



# REPORT

OF THE

Commission appointed by  
His Excellency the Governor of Hong Kong

TO ENQUIRE INTO

The Causes and Effects of the Present  
Trade Depression in Hong Kong

AND

Make Recommendations for the Amelioration  
of the Existing Position

AND FOR

The Improvement of the Trade of the Colony.

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JULY 1934—FEBRUARY 1935.

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MEMBERS OF THE COMMISSION.

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Mr. Michael James Breen, (*Chairman*), Hong Kong Civil Service, Postmaster-General.

The Honourable Mr. Charles Gordon Stewart Mackie, Member of the Executive and Legislative Councils, Partner, Messrs. Mackinnon, Mackenzie & Company.

The Honourable Mr. Chau Tsun-nin, Member of the Legislative Council, Barrister-at-Law.

Mr. John Daniel Lloyd, Hong Kong Civil Service, Superintendent of Imports and Exports and Head of the Statistical Office. Died on 24th January, 1935.

Mr. George Clinton Pelham, His Majesty's Trade Commissioner in Hong Kong and Commercial Secretary in South China.

Mr. Stanley Hudson Dodwell, Managing-Director of Messrs. Dodwell & Company.

Mr. Vandeleur Molyneux Grayburn, Chief Manager of the Hong Kong and Shanghai Banking Corporation.

Mr. Felix Alexander Joseph, Principal, F. A. Joseph.

Mr. William Johnston Keswick, Acting Head of Messrs. Jardine, Matheson & Company, Limited. Resigned from the Commission on departure from the Colony on 13th February, 1935.

Mr. Li Koon Chun, Manager, Wo Fat Shing.

Mr. William Ngartse Thomas Tam, Barrister-at-Law.

Mr. William Herbert Evans Thomas, Manager of the Chartered Bank of India, Australia and China. Resigned from the Commission on departure from the Colony in January, 1935.

Mr. Alfred Brearley, Manager of the Chartered Bank of India, Australia and China. Appointed as a Member of the Commission on the 19th January, 1935, to succeed Mr. W. H. E. Thomas.

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Secretary to the Commission:

Mr. Brian Charles Keith Hawkins, Hong Kong Civil Service.

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HONG KONG, *16th February, 1935.*

SIR,

On the 13th July, 1934, we were appointed by Your Excellency under the Public Seal of the Colony:—

“ to enquire into the causes and effects of the present trade depression in  
“ Hong Kong and make recommendations for the amelioration of the  
“ existing position and for the improvement of the trade of the Colony”.

We have the honour to submit herewith our Report.

We have the honour to be,

Sir,

Your Excellency's most obedient servants,

M. J. BREEN, (*Chairman*),

A. BREARLEY,

F. A. JOSEPH,

C. GORDON MACKIE,

STANLEY H. DODWELL,

V. M. GRAYBURN,

G. C. PELHAM,

T. N. CHAU,

LI KOON CHUN,

W. N. T. TAM.

His Excellency,

Sir WILLIAM PEEL, K.C.M.G., K.B.E.,

*Governor,*

Hong Kong.

# REPORT OF THE ECONOMIC COMMISSION.

## Chapter I.

### PRELIMINARY.

1. The first meeting of the Commission was held on Wednesday, 1st August, 1934. It was then decided that we should meet twice weekly, as far as possible, and Wednesdays and Fridays were selected as meeting days.

2. Between August 1st and October 20th we held 20 meetings of the full Commission, examined 26 witnesses and considered well over a hundred memoranda, records of evidence, letters and reports submitted not only by the general public but also by various members of the Commission itself. In addition, members of the Commission accompanied by the Honourable Colonial Secretary, paid visits of inspection to factories, chosen as being fairly representative of the various branches of industrial activity within the Colony. In this connection it may perhaps be mentioned that the personnel of the Commission contained members who had already made a study of local industries and were fully acquainted with their scope and with the conditions of manufacture prevalent in factories in Hong Kong.

3. At the 20th Meeting it was decided that sufficient progress had been made in our enquiries to justify us in commencing the preparation of our final report. A Drafting Committee was appointed accordingly and the Commission was adjourned *sine die*.

4. It was fully realised at the time that the work of the Drafting Committee would inevitably bring to light various questions necessitating further deliberation and decision by the full Commission, but it was deemed advisable to deal with these questions by means of special meetings as and when opportunity occurred.

5. In the event it was found necessary to convene four further meetings of the Commission, making a total of 24 meetings extending over a period of nearly seven months. The Drafting Committee also met on 15 occasions.

6. The personnel of the Commission was larger than that of any other Commission appointed in this Colony in recent years. It consisted of twelve members, two official and ten unofficial, but, unlike the Straits Settlements Trade Commission, it did not include any members appointed as paid full-time officers. In other words the whole of the work of the Commission was undertaken by officials and unofficials alike in addition to their other duties.

7. It is with the deepest regret that we record the death of Mr. J. D. Lloyd, Superintendent of Imports and Exports and Head of the Statistical Office, which occurred on 24th January, 1935. By virtue of his official position Mr. Lloyd was the source of a great part of the statistical information required by the Commission and he spared no pains to make this information as comprehensive and as lucid as possible. In addition, his wide knowledge and experience of trade and trading conditions in the Colony were of great assistance in our deliberations, while his keenness and energy made him a colleague whose loss it is difficult to over-estimate.

8. Two further changes in the original personnel were caused by the resignations of Mr. W. H. E. Thomas, who was recalled to England in January, 1935, and of Mr. W. J. Keswick, who left the Colony on 13th February, 1935. By a Commission dated 19th January, 1935, Mr. Alfred Brearley was appointed to succeed Mr. W. H. E. Thomas. In view of the fact that at the date of Mr. W. J. Keswick's departure the work of the Commission was practically completed no appointment was made to fill this vacancy.

## Chapter II.

### PROCEDURE.

1. The first problem confronting the Commission was to decide on an appropriate plan of procedure. During the past forty years, so far as can be ascertained, there have been only two Committees appointed to enquire into the trade and economic problems of this Colony. The first of these was appointed in 1896 and the second in 1920.

2. It will be readily appreciated that the report of the first Committee, which was mainly concerned with the displacement in local markets of British goods by foreign imports, was too limited in scope and too distant in time to be of more than academic interest to us.

3. The second Committee appointed in 1920 to enquire into the Economic Resources of the Colony had conducted their enquiries by means of numerous sub-committees each of which had submitted a separate report to the Government. These reports contained much that was useful to us, especially for purposes of comparison, but the method of investigation by sub-committees was not particularly suited to the wide scope and general nature of our terms of reference.

4. It was unfortunate that the report of the Commission appointed in 1933 to enquire into the trade of the Straits Settlements was not available at our inaugural meeting. The first volume of their careful and comprehensive survey was published shortly after we had begun our deliberations and proved of inestimable service to us in the later stages of our work.

5. In the absence of precedents, our plan of procedure was dictated solely by the exigencies of our terms of reference. So wide were these that it would be difficult to formulate any question, no matter how remotely connected with trade, which could not be included within their scope. In view of the pioneer nature of our inquisition the necessity for this latitude could not be questioned, but it was obvious that, unless we had before us certain clearly defined main lines of enquiry, we should soon find ourselves submerged in a welter of details, relevant and irrelevant, through which it would be extremely difficult to force our way to any conclusion. A certain amount of concentration was essential if we hoped to achieve a useful result in a reasonably limited period of time.

6. With this end in view it was decided that while we should endeavour to secure evidence on as wide a basis as possible and should, therefore, invite the opinions and general co-operation of the Hong Kong public, we should at the same time require individual members of the Commission to submit memoranda and, if necessary, to give evidence on various subjects of importance on which they were especially qualified to speak with authority.

The personnel of the Commission was peculiarly adapted to this method of procedure in that it consisted of leading representatives of the Colony's major interests; shipping, import and export, finance, banking and Chinese business interests generally.

7. A notice was inserted in the columns of the local press inviting the public to submit memoranda or to offer their services as witnesses before the Commission. In addition, special invitations were issued from time to time to individuals requesting their attendance as expert witnesses in particular subjects under discussion.

8. The response to both classes of invitation was most helpful and encouraging and we desire to take this opportunity of expressing our thanks to all who came forward in answer to our appeals.

9. It was apparent from the outset that a considerable portion of our enquiry would be devoted to the investigation of questions of a delicate and confidential nature.

In order to secure the fullest information on these matters and at the same time to protect the interests of witnesses it was decided that our meetings should not be open to the public and that all evidence laid before the Commission should be treated as strictly confidential.

10. During the course of our enquiries we had occasion from time to time to make recommendations to the Government, either in respect of specific matters referred to us by His Excellency the Governor, or in connection with questions on which we considered early action should be taken. We have thought it better to embody the substance of these recommendations in our final report rather than to annex them thereto in the form of interim reports.

11. In conclusion we desire to place on record our appreciation of the assistance we have received from our Secretary, Mr. B. C. K. Hawkins, from Mrs. P. C. Stott who acted as typist and stenographer to the Commission for the five months, August-December, 1934, and from Mr. R. W. H. Maynard who took over these duties on Mrs. Stott's resignation and who has most competently carried out the arduous work involved in the final stages of preparation of this Report. We are also indebted to Miss J. Langley who acted as assistant typist for a period of two months in 1934.

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### Chapter III.

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#### GENERAL.

The island of Hong Kong consists of a range of hills rising out of the sea. On the north side is the harbour backed by the City of Victoria. On the mainland, facing the City of Victoria across the harbour, is the complementary City of Kowloon with a similar range of hills in the immediate background. Beyond, and up to the frontier, lies three hundred square miles of hilly country with a few valleys of fertile land cultivated under Chinese methods. During the ninety odd years of British occupation a crowded urban community of a million people, the vast majority of whom are Chinese, has sprung up with the harbour as its centre. This community is sustained by the Trade and Industry of the Colony, agriculture being comparatively negligible.

2. Hong Kong consequently is not an economic entity even in the most restricted sense of the word and it could not, even if it would, adopt the principles of the present world wave of economic nationalism. As a community and as a trade centre it is a portion of China from which it is separated by political barriers. It shares in the strength or weakness of its neighbour's conditions and institutions. It has a relatively small Hong Kong domiciled population and its inhabitants are in the main transient workers and business men from the neighbouring province of Kwangtung who flock into the Colony when employment is available but who do not sever their interests in their family holdings on the land nor, in many cases, bring their families from their villages to reside permanently in Hong Kong. Widespread unemployment does not, therefore, bring in its train the serious social problems it does in other countries. In general it merely results in an exodus of the workers and their temporary reabsorption in their village communities in the interior of China.

3. A depression may not, therefore, be obvious to the casual visitor to the Colony. Its visible signs are not apparent. One does not see processions of unemployed or an undue number of empty premises and shops. On the contrary, the outward appearance of the main streets seems as animated as ever, perhaps even more so as lighting improvements and reconstruction continue to transform the main thoroughfares, which indeed at the present time appear to be hives of activity. In comparison with neighbouring Eastern cities at any rate, the standard of well being of the populace is well maintained.

4. As the Colony is an urban community possessing but a small agricultural hinterland, its production of basic raw materials is negligible and it produces only a fraction of the foodstuffs it consumes. Its real commercial hinterland is South China from which it is separated by a (political) and, what is (more important,) a (tariff barrier) (Internal trade) usually so important as the basis of the economic equilibrium of a nation, is (practically non-existent).

5. Roughly estimated, its external trade is four/fifths re-exports of goods destined for South China from overseas or from North China, or *vice versa*. Increasingly important as local manufactures, not specifically related to shipping, have recently become, they do not account for more than a small proportion of the Colony's business. In the main, therefore, Hong Kong is but a mirror of conditions in China, one quarter of whose trade with overseas it handles. If conditions in China, whether because of general depression or as a result of protective tariffs, are such as to restrict trade, this Colony's entrepot trade must shrink proportionately.

6. In this connection it should be noted that Hong Kong Trade Statistics are far from satisfactory. To begin with they are intermittent and, moreover, there was a hiatus between the years 1925 and 1930 during which period no figures were recorded. Even now it is not possible to draw positive conclusions from the figures available for the reason that they are figures of entrepot trade and there is no indication what percentage relates to local consumption or to manufactures in the Colony. The same caution should be given in respect of figures relating to population. The difficulties of census taking in the East are notorious and Hong Kong is no exception in this respect, but for all that, the census returns are a mine of valuable information and it is a pity that so long a period as 10 years intervenes between each successive census.

7. It would, of course, be incorrect to say that all the goods handled in Hong Kong, except the small quantity retained for local consumption, are proceeding to or from China. The excellent shipping and warehousing facilities offered by the Colony, together with its geographical position as a terminal port, place it in a very favourable position to perform entrepot and transshipment services on behalf of other Asiatic countries besides China. This is an important factor in its prosperity and one which should be encouraged, but the fact remains that the real basis of the Colony's commercial existence is, and must continue to be, the handling of the trade of China.

8. This very important function which Hong Kong renders in effecting the exchange of South China's products for those of overseas countries does not proceed from the mere fact that Hong Kong possesses an excellent harbour but rather from the fact that between Shanghai and Indo-China there is no other deep sea harbour having at the same time convenient access to the interior as well as safe anchorage and efficient equipment and facilities. Goods in transit to or from China must in the main be conveyed in deep draught ships and they must at some stage be discharged into smaller coasting ships or into warehouses ashore. As long as Hong Kong offers peculiar facilities for this operation so long will it continue to flourish by performing an essential service to the benefit of both China and the Colony.

