

# Aid policy for industry <sup>B Choi</sup> needs changing

**SHOULD** the administration opt for a greater degree of economic intervention than at present? That is the long-standing issue dividing Officials and Unofficials in the Government.

Fresh attention was focused on the subject during last month's Legislative Council debate on the Governor's policy speech.

In that address, Sir Murray MacLehose painted a rosy picture of our present and future economic prospects.

However, several Unofficials challenged his assessment. They expressed fears that it was too optimistic.

And because of such fears, some repeated the call for a greater degree of intervention by the Government than at present.

But such calls again received little official support. This was only to be expected, given an administration which has remained a staunch defender of its so-called policy of "positive non-interventionism."

However, both time and conditions have changed. Positive non-interventionism might have worked well in the past. But it may prove inadequate in ensuring our economic well-being in the near future.

The Government can ill afford to stay aloof to the pleas in the Legislative Council for positive means to help our manufacturing industry which employs about 42 per cent of our 2.4 million workforce.

The importance of this sector is self-evident. Therefore there should be little need for convincing the Government that the views of Unofficials on the subject deserve the widest support and consideration.

Let us examine some of the views and suggestions made by the Unofficials and the disappointing response they have received from the administration.

Mr Stephen Cheong, an industrialist, reported among other things a growing reluctance among many manufacturers to increase their investment in plant and equipment. He said: "This is worrying, partly because it will retard the pace of our response to any revival in demand in our overseas markets, and partly because it will slow down the rate at which our manufacturing output moves up-market."

"I can only hope that this reluctance is shortlived. If it persists, it will definitely have far-reaching consequences for the growth rate of our economy."

To help the manufacturing industry, Mr Cheong asked that serious consideration be given to:

- Short-term loans and advances for business activities associated with the manufacture of goods, against which letters of credit or firm overseas purchase contracts have been placed.

- Longer-term loans associated with investments in new plant and equipment.

Mr Cheong said a two-tier system of interest rates is not without precedent in Hongkong. He urged the Government to take the lead by initiating consultations with the various organisations representing manufacturing interests and our financial institutions.

He pointed out that a meaningful two-tier system of interest rates already exists in South Korea, Taiwan and Singapore — which are among our closest competitors — in support of their export-oriented industries.

Miss Maria Tam, another

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lobbyist for the manufacturing industry, rightly observed that a fatal blow to this sector, which provides most of the jobs, will have far-reaching consequences on the livelihood of the population.

The Government's "free economy" and "non-intervention" policies, according to Miss Tam, seem to have led to the present state of "confusing non-policy" and thrown the medium and small manufacturers into utter chaos.

Said Miss Tam: "Our efforts in diversification have been thwarted by high land prices which pushed the cost of setting up new factories to such high levels.

"Since 1978, small factories, which were recognised to have been a big contributory factor to Hongkong's industry and standing at some 37,000 establishments, have not received any assistance in technology or factory land."

Miss Tam called on the Government to allocate land to establish industrial estates for small factories to enable their owners to acquire their own factory premises.

Only then, she said, would they be confident about making long-term investments. Within practical limits, she said, aid should be extended to medium and small industries by setting up the following:

● A body which will study as soon as possible how a concessionary interest rates scheme could be best run for the benefit of medium and small industries.

● A longer term scheme featuring an industrial aid agency, similar to what the Agriculture and Fishery Department has done, which will give aid and advice to medium and small industries with regard to the four basic factors of production — land, labour, capital and organisation and management.

Another Unofficial, Mr S.L. Chen, had spoken on several occasions over the years on ways in which the Government could assist industry.

In his speech to Legco last month, he welcomed the recent lead taken by several financial institutions in offering industrial borrowers preferential interest rates to assist in the purchase of raw materials and essential items.

He hoped that such a step would also inspire more substantial and meaningful assistance from the Government — possibly taking the form of long-term low-interest credit facilities for the purchase of capital plant.

Governments of many developed and developing countries, he observed, have accepted the responsibility for providing similar credit facilities to assist their industries.

"The Government of Hongkong should do likewise for it alone can provide such facilities to help finance capital intensive industries which Hongkong must have if it is to move up-market," he said.

From Mr Wong Po-yan came a plea for providing sites for those industries which cannot compete for them in the open market but whose existence is desirable

for social considerations. "Probably the provision of more public industrial buildings," he said, "may be one of the answers for the small size factories, especially those which have to be cleared from Crown land required for development."

Mr Wong called on the Government to consider carefully two proposals from various quarters:

● Using part of our surplus, say \$3 billion, to set up a central fund for providing low-interest loans, administered through the banking network, to certain categories of manufacturing industries and to finance important industrial projects.

