

A booming New Year for Hongkong

By Staff Reporters

HONGKONG business leaders expect export growth to continue in the first half of next year, but the rising tide of protectionism may begin to sour trade in the second half.

The director of the Federation of Hongkong Industries, Mr Lawrence Mills, said: "Industry in general can look forward to a good first half judging by the level of raw materials flowing into the territory to be converted to exports.

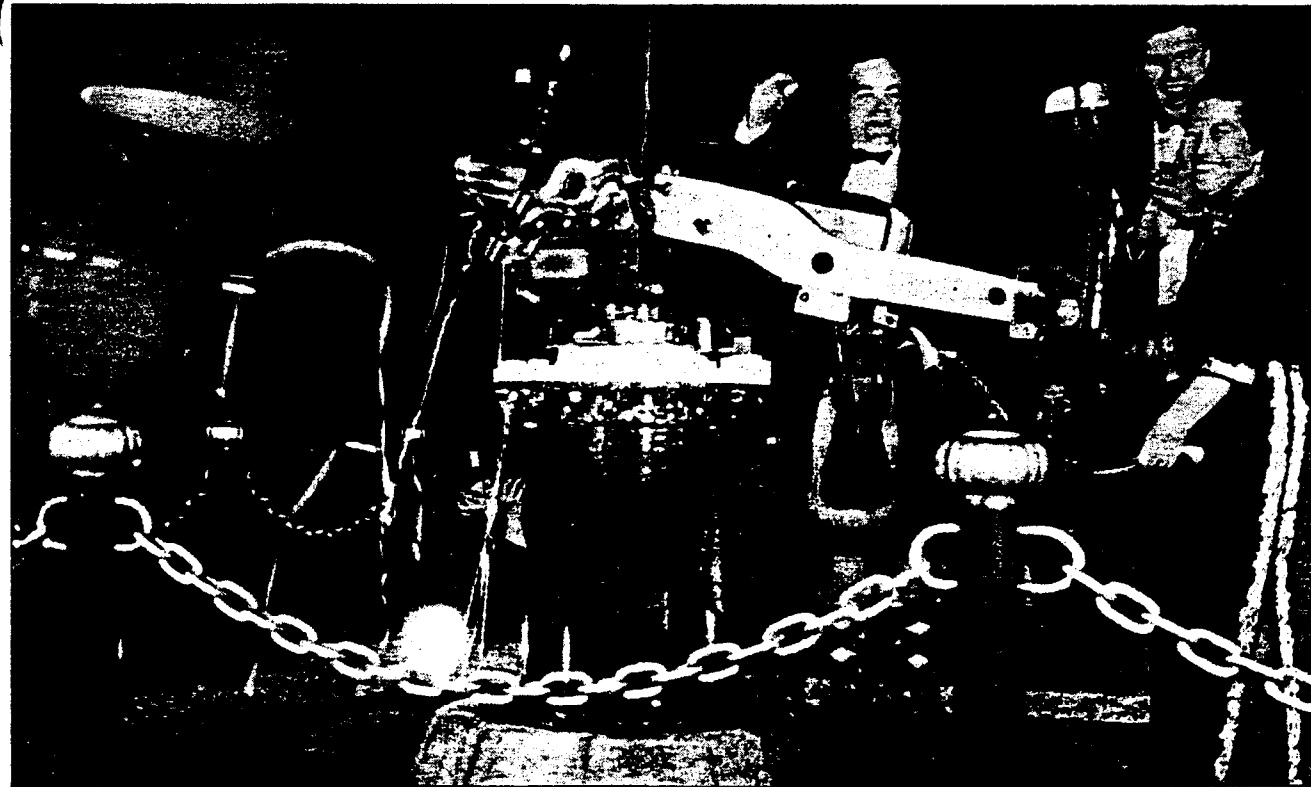
"It would be a brave man to forecast how the draft bills on trade in the United States will turn out. Their existence could badly damage our exports but whether they do or not depends largely on how President Reagan extracts himself from his Iran problems."

The future of the textile industry would depend on the outcome of this crisis in the US - Hongkong's largest market. Mr Mills said he believed that while there might not be much growth in quantity, value could increase with the move up-market.

Mr Mills said the toy industry was likely to continue to prosper while electronics would continue the realignment of last year.

He said demand for labour would strengthen and there could be a corresponding increase in wages. White collar jobs were likely to continue to prove more attractive than those in manufacturing industry.

The director of the Hongkong General Chamber of Commerce, Mr Jimmy McGregor, said: "Provided the relativity between the major currencies remains much the same and the US Congress does not apply serious restrictions on imports from developing countries, then Hongkong should achieve GDP growth, at least in the 6 to 8 per cent range."



HONGKONG ushered in the New Year with a bang.

The 40-year-old tradition of firing the Midnight Gun in Causeway Bay signalled the New Year as the countdown to the Year of the Rabbit continued.

The honour of firing the shot to usher in the New Year went to Mrs

Koo Sze-ming, the wife of the adviser to the board of directors of Jardines, Mr Koo Jeay-ling, who has served 12 taipans during his 60 years with the company.

The "firing party", led by two pipers from the Royal Hongkong Police Band and six torch-bearers, walked to the gun platform near the Causeway Bay typhoon shelter.

Mr McGregor sees inflation below 4 per cent and wages increasing a couple of percentage points above this.

On the protectionist front he said: "Hongkong has to spend more to protect our interests" but it was hoped that Congress could get together with the Reagan administration to work out a fair trade bill.

