not specify just how the Government could correct this "mismatch" or, in fact, whether the Government intended to take any action.

Addressing the topic of public policy and inflation, the financial secretary said the Government "always considers the possible inflationary impact of its policy decisions, particularly those involving expenditure and, over time, has tried to ensure that the relative size of the public sector has been consistent with the economy's capability.

"Indeed, I would argue that there has been an anti-inflationary element, implied or explicit, in various policy decisions taken by the Government in recent years," he said.

Sir Philip said there would be no Government action which would involve abandoning, even in part, Hongkong's commitment to free trade and to the free flow of exchange funds.

"This would...
Turn to Page 10 Col. 9

"These increases have been generated by buoyant business conditions in general and by the rapid expansion of the tertiary services sector in particular, together with the prospects perceived by many foreign firms for trading with China, which have induced them to set up representative offices in Hongkong," he said.

He also admitted that the effect of the increased demand had been intensified by the small amount of office space completed in 1978 and 1979.

Shop rentals had increased by about 15 per cent yearly, Sir Philip said, and he expects the rate of increase to be much higher this year.

However, here again, he promised relief through a substantial increase in supply.