9. The volume of this trade between China and overseas, as will subsequently be shown, has shrunk considerably in recent years. It is subject to two main influences neither of which can be affected by any policy taken locally. If for reasons of world impoverishment or high tariffs elsewhere, China cannot market her products, it follows that she cannot afford to import, and, as her foreign trade must be reduced, Hong Kong must suffer proportionately. Of equal importance is the industrial development of China. This development is proceeding apace partly as the result of economic evolution and partly in consequence of China's recently adopted policy of economic nationalism. Inevitably, therefore, China's trade will eventually be transformed and though her imports may gradually increase they will tend to consist of capital goods such as machinery and technical equipment rather than of consumable goods themselves.

10. It is, however, reasonable to anticipate that although the nature of the trade will change, Hong Kong will probably for a long time to come continue to fulfil its natural role. The arbitrary imposition of tariffs and taxes may prove irksome to the intermediary merchant in the Colony as these cause sudden dislocations of business. The direct importer of foreign goods in Chinese territory is, however, under the same disability. There is no reason to fear that local merchants will lack enterprise and fail to adapt themselves to altered circumstances, or that the port will not be provided with the shipping facilities and connections with the interior necessary to maintain its position as the ocean gateway of Southern China.

11. So great was the predominance in Hong Kong of shipping interests that for many years its industrial activity has been in the main connected with shipping requirements and has concentrated round ship-building and ship repairing. As these activities had to be on a scale commensurate with the importance of the port they quickly attained proportions for a long time unequalled in the Far East. They must obviously continue to constitute the nucleus of Hong Kong's heavy industries as they are essential if the Colony is to discharge its primary function as an international trade centre. It is important to observe, however, that there is considerable industrial activity apart from shipping. The factories which have been established are largely of recent growth and are not of the heavy industry type. The Commissioners surveyed these recent industries at some length and came to the conclusion that they had a definite future and that their development should be encouraged. It is true that the problem of marketing the products may be accentuated by tariff and quota restrictions, but Hong Kong as a free port has advantages, in respect of manufacturing certain standard articles at any rate, which may well set off the obstacles to be overcome, and it may also be possible to explore the possibilities of bilateral agreements with natural markets.

12. Further, the Colony possesses an asset in its attraction as a residential centre and as an holiday resort. A large number of wealthy Chinese who have retired from overseas or from the interior reside in Hong Kong where they acquire property and domicile themselves and their families. This class undoubtedly contributes valuably to Hong Kong's economic well being. The number of Chinese workers in Hong Kong who maintain their families here is increasing and the tendency should be encouraged. The Imperial forces maintained here contribute conspicuously to the Colony's prosperity. The money spent locally by visitors whether foreign or Chinese must be considerable and with a definite measure of official encouragement local amenities might be improved, visitors might increase in number and might be induced to prolong their stay.

13. While it is recognised that land available for agriculture is limited, it is felt that there must be a distinct possibility of the adoption of improved methods of cultivation and schemes of land reclamation with Government support. This would tend to render the community less dependent on outside sources of food supply. This is particularly important at a time when the earnings of the Colony as a whole have shrunk so much that in order to redress the economic situation the Colony should endeavour to spend as little as possible outside its borders. The proximity of a great urban market for produce does not seem to have stimulated the farming community to the extent that might have been expected under a progressive government. A Committee has now been appointed to explore the possibilities of development in this direction.

14. A further potential source of wealth would appear to be the Colony's fishing industry. With the introduction of more modern methods adequately supported by capital the possibilities of development are so far as is known unlimited and the industry might well attain such proportions as to provide the Colony with an important export. In any event if development merely increased the local contingent of food supply it would, as with intensive agriculture, reduce the Colony's external expenditure on food and improve its economic position.

15. The main problem before the Commission was to make recommendations for the alleviation of the present position and for the improvement of the trade of the Colony. The foregoing brief analysis of the component factors of Hong Kong's prosperity provides the background against which this problem has to be studied and reveals immediately the limitations to which our recommendations must be subject. It is obvious that we cannot recommend any alteration in the free port status of the Colony as a whole. Not only is this status essential to the entrepot trade, which is the foundation of our position as the Clearing House of South China, but also we must admit that Hong Kong is too small an unit to absorb the output of local industry or to have any great bargaining value in tariff negotiations. With these limitations therefore, it might be argued that nothing of any significance could be done, but that is an argument with which we are not prepared to agree.

16. It should be realised that China alone is more important from the point of view of the Colony's trade than the rest of the world combined and it may well be

possible to conclude a working agreement with her which will be mutually satisfactory to both parties as their neighbourly relations are of a peculiarly intimate character and transcend those of ordinary international trade. There may be also a possibility, remote perhaps, of concluding barter agreements with other neighbouring Governments.

17. Apart however, from such bilateral agreements with outside authorities, a field for constructive action must exist within the Colony. Hitherto the Government has been content to provide security and sound administration and, for the rest, to adopt a *laissez-faire* attitude towards trade and industry generally. There was no occasion to question the soundness of this policy in days when China was a low tariff country and trade flowed smoothly in traditional channels, though it is possible that, even then, the industrial potentialities of the Colony did not receive sufficient consideration or were too hastily dismissed as necessarily opposed to our entrepot interests. Now, however, these spacious days are gone and in their place has come a time when, in our opinion, there is a need for the closest and most active co-operation between Government, commerce and industry.

18. Signs are not wanting to show that a movement towards this end has already been made. We have referred to the recent appointment of a Committee to enquire into and report upon pig and poultry breeding in the Colony with a view to improving the local food supply and conserving, or rather retaining, as far as possible, the Colony's income within the Colony's boundaries.

There may well be scope for a similar, though permanent, body to foster trade and industry and to act as a connecting link between these interests and the Government. For example, productive enterprises which increase the income of the community do not now obtain sites or extensions of sites on any privileged terms nor do they invariably secure the transportation facilities by land and water that they merit. Moreover, even though Governmental action cannot ultimately force trade and industry, yet much can be done by the adoption of a consistently progressive policy in exploiting our assets of cheap labour, plentiful capital, good position, cheap shipping facilities and freedom from restrictive duties.

19. Although taxation direct and indirect is relatively light in Hong Kong, it shows a disquieting tendency to increase and, by raising the cost of living, to neutralise one of the Colony's chief assets *vis-a-vis* its competitors. No doubt the social services provided by the Government must render the constant increase of public expenditure inevitable, but the standard set should take into account the conditions which apply in the rest of the economic area of which Hong Kong is a part. Of equal significance as burdens on the trading community are the legislative restrictions imposed on the conduct of industrial enterprise. Social reforms based on Western models should only be introduced into Hong Kong in reasonable conformity with those enforced in neighbouring countries.

20. Though the Colony is fortunate in that the public utilities controlled locally by private enterprise can bear comparison with any in the world in efficiency and cheapness, the Government should constantly recognise that all such public charges should, in the interests of the trade of the Colony, be kept to the absolute minimum and that these services as the handmaids of industry should be afforded all possible encouragement and liberal treatment.

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## Chapter IV.

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### THE CAUSES AND EFFECTS OF THE DEPRESSION.

1. The first portion of our terms of reference required us to enquire into the causes and effects of the present trade depression in Hong Kong. While we were unanimously convinced that Hong Kong was suffering under a severe depression we quickly realised that a clear portrayal of this would be difficult owing to lack of accurate and detailed records over a number of years. Particularly in regard to trade figures were we handicapped, as for the period 1925 to 1930 inclusive

no statistics suitable for purposes of comparison were kept. While, with the present modern trend towards accurate and minute statistical investigation, it might by some be considered that there should be available more detailed data relating to the trade of the Colony it must be borne in mind that Hong Kong is virtually a free port, that the object of the authorities is to impose as small a burden as possible on trade and that the production of accurate and detailed statistical information is costly. To increase the value of statistical information relating to Hong Kong more money would have to be spent. This money would either have to be provided in some manner from present revenue or further levies would have to be imposed on the merchant community. In either manner the general burden on the Colony would be increased. In the nature of the trade of the Colony the resultant value is open to doubt, and though it would be of interest and of use if we could ascertain figures showing the export of Hong Kong products, we are of the opinion that further expense in this direction is to be deprecated in this present time of depression.

2. It is a generally adopted axiom that the truest comparative portrayal of a country's trade is that made in its own currency and it will be seen from the statistical appendices to this report, in which sterling figures are also given, that after the Great War and until 1924 the trade of Hong Kong in common with that of the rest of the world appeared to be steady and prosperous. During that time there ruled a high rate of exchange with sterling. Unfortunately, owing to the hiatus in figures, we cannot see the trend from 1925 to 1930. It will be remembered, however, that trade was badly hit by a big shipping strike in 1925. When we come to 1931 we perceive an increase in the Hong Kong dollar value of both imports and exports but the sterling value of the dollar had become less than half what it was in 1924. Since 1931, while there has been a gradual rise in the average rate of exchange there has been a persistent drop in the dollar value of both imports and exports. Thus in 1931 imports were valued at 652½ million dollars or 34½ million pounds sterling, while in 1933 the dollar value of imports had decreased to 432 millions an equivalent of 29 million pounds. This decrease has been accentuated in 1934 and an estimate based on the first nine months of the year gives for the whole year a dollar value of imports of only \$402.8 millions, a rough equivalent in sterling being 29.7 millions.

3. The same tale is told with regard to exports which in 1931 amounted to 542 million dollars or 29 million pounds, in 1933 to 403 million dollars or 27 million pounds and in 1934 (estimate for the whole year based on the figures for the first nine months) only 316.8 million dollars or about 23.3 million pounds.

4. Perhaps the trend of depression as assessed by trade figures may be more accurately shown by those of the first nine months of 1934 compared with those of the same period of the previous two years as follows:—

	(Millions)	
	Imports.	Exports.
1932 .....	\$477.8 = £31.4	\$352.3 = £23.2
1933 .....	\$381.1 = £25.5	\$307.0 = £20.5
1934 .....	\$302.1 = £22.3	\$237.6 = £17.5

5. It will be seen that in terms of Hong Kong Currency imports in the first nine months of 1934 declined by 20.7% as compared with the corresponding period of 1933; and 36.8% as compared with the corresponding period of 1932, while exports in the first nine months of 1934, declined in value by 22.6% as compared with the first nine months of 1933; and 32.6% as compared with the first nine months of 1932.

6. Another indication of depression is the fall in wholesale prices. The Price Index for Hong Kong has been constructed on the basis of the declared quantities and c.i.f. values of commodities imported into Hong Kong, the year 1922 being taken as 100. In 1931 the index stood at a peak of 136.6 whence it has annually decreased until for the first half year of 1934 it stands at 95.9.

Appendix "A",  
Tables  
I-XIII.  
Appendix "A",  
Table I.

Appendix "A",  
Table XII.

Appendix "B".

7. Further signs of depression are not wanting. If we turn to the Treasury figures of Revenue for the years 1932-1934 we find therein a steady progressive decline in every item and a strongly marked steep decline in those items which may be said to be the fruits of luxury expenditure. Appendix ("B") gives comparative tables of the Revenue derived from liquor, and tobacco duties, Bets and Sweeps and Entertainment tax during these years. The figures speak for themselves and provide us with clear evidence of the effect of the depression upon the general public of the Colony.

8. The world wide depression, a reaction from the post war boom, was bound to touch China and therefore Hong Kong somewhat later than the western and more highly organised countries. It would, of course, be impossible to prescribe a special antidote to this for Hong Kong and as far as the Colony's present position is the result of world depression so far must we await the general improvement in world trade which the more optimistic of us believe now to be commencing, albeit slowly and under the doubtful aegis of economic nationalism.

9. If we examine available statistics more closely we will find that a great proportion of the trade of Hong Kong is with China. It is indeed quite apparent that Hong Kong performs the function of a seaport for China much in the same way as does Shanghai. Hong Kong handles about one quarter of China's coastwise and foreign trade. She suffers, therefore, not only from the effect of the world depression on China, in which respect there is a decreased demand for China's products and labour and therefore a decreased purchasing power for imports, but also from other factors. In 1931, having the power of tariff autonomy, China began to increase her Customs tariffs for the main purpose of increasing revenue. This factor in itself may be held to have tended to decrease foreign trade while encouraging local industrial efforts. Unfortunately, however, in spite of the declaration by the Chinese Government contained in Annex 3 to the Tariff Autonomy Treaty of 1928 regarding the abolition of internal taxation on foreign imports, many different classes of taxes in many parts of the country have been from time to time imposed, not only causing a decrease in purchases owing to increased prices, but also decreasing the will of people to trade freely owing to constant uncertainty. The result of this increasing taxation and the rise from time to time of political uncertainty with internecine brigandage and warfare in the interior, together with decreased world demand and the rise of alternative markets has been to decrease production of basic products in China both in quantity and quality.

10. It is difficult in many respect always to distinguish cause and effect, but whether the cause be drop in demand or a decrease in quality, exports from China have decreased in the last few years while imports of foodstuffs have increased, with a final resultant in decreased purchasing power and decreased imports of goods other than foodstuffs. A vicious circle. The one ray of hope is that of recent years China has been making a valiant attempt to establish industries calculated to supply common needs, and recently to intensify agriculture. Very much work remains to be done, but it is hoped that the movement will continue on sound and careful lines, and at the same time that taxation may so be decreased as to give an impetus to an increase in trade and prosperity. It need hardly be said in passing that China is a country capable of great development in many directions and that Hong Kong is in a not inconsiderable position to help therein if it is given a reasonable chance to co-operate.

