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CONDITIONS IN HONG KONG

Summary of Observations and Comment
made by the Commercial Attache in a brief visit
to the Crown Colony October 25 - November 1, 1948

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General Observations

Law and order, a stable currency, a good deep water harbor, and a recovering entrepot trade are Hong Kong's main assets.

The Colony grows in importance as a cross roads of world air travel and transport.

Well-to-do Chinese from troubled areas of North China, escapees from the Chinese National Government's stern economic measures instituted August 19, and those who have fled or are fleeing from Shanghai and other mid-China areas as a precaution against believed impending Chinese Communist invasion of the Yangtze regions, cluster in Hong Kong.

Housing has become a major problem. As of November 1, 1948 Hong Kong officials estimated the Colony's population at around 2,000,000, and termed the then situation as one of saturation,--an increase of 250,000 in 10 months. Late news despatches would indicate that an influx of an additional 50,000 has occurred since that date. Traditionally Hong Kong gives asylum to Chinese; besides, the Colony is taking care of British and other non-Chinese refugees from North China on a temporary basis.

The Colony is still obliged to import almost its entire fuel and food supply. The water supply has limitations despite considerable augmenting of reservoir capacity in late pre-war years.

Industry

Industry has reached its limit of expansion until power capacity can be increased. The latter cannot be realized until a steady reasonably priced fuel supply can be assured. Fuel oil is not the solution as suppliers indicate that deliveries may become difficult. The authorities will accept no new applications for electrical power supply.

Cotton

Cotton spinning has developed as a new industry in Hong Kong with the installation of a total of 170,000 spindles. This has come about in the past year.

Hong Kong's dockyards, now employing 11,000 workers and constituting the industry of first importance, cannot resume full scale operations until adequate supplies of steel can be regularly obtained at non-premium prices. Only limited supplies have thus far been obtained since V-J Day. High wages are also a handicap. Only repairs are now effected; no new ship construction has been undertaken in the post-war period thus far. However, some salvaging of sunken ships is proceeding.

Cotton weaving and knitting and rubber products enterprises, metal and leather working shops, reed furniture and other handicraft or semi-handicraft producers have all increased output in the past year and have helped swell export trade, but are destined to face stiff price competition when fuller scale Japanese production and export get under way.

Hong Kong's large sugar refinery has not yet been re-stored. The Green Island cement works is operating.

Trade

A resurgence of trade with Japan, both direct and for trans-shipment, is an important development of recent months. Trade with most Southeast Asian and island regions and also with the United Kingdom and Western Continental Europe, according to Hong Kong statistics for the first nine months of 1948, has shown a distinct advance over that for the same period of 1947. This applies also to Australia, Canada, and the United States.

Recorded trade with South China has dropped off sharply, trade with all China amounting now to only about 20 percent of the total, due in part to the lowering of China import quotas and to delaying of the import program. China's official exchange rate has hampered exports. More effective restrictions on smuggling, the result of recent agreements between the Chinese and Hong Kong authorities, is understood also to have further reduced Hong Kong's trade with China.

Trade between Hong Kong and such trouble zones as Malaya and French Indo-China seems to have fared better than might be expected.

A reversal of the uptrend of trade may be seen in the balance of the year due to the shipping strikes in the United States. In the 9 months period Hong Kong imports were up 35 percent and exports up nearly 30 percent over the first three quarters of 1947 in Hong Kong dollar values.

There is said to be virtually no trading in Arrivals properties now.

Arrivals of soy beans from North Korea in Soviet bottoms and return exports of Hong Kong products to Korea are a fairly recent development.

The trade situation of Hong Kong is colored by the fact that there are reported to be large stocks of consumer goods of both non-essential and essential types on hand, partly due to the slowing up of outlet in China and to unwise speculative purchases from abroad by Hong Kong firms. For example, there were said to be 750,000 pairs of nylon hose in stock in Hong Kong at end of October.

Population Congestion and Housing

To a much greater degree than in pre-war times, Hong Kong serves as a refuge and escape for Chinese people and capital seeking asylum from disrupted conditions in China. With the abolition of extraterritoriality, the International Settlement and French Concession of Shanghai, formerly favorite hideouts, no longer exist as such. With the Communist advance from the North East Chinese have felt less and less secure in Shanghai, now entirely under Chinese control. Some business and professional Chinese began transferring their activities, for part time at least, from Shanghai to Hong Kong, in the early months of 1948. A stampede of Chinese from Shanghai to Hong Kong occurred following the institution in China of the drastic program of August 19, 1948, introducing capital punishment for speculative activity in exchange and requiring the populace to turn over its gold and U. S. dollar notes and other foreign currencies for the new Gold Yuan currency.

Another wave of Shanghai Chinese has descended upon Hong Kong in the past month as hostilities developed north of Nanking, threatening both the capital and Shanghai with involvement.

Shelters or penthouses have in many cases been built on the tops of houses in Hong Kong. In the poorer districts large numbers of people sleep on the arched sidewalks which give shelter from rain. This latter is a fairly normal situation in Hong Kong, however; it increases when China is upset.

Very little building construction appeared to be under way in Hong Kong in October. The real estate market was said to have been very active about a year ago with prices as much as ten times pre-war. Real estate markets were said to be much less active and prices lower than a year ago, but in many cases still unduly high. This situation may have changed with the increased influx of Chinese from the north in November, 1948. In October, 1948, key money was being asked at high prices. Before the war villas around the Repulse Bay area were valued at around HK\$30,000. The same houses reached a peak a year ago around HK\$500,000 each, as local contacts stated. There is said to be virtually no trading in these properties now.