● Permitting payment by instalments at a lower interest rate for auctioned industrial lands specified for industrial use only by the manufacturer-purchaser for a minimum of, say, 10 years, on condition that they cannot be re-sold in the open market.

In response to the points made by Unofficials concerning the state of the economy, the Secretary for Economic Services, Mr David Jeaffreson, argued that in the present circumstances it is correct to be optimistic in the sense that a realistic assessment of the facts does suggest that our economic performance not only will improve, but is already improving.

In other words, he agreed with an Unofficial, Mr Bill Brown, that "there is growing evidence that market forces are producing their own solutions."

On the proposals from the Unofficials for changes in our economic policies, Mr Jeaffreson admitted it would not be surprising that he is less persuaded than their proposers of the need for change, because he is not as gloomy as they are about the economy.

One broad category of proposed policy changes relates to direct help to manufacturers through cheaper land, land made available on instalment terms, preferential interest rates for manufacturers and those involved in overseas trade.

Let us take a look at the arguments advanced by Mr Jeaffreson against the need

for change. He said if a scarce resource like land in Hongkong is not rationed by price, it still has to be rationed in some other way.

This would involve, he said, substituting for the judgment of the market the judgment of individuals whose money was not at stake in making the decisions. Mr Jeaffreson is convinced that this substitution will not be in the interests of the economy.

The provision of instalment terms for industrial land bought by manufacturers, he said, will involve identifying who is a manufacturer and who is a developer.

Said Mr Jeaffreson: "This would be virtually impossible

to establish; and any restrictions on resale would be difficult to enforce.

"In many cases in Hongkong, entrepreneurs are involved in both manufacturing and development, a situation that has become more common in recent years.

"Further, most manufacturers are not large enough to require the whole of a multi-storey factory building for their operations, so they would need to sell or rent out their surplus accommodation. They would then in effect become developers.

"Instalment terms would in effect involve the Government in the business of extending credit to manufacturers. I do not consider it is appropriate for the Government to assume the role of a bank in this way."

There may be some truth in these arguments. But the question is: Why should the Government resist the idea of building and leasing cheap factory space to small-sized manufacturing concerns, perhaps through an expanded Hongkong Industrial Estates Corporation?

To be more precise, what are the objections to Miss Tam's suggestion to set up industrial estates for small factories to enable manufacturers to acquire their own premises?

Mr Jeaffreson did not deal with this question. Instead, it was taken up by the Director of Trade, Industry and Customs, Mr Bill Dorward, who doubted there is a case for such a measure.

It would surely be, he said, "an unproductive use of a valuable resource to allocate land for low intensity development other than, say, for the generally large and technologically advanced occupants of the Taipo and Yuen Long industrial estates."

Total supply of new factory space this year, he said, is estimated to reach slightly more than one million square metres, over 10 per cent of total stock at the end of last year. There will be a further supply of more than 1.7 million square metres next year.

"No doubt due, at least in part, to this substantial increase, rents of flatted factories have recently declined by as much as 10-15 per cent, having levelled off during the first and second quarters of the year.

"Prices of flatted factories have also declined, by over seven per cent between the second and the third quarters," he said.

Despite these falls, there is no denying that prices of industrial accommodation in the open market are high enough to act as a disincentive for small industries.

In this, Miss Tam's call for industrial estates for small factories, which have collectively demonstrated a significant degree of adaptability to our changing markets overseas, deserves closer examination that it has received.

On the proposal for lower interest rates for manufacturers and those involved in overseas trade, Mr Jeaffreson had this response: given that bank lending rates have to relate to the rates banks are paying on deposits and to the cost of providing services to their customers, it is difficult to see how banks can be expected to go much further in providing a two-tier lending rate structure than they are already doing.

"The Government could in theory (but not in practice) take steps to compel banks to lend at a loss — if it were prepared to see serious damage to the financial sector.

"Apart from the considerable administrative problems involved, for the Government itself to provide cheap loans directly would negate one of the main purposes of raising the interest rate in the first place, namely to restrain the growth rate of domestic credit," he said.

Mr Jeaffreson could not have been more indiscriminate about the types of credit that need to be controlled. The discussion here is about the need and ways in which to help our hard-pressed manufacturing industry.

If other governments of both developed and developing economies are helping their industries through lower interest rates, among other things, there is no reason why our Government cannot do as much.

What we need is a policy change. And the ways in which this can be implemented could be through the operation of an industrial aid fund or an industrial bank, either of which could be financed by part of our huge surplus.