11. In our deliberations we had, however, to consider actual facts. As far as its commercial existence is concerned Hong Kong's *raison d'être* is the entrepot trade of South China. The growth of economic nationalism throughout the world has led to a reduction of International Trade. Many goods which were formerly manufactured in one country because of special aptitude or other reasons and shipped to other parts of the world in return for the special goods of those parts, are now being manufactured in many countries, and the tendency is at present, in a great number of countries, towards an endeavour to produce their own requirements. China is increasingly adopting this policy and, inasmuch as it does this, so the trade of Hong Kong must change.

12. While there is every likelihood that the importation of common consumable goods into China will decrease in inverse ratio to the increase in her industrial

activities, there is also every reason to believe that with more stable conditions imports of capital goods, *i.e.*, plant, machinery and equipment of various kinds necessary for industrial development, will increase. Were it to be possible for China to develop to a much greater extent her fundamental industry of agriculture and thereby obviate the necessity of importing large quantities of foodstuffs this development would ensue more rapidly. Sudden change cannot be desired nor expected, but while it is generally realised by most economists that in order to cause the least disturbance during change the movement must be gradual, according to plan, and each step consolidated, China has by the rapid imposition of high tariffs handicapped the importation of foreign goods while not yet having made adequate provision for their replacement by local production.

13. Enough has been said above to show that the existing depression in Hong Kong has its sole cause in external factors. We are suffering from the world wave of depression and as far as that is concerned Hong Kong can only wait patiently for the turn of the tide. A partial cause of our depression is that China has also suffered a decline in trade with a consequent decrease in revenue and the partial result that her Government has endeavoured to maintain revenue by increasing taxation on imports. China has also, although as yet but poorly industrially developed, adopted in common with many other countries the principal of economic nationalism which is tending to narrow the volume of international trade, and to allow it only under high costs when there is any chance of the commodities concerned being manufactured within the country.

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## Chapter V.

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### HONG KONG'S POSITION VIS-A-VIS CHINA.

1. In view of the circumstances adumbrated above it has been considered by some that nothing can be done to alleviate conditions in Hong Kong and that we can only wait for a revival of world trade. We have asked ourselves whether a revival of world trade will necessarily bring returned prosperity to the Colony. The answer we have made is that while Hong Kong must somewhat participate in any such improvement it is not, in view of the rising industrial activity and high tariffs of China likely to get very far without a much closer friendly economic contact with China and/or a closer economic contact with the rest of the British Empire. The second point will be dealt with in the next chapter. Here we are concerned with Hong Kong's position *vis-a-vis* China.

2. Hong Kong in natural economic circumstances is dependent on China for a great deal of its welfare. A considerable portion of its daily food comes from China and its main trading business is with China. On the other hand Hong Kong is economically of great value to South China inasmuch as it is the great sea-port through which goods flow to and from the rest of the world, a financial centre, and a storehouse of great value to trade as goods stored in Hong Kong do not have to bear duty charges. A further and very striking point regarding this Colony in its relationship to China is that its population is 97% Chinese and that the majority of this Chinese population has its roots in the South China provinces, mainly Kwangtung.

3. A discursion here on the population of Hong Kong may be of some interest. Prior to the British occupation of Hong Kong the population ashore and afloat does not appear to have exceeded a total of 2,000 persons. In 1842 this had increased to over 15,000 persons about 12,000 of whom were Chinese. In 1871 the population was about 124,000 and in 1921, 50 years later, it had increased to over 600,000. The last census was taken in 1931 when the total population was recorded as being, to the nearest round figure, 850,000. The actual increase in the population in the decade 1921-1931 of 215,000 people was larger than in any previous decade though the rate of increase was less than that of the previous decade being only 34.44% as compared with 36.87%.

4. The development of Kowloon during the decade 1921 to 1931 is evidenced by the fact that in this decade the population of the island of Hong Kong increased by only 17.79% as compared with an increase of 42.19% in the previous decade whereas the increase of population in Kowloon between 1921 and 1931 amounted to 113.06%.

5. The total population of the Colony was recorded in 1931 as consisting of about 821,000 Chinese and about 28,000 non-Chinese. Of the 821,000 Chinese only 33% are recorded as having been born in the Colony the remaining 67% having been born in China (65% in the Province of Kwangtung). For those desirous of examining this position further it may be mentioned that the length of residence of the Chinese population has been gone into carefully in the 1931 Census Report. It suffices here to quote from that report, "The population still remains to a large extent migratory, a large proportion going backwards and forwards between the Colony and China. With the increase in family life this coming and going may be reduced somewhat, but the returns from this Census show that it still continues to a very great extent".

6. From the above it will very naturally and correctly be inferred that over three quarters of a million Southern Chinese directly make a living in Hong Kong. There is no doubt that very many more in China derive their living from the activities of their compatriots in the Colony.

7. The Chinese population of the Colony and its commercial and industrial activities is of great value to its parent provinces in the same way that those Chinese who have gone abroad to Singapore and other parts of the world are a great asset to China. The Chinese people in Hong Kong and abroad are by their industry able to create wealth which they remit to the parent country. A recent estimate of this wealth by Mr. Remer in his book, ("Foreign Investments in China") places remittances to China from Chinese abroad at a varying amount of \$150 to 200 millions per annum. As the vast majority of Chinese emigrants come from the Southern Provinces and because of the excellent exchange facilities existing in Hong Kong, the bulk of these remittances pass through the Colony.

8. Inasmuch as depression in Hong Kong has caused economic stringency amongst its large Chinese population the latter's remittances to China have decreased, and in some cases because of lack of occupation the workers are forced to return to their native provinces where they remain idle or even become destitute. Neither Hong Kong nor South China is benefited and the result is yet a further rise in the tide of depression.

9. It appears to us that South China is Hong Kong's largest and logical market and that South China needs the facilities which Hong Kong can afford. Close contact and effort towards mutual benefits, therefore, seem to be the only likely move which will tend towards increased prosperity. Judging from the Press, Canton would seem at the moment to be determined to be economically as independent of Hong Kong as she possibly can and the problem therefore, is how to turn this shortsighted spirit of independence into one of co-operative movement to the mutual benefit of both parties. In the long run of the world's history, policies of careful and balanced co-operation have always proved more efficacious than policies of inconsidered independence. It may, in this connection, not be amiss to mention the recently concluded Hong Kong-Canton Railway Agreement in the negotiation of which mutual concessions were made in the greatest spirit of friendliness towards a final agreement. The value of an agreement on that basis can readily be seen in this case by the immediate speeding up of trains and increased traffic. The benefit cannot be otherwise than mutual. The same principle must apply to trade and commerce which are equally matters of two way traffic. Hong Kong supplies South China with the use of a first class free port and first class entrepot trading facilities. Is South China prepared to increase the value of those facilities to herself by helping Hong Kong to maintain them?

10. Various suggestions have been made to the Commission with the view to an increase in the development and prosperity of the whole economic unit of South China and Hong Kong, but before examining these there is one point which might with advantage be dealt with here. This is the suggestion that Hong Kong should

break from the policy of free trade followed since its foundation, and adopt a tariff which it can use as a bargaining point with China and other countries. We are unanimously of the opinion that such a step would cause added confusion to an already confused state of affairs. While we are not sentimentally disposed to regard the free-trade policy of the Colony as unbreakable should circumstances demand a moderate measure of protection to Hong Kong products, we are of the opinion that generally speaking Hong Kong's prosperity is still largely due to its free trade status and we do not recommend that this should be changed. The evidence that we have heard on this subject entirely supports this view.

11. Soon after we commenced our deliberations it was suggested to us that if the Colony in some way were to come within the tariff wall of China as far as trading with China was concerned, the consequent facility of closer contact and co-operation would be of great mutual benefit. It was considered that such an arrangement would open the whole area between Hong Kong and Canton to industrial and other development on a large scale, as an arrangement of this nature would conduce towards confidence in the economic future and reduce to a minimum that bugbear, to both China and Hong Kong, of the great but unascertainable amount of smuggling which goes on. Various alternative schemes were proposed with which it is not necessary to burden this report. Roughly they ranged from the total inclusion of the Colony within the Tariff Barrier to an inclusion of only the New Territories therein. By the adoption of some such a scheme it was anticipated that the revenues of China would be greatly increased and that both the industrial development started by Canton under the Three Year Plan and the small industries of Kowloon would expand into industrialisation of the area between those two places. The Commission has been given to realise from various press reports that suggestions such as these would at first blush meet with opposition from certain sections of the Canton Community. While this report is being drafted numerous paragraphs are appearing in the Canton press opposing "a proposal for the creation of a Customs House at Kowloon on the grounds that such would hinder the development of agriculture, industries and commerce, increase the dumping of foreign goods and end in economic bankruptcy".

12. The Commission have no knowledge of any such suggestions having been made either by or to the Government of Hong Kong and much time seems to have been spent on combating an unformed suggestion. We are aware that negotiations took place between the Chinese and Hong Kong authorities in the year 1929 for the conclusion of a Customs Agreement somewhat on the lines of the suggestions now made. As far as we know, however, the matter has since lain in abeyance until again brought before us for consideration by some of the business community of Hong Kong engaged in importing into and exporting from China.

13. Subsequently we heard a considerable amount of evidence from merchants and manufacturers on this subject, and with few exceptions received the opinion that an inclusion of Hong Kong within the Tariff Wall of China would be of material benefit to the trade of South China both because of the actual moving of the obstructive barrier between two parts of the same Economic Entity and because increased confidence would ensure much greater activity and movement of goods, while trade would be placed on a full and proper and moral basis instead of being handicapped by the present vagaries of smuggling, a practice abhorrent to all good traders.

14. It may be interpolated here that expressions of opinion have been heard to the effect that the smuggling which goes on is actually of benefit to the Colony inasmuch as goods imported into Hong Kong and sold to dealers subsequently find their way into China free of duty, whereas if duty were to be paid the same quantity of goods would not be imported. In answer to this suggestion we are glad to say that every witness with whom this question was discussed was of the opinion that smuggling is an extremely undesirable basis for trade and that as a co-operative movement with South China for an improvement in economic conditions they would like to see steps taken for its removal.

15. Before going further it is necessary somewhat to consider the industrial aspect of the question. According to the 1931 Census Report, 52.87% of the

population of the Colony is engaged in "earning" a living. That is to say, this percentage is actually occupied in pursuits of "gain". Table No. 39 on page 65 of that report gives a synopsis of Industrial Classification which is of considerable interest. The following figures have been extracted therefrom:—

Total population .....	849,751
Portion of total population occupied in pursuit of gain....	470,794
Portion occupied in Manufacture.....	111,156
Portion occupied in Transport and Communications .....	71,264
Portion occupied in Fishing and Agriculture .....	64,420
Portion occupied in Commerce and Finance .....	97,026

16. From these figures it will be seen that about one quarter of those occupied in pursuits of gain (or one seventh of the total population) is engaged in some kind of manufacture, while a somewhat smaller number is engaged in commerce and finance. It is estimated, however, that of the rest of the working population a very much greater proportion is engaged in servicing finance and commerce than in servicing manufacture. These figures are merely produced, without any desire to exaggerate, to show that a substantial portion of the activities of the Colony is engaged in industry. It is, of course, quite well recognised that the principal and basic activities of the Colony are Trade and Commerce, and the auxiliary services appertaining thereto, and that industrial activity has only recently arisen and assumed any sizeable proportion.

17. Until we examined the position we were as a body inclined, with others of the community, to consider the industry of Hong Kong as being of very minor importance. As the result of research and evidence, however, we have come to the conclusion that it has assumed a proportion which can by no means be disregarded and that while it has arisen in somewhat haphazard style it does contribute substantially to the welfare of the economic unit of South China and Hong Kong. We are of the opinion, however, and all the evidence which we have heard bears this out, that the industry of Hong Kong cannot develop much beyond its present stage except inasmuch as it can form an economic part of the whole industrial development of South China and even to some extent of North China. While some of the factories at present existing in Hong Kong are solely Hong Kong Units, some of the more important are but sections of industrial concerns, the other parts of which operate in Canton or in Shanghai. That the still closer combination of the industry of the Colony with that of China is the logical development is still more apparent when we note that of the 111,000 engaged therein all but 800 are Chinese. Still more striking is the fact ascertained by research that there are over 400 Chinese managed factories in the Colony mainly producing consumable goods, having a total capital of somewhere about \$50 millions. This capital is almost entirely Chinese.

18. From all the above it is not only clear that all the activities of Hong Kong are very much bound up with those of South China but also that from a purely economical point of view there should be no separation or cleavage in those activities. They are indeed in many respects inseparable. Owing, however, to artificial barriers placed between them mainly by way of taxation, normal co-operation and development is greatly retarded. Thus considering the area of South China and Hong Kong as a whole it seems impossible to say that any measures calculated to afford free trade within its borders can be of detriment to any part of it. Prosperity accruing to Hong Kong must be reflected in increased prosperity to Canton and the hinterland and *vice versa*, and any action causing economic separation can only work to the detriment of both. The fact that South China invests money in Hong Kong and that Chinese in Hong Kong remit money to South China alone points to this.