The president of the American Chamber of Commerce, Mr Paul Cheng, predicted that "we can continue to expect an increase in US companies setting up regional headquarters here as there is a tendency for them to select Hongkong more as a centre for the region."

Mr Cheng said there could be a turnaround in

China next year with a loosening of foreign exchange controls as often happened mid-way through a five-year plan.

For the US, he said: "We can expect a more bullish retail scene. Even though protectionism looms in Washington, many industries there are healthy including garments and toys."

Mrs Koo was accompanied by the chairman of Jardines, Mr Simon Keswick, who hosted a private party for 300 guests, mainly prominent figures and personal friends.

While eight bells were rung for last year, an equal number was sounded for the New Year after the gun was fired.

And from the harbour came the

resounding hoots and toots of whistles from naval vessels, freighters and ferries.

Thousands of people flocked to Central and Tsim Sha Tsui east to see the decorative lights.

Several major transport operators also extended their services to well after midnight to cope with demand.

The Secretary for Economic Services, Mr John Yaxley, said: "It seems to me our present good fortune could last well into 1987 though we cannot assume our current growth rate will continue in the second half."

Mr Yaxley has been in the front line meeting visiting US Congressmen. A party departed only yesterday.

However, he said, "we have had no indication yet what will be in the US trade bills. There is definitely a hostile climate in the US and it is a matter of domestic politics".

The chairman of Jardine Matheson, Mr Simon Keswick, said: "I am pretty positive for the new year though it depends on the situation in (Cont'd on Page 2, Col 1)

Our prospects linked to the fortune of Reagan

(Cont'd from Page 1)

the US. The first half of the year looks like being alright and a lot will depend on the success in the US in controlling the deficit and dealing with the protectionist will."

The managing director of Hutchison Whampoa, Mr Simon Murray said: "Overall, I think 1986 has been good; a continuing process of recovery from the bad days of 1982 and 1983, and continuing confidence in Hongkong."

"It's a good thing that the stock market is so strong, although I feel the price-earnings multiples are reasonable, and in line with markets elsewhere."

"The corporate shake-ups in the banking and shipping sector have been disturbing, but one good aspect is that some of them have responded well to surgery."

"Overall, 1986 must be regarded as a return to the good ways of Hongkong; to a sentiment where people aren't uttering doom and gloom every 10 minutes."

"Low inflation and interest rates and strong growth. I would give the year seven out of 10."

Mr Murray tipped good corporate earnings growth and an improving stock mar-



ket, but stressed the need to pay attention to overseas developments, and particularly to currency exposure.

"It's no longer good enough to focus on your own backyard; you've got to look at what's happening in other people's patches."

He predicted a weaker US dollar against the deutsche-mark and the Japanese yen, and warned of the possible adverse impact on Hongkong of President Reagan's political problems over the Iran arms issue.

The resultant strength of the Democratic Party could bode ill for Hongkong trade, as it was likely to strengthen



Mr Jimmy McGregor the hand of the protectionists.

In general, Mr Murray said: "I'm pretty optimistic about 1987. The atmosphere's good, and I think people are confident, although there are an awful lot of things going on in the international arena, not least of which is the Iran-Iraq war."

But, Mr Murray stressed that 1987 was looking good - "I'm confident."

Mr Frank Frame, deputy chairman of the Hongkong and Shanghai Banking Corp: "1986 started off cautiously, but during the year the economy of Hongkong performed better than most people had



Mr Simon Murray expected. This year also looks promising."

Mr Martin Barrow, managing director of Jardine Matheson: "The high level of trade between Hongkong and Guangdong Province has become a key factor in Hongkong's overall trade pattern in the second half of 1986."

"It is likely that the domestic exports to China will have exceeded HK\$2 billion a month for November and December 1986, following a 66 per cent growth in October to HK\$1.93 billion."

"The original 1986/87 budget forecast a nine per cent decrease in domestic ex-



ports to China; this was revised in the mid-year review to a four per cent decrease, but the actual result is likely to show at least a 10 per cent increase.

"Although growth in the cross-border trade should continue, domestic exports to China in a number of fields have fallen sharply given the foreign exchange constraints which prevailed since mid 1985."

"It is, however, the compensation trade with Guangdong Province which has shown this remarkable growth and which demonstrates the role of Hongkong in China's modernisation."

"There are well over

15,000 factories in Guangdong Province which are producing for Hongkong interests. Raw materials and parts, particularly in toys, garments and electronics, are exported to Guangdong Province while finished or semi-finished products are imported. Over 7,000 trucks a day cross the border between Hongkong and Guangdong Province.

"Thus imports from China have also expanded rapidly and whilst the economic benefit to Hongkong of this cross-border trade may not be as significant as in other domestic exports, it is, nevertheless, now a key feature of Hongkong's trade."

"At the same time, re-exports to China which were drastically down in the first half of the year have again shown a recovery in the second half and this, too, should continue into 1987."

"These closer economic ties with southern China will become increasingly important."

Business International, a leading economic consultancy firm, predicts gross domestic product growth of 3 to 4 per cent in real terms this year.

The research firm suggests the slower growth may encourage the Government to stimulate growth by means of a more expansionary spending program.

Mourning protectionist pressure in the US and import cutbacks in that country, as well as the likelihood of little improvement in China's foreign exchange reserves are cited as major culprits in inhibiting growth this year.

Counter-balancing the lower growth outlook, according to Business International, will be the benefits Hongkong will enjoy from Japanese firms seeking lower-cost manufacturing locations.

The Director of Audit, Mr Norman Stalker said "1987 will be a prosperous year for the people of Hongkong and there will be greater stability in the foreign exchange market."