Tighter restrictions on entrance into Hong Kong may be expected shortly should the influx of refugees continue. At end of October the Colonial Government was reported in the press to have seized 39 vacant houses and was preparing to turn these over for occupancy by those urgently needing housing. Owners had either been absent for long periods or were asking exorbitantly high rent or demanding extortionate key money.

Hotel accommodations are also difficult or impossible to obtain except for airline transient travellers who are given at times dormitory type accommodations in one or two of the hotels. The securing at British Consulates of a visa to enter Hong Kong is made contingent in most cases upon giving assurances that a place to stay has been arranged in advance. However, this stipulation applies only to non-Chinese.

Chinese enter Hong Kong freely, without passports or visas. It is in the nature of unwritten law and tradition that Chinese are welcomed and their entry facilitated. It is of course highly embarrassing if large numbers of poor Chinese refugees come in, as has occurred in the past when hostilities disturbed the Chinese regions contiguous to the New Territories of Hong Kong. Food supply under emergency conditions becomes a serious problem.

Finance and Currency

After gold bars and U.S. dollar notes, Hong Kong currency is ordinarily one of the major monetary hedges against inflation in China. Even in troubled pre-war times as much as HK\$200 million in notes was estimated from time to time to be afloat in South China, and at times was used freely as currency in South China cities. Since August 19, gold bars, U.S. dollar notes and Hong Kong dollar notes are reported to have been smuggled into Hong Kong from South China for safety. Speculative activity has already increased and is expected to continue, both in currencies and in the share market at Hong Kong.

Speculation in gold and in U. S. dollars was fairly heavy in Hong Kong in October. While there was a good deal of trading also in the local share (stock) market prices were not rising.

Demand for U. S. dollar notes to use for trade with Japan had earlier been considerable, driving the exchange rate up but the rate subsided to around HK\$5.25 to US\$1. by end of October.

Hong Kong always figures prominently in the remittances from millions of Chinese residing abroad. Some of these

remittances

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remittances are absorbed (spent) in Hong Kong either by residents or by recipients for goods to carry into China.

Air Transport

There is a very large traffic of air passengers to and from and through Hong Kong by various international and Chinese services. China National Aviation Corporation was said to be doing HK\$1,000,000 worth of passenger business monthly in its Hong Kong office in October. It was making 38 scheduled trips per month to Shanghai alone and thirty of these trips were by Douglas DC-4 plane carrying 44 passengers at HK\$380 per adult fare.

At least eight DC-3 planes per day make the round trip from Hong Kong to Canton and return - about 35 minutes each way. Three companies were participating in this traffic.

Labor and Wages

The wages of a carpenter in Hong Kong in October, 1948, were HK\$10 per day. The tailoring charge for making a man's sack suit, the customer supplying the material, was HK\$200.

Further Comments on Industrial Situation

While cotton spinning is a new industry in Hong Kong, weaving and knitting has long been established. The latter operates virtually as cottage industry, at least 700 enterprises being registered as engaging in these types of production, using mostly hand operated looms and knitting machines.

Some of the recently installed 170,000 cotton mill spindles were diverted from Shanghai to Hong Kong en route from source countries, as owners could foresee deteriorating operating conditions in China. The equipment is mostly new and modern.

Raw cotton is imported from Pakistan and Brazil and cotton yarn from Japan, China and England.

Small industries generally have revived and the products, which include nails, screws, bolts, nuts, enamel ware, lanterns, flash lights, batteries, canvas rubber soled shoes, and many other items, enter into both local consumption and export. The output is not on a grand scale and could be of so great significance in meeting the vast demand for consumer goods in nearby Asian countries. In Hong Kong's limited economy these enterprises are, however, important employing considerable numbers of workers and adding to the Colony's purchasing power through exports.

In the dockyard enterprises labor is costing about 700 percent of pre-war. This fact together with the high cost and high freight rates on steel for transportation from source countries now make ship repair costs higher than at other world ports where such work is undertaken. Some Belgian steel has been procured at fantastically high prices. Allocations from both the United States and the United Kingdom are difficult and extremely limited. These facts augur poorly for the re-establishment of new ship construction. Cheap labor and unrestricted supply of materials constituted the basis for the development of the two large dockyard enterprises in Hong Kong. As neither the high labor cost nor the materials supply situation appear likely to improve soon, the outlook is poor for any betterment above the present activity which employs 11,000 workers and supports, say, 55,000 people, figuring five to a family. If the dockyards are to survive they must be enabled to purchase steel at £ 24/0/0 per ton at source. If this proves impossible, then the dockyards must be subsidized, or go out of business throwing the 11,000 workers out of employment. As a direct result of the above described difficulties, the Royal Navy recently decided to cut down sharply its naval dockyard activities at Hong Kong.

A former thriving canned goods industry in Hong Kong which prepared and exported Chinese mushrooms, bamboo shoots, pickles, fish and other Chinese delicacies, has not revived. Demand in former markets which were long cut off from supply during war years has found local or other sources to a considerable extent. Shipments were made to Malaya, the United States and to other areas in Southeast Asia and Island regions where Chinese reside in numbers. Part of the near stagnation in this local industry has been occasioned by difficulties in obtaining tin plate at reasonable prices.

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