19. It appears equally plain that neither South China nor Hong Kong can expect *much* increase in prosperity until both internal conditions in China and general world conditions improve. Our desire, therefore, must be to initiate arrangements calculated to ensure that when conditions do improve the economic unit of

Hong Kong and South China may fully return to its former prosperity. Can it do this if Hong Kong continues to be outside China's high tariff and the tendency on the part of China continues to be to side-track Hong Kong wherever possible, in spite of the fact that it is the best deep sea-port for South China?

20. As it is generally agreed that really sound and reliable trade cannot be based on smuggling, it is reasonable that we should be prepared to take active measures to combat it to China's advantage, provided that we too can obtain some advantage more permanent and moral than that possibly accruing at the present time from large scale smuggling.

21. We gave this subject considerable time and thought in view of the fact that in our opinion it is the most important question arising under the second and third parts of our terms of reference, viz:—"to make recommendations for the amelioration of any existing difficulties and for the improvement of the trade of the Colony".

22. We finally agreed that it would be a desirable thing if, without giving up its Free Port status and without surrendering privileges or authority, this Colony could come to an understanding with China which would enable it to have free or preferential entry into China in respect of goods manufactured within the Colony.

23. Further, we were agreed that the Colony of Hong Kong should be prepared actively to co-operate with the Chinese Authorities in safeguarding Customs revenue in return for preferential treatment from China in respect of goods manufactured in Hong Kong.

24. In order that our suggestions might have the fullest and most careful consideration we are of the opinion that they should be frankly discussed with the Chinese Authorities informally and without commitment on either side, so that the ground may be fully explored. We are strongly of the opinion that personal contact and conversation would elicit true facts and a sympathetic understanding of a point of view which correspondence could not achieve.

25. Though there have been newspaper paragraphs and rumours regarding opposition to measures of this nature, as far as we are aware no discussions have taken place and there has, therefore, been no opportunity for an exchange of views for the purpose of ascertaining whether any mutual concessions could be made or advantages obtained. In our opinion closer connections between Hong Kong and China in the way of informal meetings and discussions would do much to dispel antagonism born out of misunderstanding. *Ex parte* statements have been made that the interests of Hong Kong and South China are totally opposed. We have endeavoured in the above chapter to show that on the contrary the interests of the whole area are one and that closer collaboration will tend towards increased prosperity for that area and the establishment of trade, commerce and industry on a sound and lasting basis. British interests are not opposed to those of China. The British are only too anxious to increase the volume of trade. Success in this direction spells prosperity to China and Hong Kong alike. Inasmuch as Hong Kong is an established trade mart having little or no raw materials for industry whereas South China is a large area having raw materials as yet largely unexploited, it would appear that the future holds out hope of increasing production on the mainland. For this, capital, machinery and equipment, and marketing facilities are required. With regard to these requirements, given adequate encouragement Hong Kong is in a unique position to assist.

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## Chapter VI.

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### HONG KONG'S POSITION VIS-A-VIS THE BRITISH EMPIRE.

1. In the last chapter we viewed the economic position of the Colony as related to China. Here we will take into consideration the fact that Hong Kong is a part of the British Empire.

In relation to the rest of the Empire Hong Kong is geographically minute. Nevertheless, it contains the fifth largest port in the world.

2. As far as Trade Figures can depict the position the following are of interest. In 1932 the total shipping tonnage entering and clearing the Port of Hong Kong was 43,824,906 tons. Of this 20,414,218 tons or nearly half, was British. In 1933 the total tonnage entering and clearing was 37,698,985 tons, 19,553,462 tons of which was British. Again the British tonnage was about half of the total.

3. Taking 1933, the last year for which complete figures are available, the total imports into the Colony including treasure amounted to \$539,052,046. Of this \$98,328,141 worth, or a little less than one-fifth came from the British Empire. Of a total export in 1933 of \$537,224,754, \$110,510,358 worth was exported to the British Empire. This figure again represents about one-fifth of the total.

4. It must be remembered that not more than about one-tenth of the imports are consumed in the Colony and that probably less than one-tenth of the exports are produced in the Colony. The remainder represents goods in transit for which Hong Kong is a suitable financial centre, place of storage, and port of ocean shipment. Hong Kong gains this business (a) because of its excellent harbour and (b) because of the cheapness of its facilities. Addition to the cost of the entrepot trade will tend towards a decreased use of Hong Kong, while conversely a cheapening of facilities will enhance its value to that trade. In a manufacturing business the economic use of bye-products tends to decrease the cost of manufacture of the principal product. In a similar manner, the fostering of economic activities subsidiary to the main business of the entrepot trade of the Colony of Hong Kong will tend to decrease the costs of that business. The effect of a decrease in costs may, in normal times be an increase in volume.

5. The above enunciated principle applies, of course, to all activities which may be considered subsidiary to the main business of the Colony, such as wireless and cable communications, the development of aviation, the development of the tourist traffic, and such development of industries as is possible. In this chapter we consider the matter from the industrial point of view.

6. We realised that no deliberations, having as their aim an amelioration of the existing position and the improvement of the trade of the Colony, would be complete unless we examined the possibility of Hong Kong attaining a closer economic contact with the rest of the British Empire. This question involved an examination of the Imperial Preference Policy which dates from the Ottawa Agreement of 1932.

7. We were extremely fortunate in the fact that early in the course of our meetings the Report of the Straits Settlements Economic Commission was published. With regard to Imperial Preference the position of the Straits Settlements is similar to that of Hong Kong. We have, therefore, taken advantage of that excellent report to which we acknowledge our indebtedness and from which we freely quote in this chapter.

8. As stated in the Straits Settlements report the object of the policy adopted at Ottawa was Imperial Co-operation, the rationalisation of agricultural and manufacturing production and the safeguarding of markets. For this purpose the Empire falls into three categories—the United Kingdom, which is the industrial centre; the Dominions and India, which export the higher classes of foodstuffs and raw materials and have also entered into the industrial field in competition to some extent with the United Kingdom; and the Colonies, whose main function is to export produce and whose manufactures are on the whole negligible. It is obvious, therefore, that it would not be in keeping with Imperial policy to encourage additional manufacturing production in the Colonies for world markets which could more reasonably be supplied by the United Kingdom or the Dominions (including India).

“ Blue Book ”  
1932, p. T4.

“ Blue Book ”  
1933, p. T4.

“ Blue Book ”  
1933, p. S14.

The term " world markets " is used advisedly as there are likely to be local markets of a limited nature in the neighbourhood of most Colonies which can most suitably and economically be met by local production as a natural expression of the economic life of the community.

9. Now while the above truly applies to the British Empire as a whole and while the portion relating to Colonies is indeed consonant with the conditions obtaining in practically all the Colonies of the Empire, it does not in particular apply to Hong Kong. It is not Hong Kong's main function to export produce, and with 25% of the working population engaged in industry its manufactures cannot be said to be negligible. For the rest, Hong Kong has practically no raw materials or agricultural production for export, and its main activities are devoted to importing and exporting goods originating from outside its borders; and the shipping, financial, professional, and technical services relating to that commerce. (Hong Kong's position in the British Empire may therefore be regarded as unique.) Inasmuch as it is unique we are unanimously of the opinion that in all matters of Imperial Policy the Colony should be given careful individual consideration. Inasmuch as it is by necessity, and for the general welfare of the trade of the Empire passing through its portals, a Free Trade entrepot, and can therefore afford but little Empire Preference, we consider that the rest of the Empire should whenever at all possible accord it such treatment as will enable it to prosper and continue to afford its splendid facilities at the cheapest possible rate.

10. That there is a tendency not to accord Hong Kong such treatment has been brought before us in evidence relating to specific industries. There has for instance recently been a strong endeavour on the part of certain portions of the Empire for the imposition of restrictions on the Empire marketing of rubber shoes, the Empire content of which is high and could be higher if so desired. We have heard that rope manufactured in the Colony by a Company which commenced operation in the last century has been virtually excluded from one Empire market, fundamentally because it can sell its goods at a cheaper (but profit bearing) cost than that of goods emanating from other parts of the Empire. It is not gainsaid that good reasons may be produced to justify such action but when we take it that the broad line of policy is Imperial co-operation we feel that in respect of her services to Empire Trade and the small measure of preference she is able to afford to other parts of the Empire, some latitude should be allowed Hong Kong, especially during this time of great depression. It is plain to us that, if the reasonable prosperity of the Colony cannot be maintained, the burden of taxation must become heavier, with a resultant increase in the charges on the trade of the port. We believe that the Empire will gain more by the maintenance of Hong Kong as one of the cheapest ports in the world than by adopting a policy calculated to suppress a reasonable development of her small industries.

11. At the Imperial Economic Conference at Ottawa in 1932 were present delegates representing Canada, The United Kingdom, Australia, New Zealand, The Irish Free State, India, The Union of South Africa, Newfoundland and Southern Rhodesia. In the United Kingdom delegation was included the Secretary of State for the Colonies and a Colonial Officer Adviser.

12. In the course of his initial speech at the Conference Mr. Stanley Baldwin said:—

" What then should be the first aim of this Conference? It should be to clear out the channels of trade among ourselves. For that purpose we need not measure too closely or too exactly the relative value of preferences given and received. If we all approach the problem with a view to seeing how much each can contribute to the common stock without detriment to our own national interests, we shall not need to concern ourselves with the relative advantages obtained by each, since we shall know that an increase in the purchasing power of any members of the Empire must show itself in the increased Imperial trade, and the prosperity of each will add to the prosperity of all ".

" The present universal depression makes the extension and improvement of Imperial trade a matter of urgent importance to all parts of the Empire. The

extension and greater activity of Empire trade is the most hopeful means of stimulating demand in the world markets and of restoring a sound level of wholesale commodity prices.”

“ When I speak of the Empire, I am thinking, not only of the Dominions and India, but also of the Colonies where a keen desire exists for mutual trade with the whole Imperial connection. Colonial territories are situated mainly in tropical latitudes, and they mostly produce food and raw materials, buying manufactures in return. In recent months the Colonies have considerably extended both in range and area the preferences which have long been established as an important feature of policy, and their desire to play their part in fostering Empire trade is shown by the fact that these preferences are Empire wide ”.

“ On our side the United Kingdom have recently granted further extensive preferences to the Colonies, a decision justified on material as well as sentimental grounds, since capacity to buy must depend on ability to sell. The value of Colonial Trade to the United Kingdom is shown by the fact that the proportion of United Kingdom exports taken by the Colonial Empire, which amounted to 7 per cent in 1924, has risen in the first quarter of 1932 to 11 per cent. A similar tendency is shown by the figures of the trade between the Colonies and the rest of the Empire. In 1930 the Colonies sold to the United Kingdom goods valued at £39,000,000 and to the rest of the Empire £20,000,000, while during the same year they bought from the United Kingdom £50,000,000 and from the rest of the Empire £46,000,000. It is the desire of the United Kingdom to see trade between the Colonies and the Dominions and India still further increased. We cordially welcome such arrangements as the agreement between Canada and the West Indies which has conferred benefits on both, and we shall hope that our discussions in Ottawa may do much to open up possibilities of mutual trading between the tropical and temperate regions of the Empire.”

“ We have made during the last few months a very intensive examination of the trade of the whole Empire, in the endeavour to find how we can help both ourselves and you, for despite clashes of sectional interest here and there we believe that the prosperity of the United Kingdom and that of all the other parts of the Empire are intimately linked together.”

**13.** The following resolution was adopted regarding *Empire Content* :—

“ With regard to the determination of the percentage of Empire Content necessary to secure preferential tariff treatment, the Conference draws the attention of the several Governments of the Commonwealth to the importance of this subject, and recommends that each of the Governments of the Commonwealth should investigate, as rapidly as possible, the standard of Empire Content which should be required by them for the import under preferential rates of the different classes of goods, bearing in mind the following principles :—

- (a) That though it must rest with each Government to decide what standard it will require, a greater degree of uniformity through the Commonwealth is desirable;
- (b) the standard required should not be such as to defeat or frustrate the intention of the preferential rate of duty conceded to any class of goods.”

The following resolutions were adopted concerning *Industrial Co-operation* :—

“ This Conference, having examined the Report of the Imperial Economic Committee on Imperial Industrial Co-operation, finds itself in general agreement with the tenor of the Report.”

“ The Report makes it clear that industrial production has developed and will continue to develop in the less industrialised parts of the Commonwealth. These developments involve changes in the economic structure both of the more industrialised and of the less industrialised countries; and the Conference notes with approval the view of the Committee that : ‘ the object of co-operation is not, and must not be, to arrest change, but wisely to direct and facilitate its course.’ ”

“ It should, in the opinion of the Conference, be the subject of any policy of industrial co-operation within the Commonwealth to secure the best division of Industrial activities among the several parts of the Commonwealth and the ordered economic development of each part, with a view to ensuring the maximum efficiency and economy of production and distribution.”

“ It is further the view of the Conference that the precise nature and extent of the co-operation to be achieved in any particular industry must largely depend upon effective consultation between those engaged, or proposing to engage, in that industry in any two or more parts of the Commonwealth.”

“ The Conference therefore recommends to the various industries in which conditions are suitable for the purpose, the desirability of making arrangements for such consultation at the earliest possible date; but it records its belief that such consultation, to be fully effective, should be conducted between responsible persons or bodies adequately representative of the industry in each part of the Commonwealth concerned.”

“ The Conference further recommends that the Governments concerned facilitate and assist such consultations by all available means.”

