

# Hong Kong

## I. Economic Structure

### An International Trade Centre

**H**ong Kong's only significant natural resource is its harbour. The city has been spectacularly successful in using that advantage to prosper.

As a result, Hong Kong is one of the world's major trading powers. In 1989, its total trade amounted to \$172 billion. On a per capita basis, Hong Kong exports five times as much as the United Kingdom, six times as much as Japan, and ten times as much as the United States. This dynamic and highly profitable commercial activity has created a demand for sophisticated financial services. In response to this demand, Hong Kong has also emerged as a major financial centre.

### Major Sectors

Taken together, Hong Kong's trade-related activities, and its hospitality industry (hotels and restaurants) constitute the single largest element in the city's GDP. Manufacturing contributes about a fifth of the total, though this share has been declining steadily since 1970 when it accounted for about 30% of GDP.

Clothing and textiles are the single largest domestic manufacturing industry. In 1988, wearing apparel and textiles together accounted for 58% of all manufacturing, about 40% of employment, and 40% of domestic exports. The international textile and clothing business is highly competitive and subject to protectionism. To survive in this market, Hong Kong's apparel industry has systematically moved up-market toward higher quality, designer clothing.

Electrical machinery is Hong Kong's second largest export earner, accounting for almost a fifth of domestic exports. Hong

Kong has moved from assembling radios into more sophisticated products such as integrated circuits, printed circuit boards, computer systems, audio and video equipment, and telecommunications equipment. The reputation of Hong Kong's consumer electronics sector is considerable but its manufacturing activities in this industry are largely confined to assembly of imported components. Only about 20% of the components used in Hong Kong's electronic products are produced domestically.

Hong Kong is also an important manufacturer of plastic products which constitute about 10% of domestic exports. About 80% of these products were toys, of which Hong Kong is the world's largest supplier.

### Industrial Structure

Hong Kong's manufacturing and commercial activity depends on a vast number of small manufacturing firms: most of the 50,000 manufacturing companies in Hong Kong employ fewer than 10 people. Because of the vulnerability of these companies to changes in economic conditions or in consumer tastes, the government of Hong Kong has deliberately adopted a policy of non-regulation and non-intervention. It confines its activities to providing basic support services such as housing, education and health. Since the government of Hong Kong spends money on little else, taxes in general remain relatively low. This has allowed local manufacturers and exporters the maximum flexibility to keep up with the business cycle and the evolving marketplace. For example, as labour costs rose, clothing and textile manufacturers were able to capitalize on this flexibility to move into upscale apparel.