“ The Conference further recommends that, without prejudice to their liberty to determine their own general economic policies, the Governments of the Commonwealth should give sympathetic consideration to any proposals which may be put before them by responsible parties representing similar industrial interests in the parts of the Commonwealth affected. In this connection the Conference would draw attention to the importance of taking into consideration the interests of other parts of the Commonwealth which might be affected by such proposals.”

14. In the agreement between the United Kingdom and Canada it was agreed that Hong Kong should afford Canada a preference of 20% on Motor Cars. It is not clear that whether Canada affords Hong Kong any *effective* preference in exchange for this. (Ottawa Conference Blue Book, Art. 19—page 22, and schedules E. and F.)

In the agreement between the United Kingdom and Australia it was agreed that Hong Kong should afford Australia a preference on Brandy.

It is not clear whether any *effective* preferences are accorded to Hong Kong by Australia except in regard to ships. (Ottawa Conference Blue Book, Art. 15—page 45, and schedules F. and G.) Even in regard to ships the effectiveness is doubtful.

In the agreement between New Zealand and the United Kingdom there appears to be no arrangement affording any *effective* preferences between Hong Kong and New Zealand.

The above paragraph also applies to the agreements between the United Kingdom and South Africa, Newfoundland and India.

In the agreement between the United Kingdom and Southern Rhodesia it was provided that Hong Kong should afford a preference to Southern Rhodesia tobacco. There appears to be no arrangement affording any *effective* preference to Hong Kong.

15. In all these agreements there is provision to the effect that preference afforded by Hong Kong to one part of the Empire shall be accorded to all other parts of the Empire.

16. While the natural markets for Hong Kong manufactures are the adjacent countries, such as China, The Netherlands East Indies, French Indo-China, the Philippines, etc., the policy of national economic sufficiency adopted in those countries resulting in high protective tariffs, either excludes Hong Kong or affords it precarious, unreliable, and dwindling markets.

17. As things are at present it seems that there is little or no hope of compensation for the exclusion from these foreign markets by entry on favourable terms into Empire markets. It is true that under the Ottawa Agreements Canada and New Zealand accord the same preferences to imports from the Colonies as to those from the United Kingdom. It appears from evidence which we have heard, however, that Canada is inclined to impose restrictions on Hong Kong produce. The other Dominions and India afford Hong Kong little or no preference.

18. The conclusion we have come to is that while Hong Kong might reasonably expect some consideration from the rest of the Empire, we cannot expect sufficient preference to enable the Colony to manufacture on any large scale for the purpose of supplying Empire markets. We can expect from the Empire that there should be no further restriction and that such preference as is accorded should not be rendered negative by means of dumping taxes or high valuations for purposes of duty. We are convinced that Hong Kong as a free trade channel is of benefit to the Empire and that the Colony deserves consideration on that account but, as stated in the last chapter, we believe that Hong Kong's economic value is more closely related to South China and that such industrialisation as may be possible in the Colony should be a part of the economic development of South China as a whole.

19. We considered the question as to what Hong Kong could give to the Empire in exchange for preferences enabling Hong Kong to market her goods therein. We refer anyone greatly interested in the subject to Chapters 51 to 53 of the Singapore's Commission's Report. The following is a quotation from Chapter 51:—

“ To implement this policy as between itself and the Crown Colonies and Protectorates, the United Kingdom exempted Empire goods satisfying the prescribed conditions from the duties imposed by the Import Duties Act, 1932, and imposed duties on a number of new articles, Empire goods again being excepted, by the Ottawa Agreements Act, 1932. The conditions in question were that to qualify for preference goods must be shown to have been consigned from and grown, produced or manufactured in a part of the British Empire. For manufactured articles to be entitled to preference the general rate is that not less than 25 per cent of their value must be derived from materials grown or produced, or from work done, within a part of the British Empire. There are certain exceptional cases where a different percentage is admitted, and the Federation of Chambers of Commerce of the British Empire at its Thirteenth Congress in 1933 urged the adoption of a minimum ratio of 50 per cent and a greater approach to uniformity. So far this proposal has not been approved.”

20. The Crown Colonies and Protectorates were invited to reciprocate by giving preference to goods manufactured in the United Kingdom, but there was no attempt at compulsion and the invitation was to be governed by the tariff policy of the Colony. (The present tariff policy of Hong Kong is “ Free Trade ” and generally speaking we strongly feel that it should not be altered.) We discard sentiment, however, and think that if it could be shown in respect of any one commodity that it can be economically produced in the Colony, that (an import tax would be a clear advantage to the Colony as a whole) and that such taxation would not interfere with the entrepot trade and would not invite retaliations, there is a bias in favour of affording the manufacture of that commodity in the Colony some protection. In the evidence which has been placed before us and during our own deliberations, however, we have been unable to discover any article of manufacture which fulfils all these conditions.

21. Even if the Colony were to adopt forms of protection, these could only apply in respect of goods consumed within the Colony, the whole of which is only about 10 per cent of Hong Kong's total imports. To give Empire Preference on such proportion of the Imports as is consumed in the Colony would not, as regards the vast majority of commodities, be of sufficient benefit to Empire countries to warrant reciprocation. Only in respect of one commodity, Motor Vehicles, can we perceive that Hong Kong can accord a preference which is really beneficial and in respect of which the United Kingdom and Canada can be expected to reciprocate. It must be remembered, however, that Hong Kong is a Crown Colony, and as such purchases through its Crown Agents, large quantities of goods and

materials from the United Kingdom, which is a form of preference. It should also be noted that the public utility companies in the Colony make a practice of buying their goods from the United Kingdom.

22. We finally come to the position that in order to invite the Empire to give Hong Kong further preferences, it would seem that Hong Kong must be prepared to give the Empire some advantages and it is difficult to see how this can be done in a manner sufficiently attractive to the Empire unless Hong Kong abandons the Free Trade policy. The maintenance of the entrepot trade of the Colony which is of great value to the Empire, depends in our opinion, on the continuance of the Free Trade policy. For this reason we would reiterate our plea for special consideration from those parts of the Empire which, while gaining this benefit are apt to adopt the policy of keeping out Hong Kong products.

## Chapter VII.

### INDUSTRY.

1. According to a report by an Economic Resources Committee which sat in Hong Kong in 1920, the amount of capital invested in what was termed European industry, *i.e.*, companies owned and managed by Europeans, was estimated at fifty million dollars. This class of industry is mainly concerned with Public Utilities and Docks though it also includes Cement, Sugar and Rope factories. There is little reason to believe that there has been any increase in this class of industry.

2. The 1920 Committee estimated that 17½ million dollars were invested in Chinese owned and managed industries.

The estimate in 1920 was as follows:—

Rattan Furniture .....	\$ 78,300
Biscuits .....	843,200
Cigars .....	25,500
Tobacco .....	15,124,600
Preserved Ginger .....	570,000
Soap works .....	290,200
Vermillion .....	185,000
Lard and Fat .....	88,100
	17,204,900
Industries in the New Territories.....	284,015
	17,488,915

3. Since then there has been considerable development as will be seen from the following recently computed estimate of Chinese owned and managed industry:—

*Industrial Survey of the Colony of Hong Kong including Kowloon and the New Territories.*

<i>Class.</i>	<i>Total Capital.</i>
Aerated Waters .....	\$ 1,730,000
Baking and Confectionery .....	2,386,900
Cork and Cork Hats .....	11,000
Bricks, Cement and Tiles .....	757,000

Carried forward ....\$ 4,884,900

	<i>Total Capital.</i>
<i>Brought forward ...</i>	\$ 4,884,900
Crackers .....	335,000
Dyeing .....	55,000
Electroplating .....	23,400
Electric Torch Batteries .....	144,300
Electric Hand Torches and Bulbs.....	751,000
Engineering .....	464,100
Felt and Corks Hats .....	233,500
Feathers .....	219,000
Furniture .....	170,000
Flour and Rice Mills .....	53,500
Glass .....	333,100
Ink (Printing) .....	65,900
Knitting and Weaving .....	5,679,700
Leather Goods .....	130,500
Miscellaneous .....	20,690,800
Metal Wares .....	912,200
Medicines and Perfumery .....	5,940,000
Mosquito and Joss Sticks .....	230,000
Noodles and Macaroni .....	21,000
Preserves and Canning .....	1,175,500
Printing and Stationery .....	4,902,500
Peanut Oil .....	310,000
Rubber Canvas Shoes .....	1,060,000
Rattan and Grass Rope .....	213,000
Shirts and Handkerchiefs .....	176,400
Sugar .....	345,000
Saw Mills and Box Making .....	924,000
Shipyards (Chinese only) .....	489,000
Soap .....	107,000
Vermillion and White Lead .....	205,000
	\$51,244,300
	\$51,244,300

4. While the figures of capital can only be taken as rough estimates, they were computed from a detailed survey and are considered sufficiently accurate to demonstrate that Chinese owned and managed industry has greatly expanded since 1920. It will also be observed that many more varieties of industry have been set up. )

5. A division between the industry of Hong Kong and that of Kowloon and the New Territories is also informative, the number of factories in Hong Kong being 166 with a total capitalisation of \$27,284,000, while those in Kowloon number 253 with a capitalisation of \$23,960,000.

6. In the course of our deliberations we visited some of these factories and heard evidence from a number of factory owners. (Most of the witnesses gave evidence to the effect that the increase in the Chinese Import Tariff had adversely affected their business.) We had evidence that in some cases the effect of being cut off from the China market by the high tariff had been to stop manufacture altogether and that many factories had been closed down before we commenced our deliberations and before this survey was made.

7. The opinions of factory owners varied according to their interests. Some were in favour of an endeavour to arrange for an area of the Colony to be placed within the Chinese Customs Tariff Barrier while others, who were mainly concerned with exporting their produce to markets other than China, were inclined to be indifferent to such an arrangement. The general evidence we have heard, however, has been weighted on the side of some kind of a Tariff agreement which, while somewhat facilitating the marketing of Hong Kong products in China would also enable Hong Kong to help the Chinese Government in the prevention of smuggling, and would generally be co-operative. This question has been dealt with in Chapter V of this Report, and the question of marketing Hong Kong products in other parts of the British Empire has been discussed in Chapter VI. (These are both matters in which external factors play a deciding part.)

8. There yet remains to be considered the value of Hong Kong as a Manufacturing Centre for foreign markets. Ideally situated as a free port, having every facility for cheap freight and transport, and possessing above all an abundance of cheap and efficient labour, there seems no valid reason why Hong Kong should not establish for itself an ascendancy in certain specialized lines of manufacture, particularly in hosiery, rubber shoes, torchlights, firecrackers and other cheap goods—possibly toys. Finally there is to be considered the value to Hong Kong herself of her industries and whether Hong Kong can take any action to foster those industries and maintain them as a definite asset.

9. From the Chinese manufacturers collectively we have received representations to the effect that they suffer under the necessity of observing stringent factory regulations, restriction of hours of labour, difficulties at times with regard to the provision of water and strict rules governing the sinking of wells. Complaints have also been made regarding the lack of security of tenure of rented factory premises. There have also been complaints regarding the necessity of obtaining auditors certificates and government certificates for which fees have to be paid, thereby imposing an additional burden on industry.)

10. While many of these complaints may be met with adequate replies showing that the burdens are legitimate charges and unavoidable, and, while it is right and fitting that Hong Kong should keep abreast of the movement towards healthier and better conditions of labour, still it should always be remembered that Hong Kong has to compete with neighbours whose factory standards and industrial level are not high.) For this reason, the introduction of legislation for the betterment of working conditions should be cautious and not over-ambitious, lest it defeat itself. The too stringent enforcement of such laws may cause industries to close down and to throw their employees out of work. We are of the opinion that at the present time when all countries are taking a supervisory interest in their industries a careful investigation into the conditions of each industry established in the Colony with a view to affording all possible assistance thereto would not be amiss. In coming to this conclusion we have had in mind the fact that industry has during the last few years become a not unimportant activity in the Colony and that its welfare must have some considerable effect on the general welfare of the Colony. That this must be so should be obvious from the fact (which we have quoted elsewhere in this Report) that one out of every four persons gainfully occupied in the Colony obtains his living from Industry. We do not propose that uneconomic activities should be artificially maintained but, where investigation shows that some measure of assistance in present times of difficulty may result in the survival of a factory on a sound basis, such assistance should be afforded.

11. Without going into details regarding this matter we would point out that a Chinese Manufacturers' Union has recently been formed, and we feel that with the aid of this body a closer study of the industry of the Colony may be possible. Elsewhere in this Report we have made the suggestion that a Special Committee should be formed for the purpose of having continuously under review the economic welfare of the Colony. If such a body were to be formed the maximum benefit possible to industry might be assured; at least there could be no complaint that the industrial situation of the Colony received no attention and scant sympathy.

12. While having thus recorded our opinion that the industry of the Colony should receive careful consideration and that all reasonable and possible relief should

be afforded, we feel that we should fail in our duty if we did not strike a note of warning. (We do not believe that uneconomic industries should be subsidised.) In highly developed countries having resources of raw material, highly skilled man power and large permanent populations, which are themselves consumers, it has sometimes been found necessary to subsidise industry in order that it may maintain its markets during temporary adversities. The premises do not apply to Hong Kong and there is every reason to believe that once a subsidy was granted to an industry in Hong Kong it would have to be continued. Moreover, the granting of a subsidy would merely mean the transference of the burden to the other activities of the Colony either in the form of increased taxation or in delay in a possible reduction of taxation, while repercussion elsewhere is incalculable. While such industries as are possible in the Colony are on a sound economic basis there is every reason to expect fair dealing with the rest of the Empire and other countries. For a subsidised industry such treatment cannot justly be claimed; and Hong Kong is in no position to embark on a trade war, the weapons in which are tariffs, quotas, counter-subsidies, etc.)

13. For this reason and others it is not anticipated that Hong Kong will ever be a suitable place for the establishment of heavy industries other than those naturally related to shipping and ship repairing, except in so far as it may be able to co-operate with South China in general industrial development. It has been said elsewhere in this Report that we do not advocate import duties as a means of protection. Local consumption is comparatively small and against the limited benefit to local industries would have to be set the adverse effect on the much larger entrepot trade for which bonding or similar facilities would have to be organised at considerable expense.

14. In striking this note of warning we do not wish it to be thought that we consider that nothing can be done for the existing industries which, in the main, are calculated to supply common consumable necessities to those whose purchasing power is small. Inasmuch as within large portions of the Empire the demand for such goods is very great and inasmuch as Hong Kong is an Empire source of these goods, we think that everything possible should be done by the Government for these industries and that our recommendation for investigation and sympathetic aid rather than indifferent application of rigid rules should be adopted. It must be clearly understood that the goods we have in mind are those of the cheapest category and that Hong Kong is in competition with foreign cheap producing centres and not with the United Kingdom and Dominions which are not in a position to manufacture goods of this variety to compete with foreign supplies.

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## Chapter VIII.

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### PROPERTY.

1. The value of and investment in property, as a general rule depends upon the prosperity of the community. The attractions of the locality, either for trading, industrial, or social purposes create the demand which determines the value. Other factors however obtain in Hong Kong which tend abnormally to enhance or depreciate values. By reason of the Colony's security and freedom from undue taxation as compared with the unrest and insecurity existing at times in South China, property for many years has been a favourite investment for the Chinese in the neighbouring provinces of China. This state of affairs has undoubtedly tended to create abnormally high values, bearing little relation to their present economic worth, and in times of depression these values naturally depreciate rapidly thereby resulting in the freezing up of large assets and savings of the community.

2. The accompanying table shows the growth of the rateable value of the Colony during the past twenty years. In 1934 the rateable value stood at \$38,641,856. This figure capitalized on the basis of 7% per annum represents an investment in rateable property of no less than \$550,000,000. This huge sum, large

as it is, does not include very considerable property owned by the local Government, the Navy or the War Department, or all similar property which is not included for Assessment.

3. As it is not generally appreciated how large a portion of the wealth of the Colony is invested in property, a comparison of this foregoing figure with some of the other large categories of investment may be of value.

4. For example, the total market value of the shares of local companies (other than financial institutions) listed by the Stock Exchange amounts to approximately \$150,000,000, although an appreciable portion of the assets of such companies is represented by property. Similarly, the estimated total value of money invested in Chinese factories or in Chinese industry in the Colony amounts to about \$50,000,000 which is only a comparatively small sum. Here again a substantial portion of such money is undoubtedly represented by the property or buildings of such factories.

5. The total note issue, which is backed by silver and by sterling securities, amounts to about \$160,000,000, but even this sum, large as it may appear, is for the most part held outside the Colony and only a small portion (authoritatively estimated at 25%) is owned within the Colony.

6. These comparative figures serve to make it abundantly clear that a very large portion, if not the bulk, of the wealth of the Colony, is represented by property.

7. That this must be so is hardly surprising in a territory where there is little agriculture, almost a complete absence of any trace of mineral wealth, and where industry is still only in its infancy.

8. At the present time, property values are very depressed and it is extremely difficult to negotiate the sale of any property. There are many reasons which have contributed to this state of affairs. Among these may be mentioned:—

(a) Overbuilding.

(b) Excessive charges for water (in the case of Chinese property).

(c) Building regulations and restrictions.

(d) Rates.

9. We propose to deal with these factors in the above order.

(a) *Overbuilding.*—During the period of low exchange (*i.e.* 1930-1932) which corresponded with the early years of the world depression, large sums of money were remitted from abroad for investment in the Colony, which had not yet begun to feel the depression. The violent and rapid fall in the exchange value of the local dollar, from two shillings to under elevenpence within the brief period of twenty months in 1929-1931, produced in Hong Kong all the effects of an inflation of currency. A wave of excessive optimism swept the Colony, and large areas of Crown land were sold by Government at public auctions at high prices, mostly for the purpose of building Chinese tenement houses. These sales all carried with them covenants which have now been or are being fulfilled, in the shape of a very large number of buildings for which there is no sufficient demand, even at rentals well below that which would furnish an economic return on the cost of construction. Hence the large number of empty Chinese houses and flats at the present time.

An excess of office building in the central portion of the Colony is also becoming noticeable, but for quite different reasons. Whereas the older office buildings in this area seldom exceeded four stories in height, the newer ones which have been and are being erected in their place rise to eight and more stories, with a consequent doubling of the available accommodation on the same area.

Only in the case of European flats has the supply not yet overtaken the demand, but when present and projected building plans have been completed, there should be sufficient accommodation for this category to meet the needs of a considerably larger European population.

Insofar as the surplus accommodation conduces to lower rentals, a certain degree of superfluity is beneficial to the community at large in that it reduces the cost of living.

(b) *Excessive charges for Water.*—In a separate chapter the question of water charges is gone into very fully. Suffice it to say here that the charges for excess water, which (when compared with the return on Chinese tenement property) may be fairly described as unreasonably high, have had a serious effect in making such property unsaleable. Clearly some relief here is overdue.

(c) *Building regulations and restrictions.*—A further deterring influence is the increasing number of Government regulations and restrictions in regard to building construction, tending to discourage investment in property by Chinese investors. Property owners contend that while many such regulations are reasonable and proper there are many others which place an undue burden on property and render it impossible to obtain an economic return on cost of construction.

(d) *Rates.*—Some years ago the rates on property were raised from 13% to 17% on the ground that the low exchange necessitated an increased revenue to cope with the large portion of the Colony's expenditure which is based on sterling. Since then exchange has risen again to its former level and property owners, who have suffered very heavily in the depression, are looking to Government to effect a reduction in rates to the former level of 13%. While it may not be possible to restore the old rate of taxation, we consider that in view of the severe depression in property it should be Government's aim to bring about some reduction at the earliest possible moment.

Table showing the rateable value of the Colony for the past twenty years.

Year.	Rateable Value.
	\$
1915-16 .....	14,287,285
1916-17 .....	14,282,186
1917-18 .....	14,410,153
1918-19 .....	15,638,736
1919-20 .....	16,304,801
1920-21 .....	17,408,959
1921-22 .....	18,696,660
1922-23 .....	19,805,929
1923-24 .....	21,059,700
1924-25 .....	22,147,951
1925-26 .....	27,287,862
1926-27 .....	27,998,237
1927-28 .....	29,016,439
1928-29 .....	30,395,447
1929-30 .....	31,617,566
1930-31 .....	33,069,602
1931-32 .....	35,071,566
1932-33 .....	37,457,725
1933-34 .....	38,941,273
1934-35 .....	38,641,856

## Chapter IX.

### HIGH COST OF LIVING IN HONG KONG.

1. One would naturally expect to find wages and the cost of the necessaries of life on approximately the same level in Hong Kong and in the adjoining territories of South China. The Colony is physically an integral portion of China, her population is predominantly Chinese, on whose movements inwards or outwards there are no restrictions; no duties are levied on foodstuffs and communications are cheap and frequent. In fact it ought to be cheaper to live in Hong Kong which apart from moderate revenue duties on liquor, tobacco and petrol, is a free port, than, in China which maintains an extensive tariff barrier on imports. Nevertheless it is not so, and both wages and the cost of living are substantially higher in the Colony. Several reasons might be adduced, in theory at any rate, to explain this phenomenon. Taxation, regulations imposed by Government, currency, rent monopolies or manipulation of prices, higher standard of living one or all might be cited as the contributing cause. They all have a bearing on the Colony's economic conditions and merit a measure of analysis.

2. The cost of Government, ultimately represented by taxation, is undoubtedly a primary factor. Yet not one witness before the Commissioners contended that excessive taxation handicapped his business *vis-a-vis* his competitors elsewhere. Nevertheless so much loose thinking exists on the subject of public expenditure and the burdens it connotes that it should be scrutinised and placed in its proper perspective.

3. The Government of the Crown Colony of Hong Kong is a trinity. It combines the functions of a State Government, a Municipal Council and of a Harbour Authority. These activities are so intertwined that it would require a separate commission to disentangle them. The following tables represent a rough and ready classification of expenditure and revenue under these three heads. They do not claim in any sense dogmatic accuracy and are presented merely to provide material indispensable for the comparative study of Governmental systems in the Far East. The geographical restriction is important because Western Governments render a multitude of expensive social services, such as social insurance, compulsory education, etc., which have not yet been introduced into this part of the world. Furthermore, the taxable capacity of Asiatics stands on a much lower plane.

TABLE "A".

#### EXPENDITURE (1933).

	<i>Colonial.</i>	<i>Harbour.</i>	<i>Municipal.</i>
Military Contribution .....	\$ 5,694,558		
Public Works, Extraordinary ...	1,056,926	87,111	2,148,312
Other items of expenditure .....	10,324,002	1,107,354	10,702,014
Grand totals .....	17,075,486	1,194,465	12,850,326

TABLE "B".

#### REVENUE. (Approved estimate for 1934).

Government .....	\$18,436,850
Harbour .....	1,131,300
Municipal .....	12,160,475
Grand total .....	31,728,625

4. The witnesses who appeared before the Commission did not, as stated already, complain of the undue weight of taxation in Hong Kong, but they probably considered the burden only by comparison with the position in China and not on its intrinsic justification which is of course the only valid test. The relative weight of the taxation in any community is in a sense immaterial, what really matters is whether it is justified by the services the Government renders and whether these latter are essential and such as the taxpayer can afford in the conditions prevailing. Any extravagance in the establishment or the conditions of the public service or in administrative policy constitute a burden which industry and trade must ultimately shoulder.

5. The budget shews a balance between expenditure and revenue but only by making the appropriation for Public Works Extraordinary disproportionately small. In other words standing charges, largely personal emoluments, leave an ominously small margin for the development necessary to maintain Hong Kong's competitive position. The fact that a purely fortuitous rise in exchange has come to the rescue of the Government should not be allowed to obscure the real position or to lull the community into apathy in the matter of retrenchment and the restoration of financial equilibrium. This problem obviously requires separate handling and the Commissioners could only give it cursory study. We are, however, unanimously of the opinion that the recommendations of the Retrenchment Commission of 1931 should be seriously reconsidered. In fact, we consider that the Commission did not go far enough. They would undoubtedly have recommended a more vigorous wielding of the axe had it been possible to foresee what the coming three years of depression and steadily rising economic nationalism had in store for the Colony. Nor are we satisfied that the Government was convinced that cutting down the establishment was imperative. Vigorous and enthusiastic officials find it easy in a bureaucratic Government to extend their departmental activities as the financial consequences are submerged and obscured by the aggregation in one budget of state and municipal expenditure. A logical preliminary step in retrenchment is to curtail services. Only then can personnel be reduced.

6. An outstanding instance of what we mean came to our notice in connection with the Harbour Office. One of the shipping members of the Commission commented on the large number of marine surveyors employed—16—which it is understood greatly exceeds that employed in Singapore. Upon investigation it was found that so long as Hong Kong remains a port qualified to give a B.O.T. certificate, the number of marine surveyors required for this service is regulated by the Board of Trade and does not rest with the local Government. It is therefore for the shipping community to decide whether the advantages accruing from this service outweigh the cost of it.

7. The next step involves the recruitment locally of a larger contingent of the Government Service and the employment of temporary officers for special works. This relieves the budget of permanent sterling commitments and provides greater control of expenditure in times of depression.

8. Retrenchment on the lines above indicated would need to be accompanied by measures calculated to reduce to a minimum the dangers of "graft", the common enemy of all Governments, both East and West. Rumours have long been current amongst the public that some departments of Government are not above suspicion in this respect. We refer to this matter with extreme reluctance, appreciating that these rumours are unsubstantiated by proof. They are, however, so persistent that we feel it to be our duty to bring them to the attention of the Government, because it is vital to the future prosperity of the Colony to leave no stone unturned to ensure that the service is maintained at that high standard of integrity and honesty which built up the Colonial Empire and without which it cannot continue to flourish.

9. The Commission excluded the question of Military Contribution from consideration as outside their terms of reference. We were, however, surprised and gratified by the magnitude of the funds disbursed in the Colony by the Naval and Military Establishments. So important is the role the Services play in the Colony's internal economy that we would press on the Admiralty and the War Office to utilise the station to the fullest extent possible in their dispositions of ships and military units.

10. The burden of Government taxation cannot be dismissed without some reference to its incidence and distribution over the various sections of the community. First principles shew that (import duties would be suicidal) in a Colony whose main livelihood is its entrepot trade. Customs dues on any scale are therefore out of the question except in respect of liquor, tobacco and petrol, which can be easily isolated and handled without too seriously obstructing the free movement of trade. Unfortunately, income tax is barred out also because of the difficulties of collection, and of obtaining correct returns. Thus the two most obvious, most flexible and perhaps most equitable sources of revenue are not available. The Treasury has consequently been compelled to concentrate on property taxes, either directly, in the form of crown rent and rates, or, indirectly, through water charges. Very strong representations indeed were made to the Commission regarding the hardships to landlords of Chinese tenements involved in the latter charge. It might of course be argued that in times of financial emergency "*de minimis non curat lex*" and that property owners made fabulous profits in the past. It should not, however, be ignored that it has long been the practice of the Chinese community to invest their savings in house property. Depreciation of this capital which represents over half of the total wealth of the Colony has aggravated the existing trade depression by clogging the banks with frozen assets. The problem of water and the possibility of reforming the present methods of its administration has such serious financial repercussions on the Colony's internal economy that it will be further discussed in a separate chapter.

11. If the Government of the Colony has in the main escaped criticism on the charge of over taxation, it has not secured so favourable a verdict in respect of the regulations it imposes on the industrial and trading community. Several witnesses remarked on the hardships these regulations impose, particularly on nascent and struggling industries. We realise the Government's difficulties in this issue which spring from the conflict of Western and Eastern conceptions of Governmental responsibility. Regulations intended to safeguard the lives and health of the community must often seem arbitrary and fanciful alike to the worker and still more to the local employer who has to struggle with insufficient capital against competitors who are exempt from any such restrictions and who more often than not enjoy the further shelter of a protective tariff. It is impossible to make any concrete suggestions other than to urge against the premature adoption of social standards too much in advance of those current in the neighbouring territories and to stress the danger of regulating an industry out of existence. Regulations are apt to be passed lightly, and without due regard to their economic consequences on the Colony's competitive industries, by all Governments and particularly by a benevolent bureaucracy when an enthusiastic or idealistic departmental head promotes them.

12. Reference has already been made to the partially municipal character of the Government and its significance in the field of public expenditure. The same dualism exists in the field of laws and regulations. One consequence of the present system, for which due allowance must be made, is the rather cumbrous method of promulgating, under the form of statutes, what should really be municipal by-laws. The result is an unnecessary and undesirable inflexibility. Amendments and revisions are not readily made when conditions alter, and enterprise is very apt to be faced by a complexity of laws and regulations whose interpretation gives unlimited scope for delay and even on occasions for obstruction.

13. The significance of currency as an element in the Colony's economics needs no stress, and we will confine ourselves to the statement that any over valuation of the local dollar is a defect of the absolute as well as relative soundness of the Colony's monetary system which is unavoidable in existing conditions in China. This premium though it scarcely affects the entrepot trade, handicaps local industry. The Commissioners have every confidence that the enlightened control maintained over it in recent years will not be relaxed especially as there is a possibility of a larger section than ever of China employing the Colony's notes as a medium in the present unsettled position of silver.

14. Undoubtedly the standard of living is higher in the Colony than in the adjoining Province. This, however, like the higher standard of currency, has the

merits of its defects and though it may occasionally affect the Colony adversely, it is a welcome sign of the prosperity that good government should bring in its train and is in fact a justification for the foundation of the Colony.

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## Chapter X.

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### THE WATER PROBLEM IN HONG KONG.

1. It was with considerable diffidence that the Commission approached this large and difficult problem. So complex and many sided is the water question and such is the volume of authoritative expert opinion and argument supporting every side that the amateur explorer who, in a limited time seeks to cut hasty steps to a swift solution, moves in constant danger of annihilation beneath avalanches from unsuspected quarters.

2. So far as can be ascertained, prior to 1902 there were only two systems of Government operated water supply in Hong Kong, direct main to house supply and street fountains. Meterage was unknown, the direct main to house supply being paid for in an inclusive rate which at that time was 13% of the rateable value of properties in the Colony.

3. By an Ordinance dated 15th August, 1902, the system of meterage was first brought into force. Under this Ordinance it was provided that the Water Authority must within a specified time disconnect the main service to tenement houses and should not reconnect any new service without the previous consent of the Governor in Council.

4. It is clear from the "Objects and Reasons" attached to the draft Bill that the object of this section was two-fold. The Government was endeavouring to reduce water wastage in the overcrowded poor districts of the town and they were at the same time conscious that meterage would impose a heavy burden on the landlord who would in nine cases out of ten have to pay for the cost of excess consumption.

5. This Ordinance was the subject of a petition stressing the undesirability of a return to conditions involving a non-direct house supply and urging the adoption of an alternative scheme then known as the "Chadwick Scheme" but which is now commonly referred to as the "Rider Main System".

6. As a result of this petition the Rider Main System was introduced on the Island in 1903, at a cost of \$222,000, which was paid for by the Chinese community. Under this system tenement houses were subjected to partial or total restriction of supplies in times of water scarcity, but, subject to such restriction, enjoyed a direct house supply service freed from any cost beyond the rates.

7. From 1903 until 1932 the Rider Main System for Chinese tenement houses worked parallel with the systems of metered supply and street fountains. In 1932 it was abolished and the (present system of universal meterage was introduced.)

8. It would serve no useful purpose for this Commission to re-open the discussion of the rights or wrongs of the decision to abandon the Rider Main System. The matter was fully debated at the time and the arguments for and against the decision may be found in the pages of our local Hansard. It is, however, pertinent to record that the physical constituents of the Rider Main System had reached a stage where there remained no alternative between abolition and complete renewal, that the main argument put forward by Government in favour of abolition was that this System was wasteful and difficult to operate in times of water scarcity, and that it was definitely stated and maintained by Government that the introduction of universal meterage was not for the purpose of raising revenue but to secure a more equitable and less wasteful system of distribution.)

9. Water is now supplied direct to all rated property, irrespective of the purpose for which that property is used. Each property is entitled to a so-called "Free Allowance" in respect of 2% of its rateable value calculated at the rate of 1000 gallons for 40 cents.

	<i>Per annum.</i>
For example : rateable value .....	\$1,000
2% of " " .....	20
Free allowance — $\frac{\$20.00}{40 \text{ cents}}$ = 50 thousand gallons per annum.	

All water over and above this "free allowance" is described as "excess" water and is charged for at a special rate which was originally 75 cents per 1000 gallons but which has recently been reduced by 15%.

10. An examination of the foregoing summary reveals the existence of certain salient factors, which by their action and reaction on each other create and complicate our water problem. Prevention of waste, adequate provision for poor areas, cost and incidence of cost, considerations of health and considerations of revenue, are all inextricably interwoven and no solution can be deemed satisfactory which does not give full weight to each and at the same time provide a balance for the whole.

11. Hong Kong does not at present possess an unlimited supply of water and we are not, therefore, in a position where increased consumption can be regarded with satisfaction as increased revenue. With the completion of the Shing Mun Dam the position will be altered, but until the advent of that happy day prevention of waste is of equal importance with provision of an adequate supply.

12. Unfortunately, it is just in those areas where every law of public health and economics demands as full a supply at as low a rate as possible that waste is most prevalent and considerations of control most important. Moreover, quite apart from any question of waste, the density of population in the poor districts is so great that the normal water consumption of a Chinese tenement reaches a figure far in excess of the "free" allowance, which is based on rateable value and takes no account of the number and needs of individuals in any particular tenement.

13. Special control of these areas by the Rider Main System has been tried and found wanting and in its place the Government has introduced a system which aims at control through economic pressure supplemented by such physical restrictions as may from time to time be applied to the Colony generally.

14. The following tables show the consumption per annum in million gallons of water in Hong Kong and Kowloon during the years 1931-1934 inclusive:

*Consumption of Filtered Water.*

(in million gallons).

	HONG KONG. <i>City and Hill District.</i>	MAINLAND. <i>Kowloon.</i> (excluding water boats at Lai Chi Kok).
1931 .....	3,942.65	1,840.39
1932 .....	3,517.00	1,869.15
1933 .....	3,264.75	2,051.84
1934 .....	3,908.50	2,257.55

	HONG KONG.		MAINLAND.
	Shauiwan.	Aberdeen.	Water boats at Lai Chi Kok.
1931 .....	38.29	30.10	104.33
1932 .....	45.92	28.41	98.76
1933 .....	35.12	25.74	101.49
1934 .....	29.46	30.36	98.70
	Grand Total Hong Kong and Mainland.		Increase or Decrease.
1931 .....	5,955.76		
1932 .....	5,559.24		- 396.52
1933 .....	5,478.94		- 80.30
1934 .....	6,324.57		+ 845.63

*N.B.*—Supplies to Repulse Bay, Stanley, Deep Water Bay and New Territories unfiltered.

15. It will be seen that the change over from the Rider Main System in October, 1932, was followed by a substantial decrease in consumption in the City and Hill District of the Island in 1933. The figures for 1934, however, are higher than for either 1932 or 1933, and it may perhaps be a legitimate inference that this increase is accounted for by the timely rainfall and consequent relaxation of restrictions during this last year. If this is so it must be admitted that the prevention of waste is mainly dependent upon the measure of physical control exercised by the Water Authority in any given year and that the factor of prevention by economic pressure is not operative under our present system. This would appear to be further substantiated by the figures of water consumption in Kowloon which has never enjoyed a Rider Main System and has not, for some years at any rate, been subject to the same restrictions as Hong Kong. Consumption figures, excluding water boats, show increases of 28.76, 82.69 and 205.71 million gallons per annum in 1932, 1933 and 1934 respectively, which may in part be accounted for by increase in population, but which nevertheless tend to show that the charges for excess water do not in fact act as a deterrent to the wasteful consumer.

16. The fact that they do not do so has been one of the chief grounds of complaint of landlords of tenement houses both on the Island and in Kowloon. The reason is not far to seek nor difficult to understand; it is, quite simply, that the landlords pays for what the tenant consumes.

17. In theory of course this should not be the case. The landlord would estimate the cost of excess water and would pass on this burden to the tenants in the form of increased rent. In practice, however, this is not possible, partly owing to the Chinese method of sub-letting and partly owing to the fact that in the last resort the majority of these tenants are so poor that they are not only unable to bear the cost but in addition are virtually immune from any legal action for recovery. In other words, rents obtainable from Chinese tenement houses are subject to the law of supply and demand but they are also subject to the inexorable factor of the prevailing standard of living.

18. Moreover, at the present time the property market in Hong Kong is in a depressed condition. Over-building and trade depression have resulted in a supply of tenements far in excess of the demand and there are many vacant flats. The time may yet come when the tenants may be made acutely conscious of the cost of excess water but in the present circumstances it is inevitable that this burden should fall on the shoulders of the landlord.

19. The weight of this burden may be better appreciated after consideration of the following figures, relating to a large property in Kowloon, which were put in as evidence before us by an entirely trustworthy witness:—

*Kowloon Marine Lot No. 49 R. P., etc.*

Canton Road, 45 houses (4 floors) .....	180 flats.
Waiching Street, 80 houses (4 floors) .....	320 „
	Total .....
	500 „

*Position as at 30th September, 1934.*

Vacancies .....	136 flats.
Gross rent .....	\$70,300.00
Less disbursements:—	
Government Rates .....	\$13,260.00
Excess Water Charges .....	10,090.00
Water Meters Rent .....	937.50
Insurance .....	2,921.25
Repairs .....	2,630.00
Wages, etc. ....	2,150.00
	31,988.75
	Net Revenue .....\$38,311.25
Book Value .....	\$1,209,714.98

*i.e.*, showing a Return of 4.2% per annum WITHOUT DEPRECIATION.

20. Even allowing for the fact that this is a large property in a heavily crowded district in Kowloon, where water restrictions do not apply, it is startling to find that whereas the total Government rates amount to \$13,260.00, excess water charges for the same period come to \$10,090.00. It is even more startling when we consider that had all flats in this property been occupied and the water consumption proportionately increased, the excess water charges for this period would have amounted approximately to \$13,733.00, which is more than the amount charged for rates at 17% of the rateable value.

21. A further defect in our present system is to be found at the other end of the scale, mainly in connection with large commercial properties. These properties are heavily rated and in consequence their “free” or as we would prefer to call it their “valuation” allowance is correspondingly large while actual consumption is relatively very small. In the case of one expensive property which is used partially for commercial and partially for residential purposes, the “valuation” allowance is nearly 18,000,000 gallons per annum, while the annual consumption is less than 2,000,000 gallons. The owners of this property, therefore, are paying annually for 16,000,000 gallons of water which they do not consume, while from the opposite point of view the “valuation” allowance is so large that there is no economic pressure to reduce wastage: This is by no means an extreme case nor do these properties represent a small percentage of the Colony’s total. In 1933 it was estimated that 38% of metered properties did not exceed their “valuation” allowance and it follows therefore that the excess water revenue of \$1,521,739.50 for that year was obtained from the remaining 62%.

22. It is difficult in the face of this evidence to regard our present system of water charges, based on a “valuation” supply plus “extras”, as being either equitable in incidence or efficacious in prevention of waste. On the other hand it should

be remembered that the system is not peculiar to Hong Kong, but is working satisfactorily in many other places and that, though it is easy enough to criticise, it is by no means so easy to suggest a suitable alternative.)

**23.** The physical conditions of this Colony render the collection and distribution of water an expensive undertaking and at the same time necessitate provision for absolute control during periods of water scarcity. Similarly, it must be admitted that considering the nature and circumstances of the bulk of our population the only practical unit for water taxation is the unit of property and the only taxpayer who can be recognised by Government is the landlord.

**24.** We are unable to agree with the numerous suggestions we have received to the effect that payment of excess water charges on Chinese tenements should be a matter for settlement between Government and the principal tenant of each floor. In our opinion such an arrangement is not within the sphere of practical politics.

**25.** We are more in sympathy with the suggestion that, to facilitate the payment of water charges as between landlord and tenant, the Government should be prepared to supply a separate water meter for each floor of Chinese tenant houses. In fact we are prepared to recommend that this should be done *at the expressed request* of either landlord or tenant subject to the payment of a suitable cash deposit. We realise, however, that the universal application of this scheme will entail not only a large capital expenditure but also a considerable increase in annual maintenance charges and personal emoluments and we are hopeful that, if our final recommendations are accepted, the reasons behind the suggestion will disappear.

**26.** Since these recommendations postulate the adoption of an entirely new attitude towards the position occupied by water in Government finance, it is necessary to preface them with a brief synopsis of the present situation in this respect.

**27.** Until a few years ago all expenditure incurred on water, whether of a capital or working nature, was paid for out of the general revenue of the Colony, which in its turn was credited with all income received from this source. This system worked satisfactorily so long as the Colony's commitments on waterworks were on a fairly modest scale proportionate to the Colony's income; but there came a time when it was essential to embark on a large expensive programme of constructional works with the full cost of which it was manifestly impossible to burden the annual budget.

**28.** In all undertakings of this nature, where the main benefit will accrue to posterity, it is both reasonable and just that posterity should be called upon to shoulder some of the expense. This principle was admitted by the Government when they decided that these large constructional works should be financed out of loans. Up to date two loans have been issued, part of the proceeds of which has been earmarked for waterworks construction, but so far only undertakings of major importance have been included in the category of "loan works".

**29.** From an accounting point of view, therefore, we have two systems at work, one of which has been superimposed upon the other. The result is somewhat confusing and renders more difficult the task of preparing an intelligible statement showing profit and loss at any given time.

**30.** At our request the Water Authority submitted a statement, reproduced below, which sets out the total revenue from and expenditure on water for the years 1932 and 1933, together with the total amount required for loan services in respect of commitments on loan works. These figures were supplemented by evidence given before the Commission by a representative of the Water Department.

Figures showing revenue derived from Waterworks undertakings.

(a) and (b). *Total Revenue from Rates @ 2% Meter Rental and Fire Service Retention Fees, and Excess Consumption.*

	1932.	1933.
Rates at 2% .....	\$ 729,743.67	\$ 755,883.58
Meter Rental including Fire Service.	141,045.09	207,167.88
Excess Consumption .....	1,177,394.01	1,521,739.50
<b>Total</b> .....	<b>\$2,048,182.77</b>	<b>\$2,484,790.96</b>
Deduct 20% for Military Contribution .....	409,636.55	496,958.19
	<b>\$1,638,546.22</b>	<b>\$1,987,832.77</b>

(c). *Maintenance Expenditure on Waterworks during the same period.*

1. P.W.R. including 10% for Office rent, incidentals, stationery, Typhoon damage, etc. ....	\$ 445,042.44	\$ 380,075.29
2. Salaries, including 25% for leave, passages, housing overtime, transport, Treasury staff, etc. ....	263,946.80	237,658.59
3. Depreciation 1½% on capital outlay of \$10,000,000 prior to borrowing .....	150,000.00	150,000.00
4. P.W.E. Extensions and improvements .....	302,544.87	439,341.79
5. New Meters .....	321,945.29	257,704.17
<b>Total</b> .....	<b>\$1,483,479.40</b>	<b>\$1,464,779.84</b>
Apparent excess of revenue over expenditure .....	\$ 155,066.82	\$ 523,052.93

(d). *Loan Expenditure.*

1. Loan Requirements for Waterworks undertakings up to 1937, as shown in Appendix VI on page 117 of the Draft Estimates \$17,124,436.52

	1932.	1933.	<i>Estimated for 1934-1937.</i>
2. Actual Expenditure up to 31.12.1931.			
\$5,825,775.74 .....	\$ 761,359.99	\$1,913,254.54	\$8,624,046.25
cd. fd	5,825,775.74		8,500,390.27
	6,587,135.73	6,587,135.73	(expended)
		8,500,390.27	17,124,436.52
3. Loan Charges on above.			
Interest @ 3½ p.a. ...	230,549.75	297,513.66	
Sinking Fund @ 4% p.a. ....	263,485.43	340,015.61	
4. Total Loan Charges ....	494,035.18	637,529.27	
Deduct apparent excess of revenue ....	155,066.82	523,052.93	
5. Net Loss for the years under review .....	338,968.36	114,476.34	

**31.** The first item for consideration in the above table is item 3 of table (c), "Maintenance Expenditure on Waterworks". We were informed that the sum of \$10,000,000 represented the capital outlay on waterworks prior to 1.1.27. Depreciation at the low rate of 1½% was charged annually on this sum because it was anticipated that at some future date these works would require renewal. It was admitted that in point of fact (a) the works had been fully paid for out of past revenues, (b) that the annual depreciation of \$150,000 was not earmarked or credited to a reserve fund which could be drawn upon for renewals, but was simply paid into the general revenue of the Colony, (c) that depreciation was charged annually upon the full capital value of \$10,000,000 and not upon the depreciated capital value, (d) that normal replacements were covered by maintenance charges under Public Works Recurrent, (e) that extensions and small developments were covered by Public Works Extraordinary and, finally, (f) that in the event of a catastrophe rendering necessary renewal of a major work the undertaking would in all probability be financed out of loans.

**32.** In these circumstances, we cannot agree that there is any justification for the inclusion of this item in Maintenance Charges on Waterworks. To so include it is to mix capital expenditure with revenue, which is contrary to the principles of sound accountancy. The capital outlay of \$10,000,000 has already been fully paid for out of revenue and any major replacements which may become necessary in the future should be dealt with as they occur preferably by means of loans. In our opinion it is quite unnecessary to burden the revenue derived from water with an annual charge of \$150,000 for depreciation.

**33.** Turning next to items 4 and 5 of the same table ("P.W.E. Extensions and Improvements" and "New Meters") it is admitted that the major portion of this expenditure is capital outlay which will in its turn be productive of increased revenue. This being so, it is our unanimous opinion that this expenditure should be debited to loan account and not be made a charge on current revenue.

**34.** Applying these recommendations to the figures given above for 1933, we find that a sum of, roughly, \$847,000 is removed from Maintenance Expenditure, of which \$697,000 is transferred to loan account and \$150,000 is eliminated altogether. If from this \$847,000 we subtract the \$114,000 referred to in table (d), (item 5), we are left with a nett credit balance of \$733,000. If, therefore, these three items had not been charged against current revenue it would have been possible, even after making provision for the nett loss on the year's working, to have budgetted for a revenue from water some \$916,000 less than was the case in 1933, (\$916,000 less 20% Military Contribution = \$733,000). Since the revenue from excess water consumption for that year was \$1,521,000, it would have been possible to have given a rebate of 60% on excess water charges and still have balanced legitimate working expenditure out of revenue. We therefore recommend that the rate for excess water be considerably reduced.

**35.** Furthermore, we are of the opinion that the present system of aggregating the revenue and expenditure on water with the general revenues of the Colony tends to obscure the situation regarding water charges and to reverse the expressed policy of Government that water should not be made a source of revenue. We are in full agreement with this policy and we recommend that, to ensure its observance, the water supply of this Colony should be re-organised as a separate Municipal undertaking under Government control and should be kept entirely separate from the Public Works or any other Government department.

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## Chapter XI.

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### FINANCIAL MATTERS.

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#### *Currency, Banking and Foreign Exchange.*

**1.** The whole question of the Colony's currency and banking economy was adequately dealt with in the Report of the Currency Commission issued in May, 1931, and there is very little that your Commissioners can usefully add to that comprehensive document.

The conclusion given in Paragraph 81 of the Hong Kong Currency Commission Report "..... that Hong Kong is economically part of China and must remain on a silver standard so long as China does" appeared to be understood and tacitly approved and, in the absence of any criticism to the contrary, the steps taken during the past few years to control the premium on Hong Kong currency would seem to have met with general approval in that the results were satisfactory to trade as a whole.

The question of the Colony's currency was hardly ever raised by the large number of witnesses examined by the Commission and then only in an indirect way when comparing labour and handling costs with those obtaining in Shanghai and elsewhere in China.

2. On 15th October, 1934, the Nanking Government promulgated regulations raising the duty on silver exports from China from  $2\frac{1}{4}$  to 10% with a further equalization tax, based on a sterling exchange rate related to the ruling price of forward silver in London, fixed daily by the Central Bank of China. As a consequence, Chinese Currency became subject to a measure of "control" and depreciated in terms of World currencies, resulting in an immediate rise in the Hong Kong and Shanghai inter-port cross rate of some 12%.

The Commission being in session considered the effects of this action by the Chinese Authorities as regards the Colony and after due consideration of the facts came to the unanimous conclusion that the interests of trade would best be served, for the time being at any rate, by retaining the Colony's Currency on the present silver basis.

In the event of further measures by the Chinese Government, the Colony may find it necessary to review the whole question in the light of conditions then prevailing.

3. Its position as the centre of the entrepot trade for South China makes Hong Kong a very important banking centre. Trade conditions, in the first place, demand a highly organised system of exchange banking. The banks established are, therefore, pre-eminently Exchange Banks which also perform the ordinary functions of domestic banking. In addition, three of the British Banks provide the Note Issue by means of which the trade of the Colony is financed. This combined Note Issue, which amounted on 31st January, 1935, to \$158,601,900, also plays a very important part in the trade of the neighbouring Provinces of South China.

4. The Hong Kong Exchange Brokers Association is a duly constituted and recognized body whose members provide the link between banker and merchant in the matter of exchange rates.

5. There are two recognized Stock Exchanges in Hong Kong known as the Hong Kong Stock Exchange and the Hong Kong Sharebrokers' Association.

Suggestions were received that conditions did not warrant two Exchanges and that the two bodies might be amalgamated with advantage. It was further suggested that an effort should be made to curb speculation and the "hammering down" of local shares by interested parties.

The Commission came to the conclusion that these questions hardly came within their terms of reference and were matters for the two Exchanges concerned to arrange among themselves.

6. No criticism can be levelled at the banks of the Colony on the score of unwillingness to finance trade and industry. Indeed few places in the world have suffered less from Exchange and Finance restrictions. At the same time, the Colony's trade has been seriously hampered by fluctuations both in the local currency and in the currency of South China, but uncertainty in regard to exchange is a disability by no means peculiar to Hong Kong. It is universal, and presents one of the greatest obstacles to world recovery. Silver, the basis of the Colony's and of China's Currency, has become a veritable gambling counter for speculators the world over, and in consequence lacks that measure of stability necessary for sound trading.

Undesirable, however, as its fluctuation on this account may be, any artificial measures aiming at "pegging" it or severing its relationship with other world commodities would be even more disastrous. Silver's rise and fall in the past has inexorably followed the rise and fall of other commodities, and has therefore greatly facilitated the world's trade with the silver-using countries. The belief which appears to obtain in America that under any circumstances a high exchange must increase China's purchasing power is a fallacy. To accomplish that admittedly desirable object, high exchange must be accompanied by an equivalent high world commodity price level, otherwise China's products are too dear for the rest of the world to buy; she cannot export, and if she cannot export she cannot import however high the purchasing power of her currency. Therefore, while violent fluctuation due to speculation is the overseas merchant's bugbear, moderate fluctuation in accordance with legitimate trade requirements is desirable. The time may not be ripe for international action in regard to the world's exchanges, but when it is, we can only hope that the problem of silver will be disposed of with wisdom and foresight. So much depends upon this in the Far East, that one cannot but view with misgiving the many factors of minor importance operating in America to-day tending to confuse the issue.

7. So far from being unwilling to finance trade and industry, certain of the local native Banks lend money too freely on property on insufficient margin albeit at high rates of interest. This practice tends to make credit too readily obtainable. The capital thus acquired is often mortgaged again to the full and an unstable structure of credit results, which is susceptible to any set-back however small, and which renders a financial collapse inevitable when a major depression occurs. It may not be practicable to legislate against this danger, but any step tending to the adoption of sounder banking methods would increase the Colony's stability.

8. Another matter of Finance we view with some misgiving is the recent establishment of "Savings Banks". This class of institution should always be kept in a fairly liquid state so as to be in a position readily to meet withdrawals of depositors who, though small in wealth, are great in numbers. It seems to us that Government should pass some regulations governing the class of investments in which "Savings Banks" may place spare funds and make a percentage limit, which may not be exceeded, for fixed loans or mortgages. Savings Bank depositors are usually people of small means and if there should be a failure of one of these institutions the loss and misery caused would be widespread.

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## Chapter XII.

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### AVIATION.

1. Aviation has developed rapidly in the last few years and, as will be seen from the Report on the Progress of Civil Aviation, 1933, recently published by H.M. Stationery Office, the British Empire has not lagged behind in this respect. China is also becoming air-minded, and in such a country with vast spaces having no road or rail communication the gradual establishment of air routes will be a logical development.

2. So far, however, China is not linked up with the rest of the world by air and this, in our opinion, is a matter which should occupy the serious attention of that country to which through air communication will be of great value, and of the British whose Far Eastern route extends as far as Singapore and thence continues to Australia.

3. It appears to us that this new means of rapid communication which will have a greatly increasing commercial value should now receive from Hong Kong the same careful consideration as has been given to its position as a great port of ocean shipment.

4. In order to be of economic value, air lines must follow and be ancillary to established trade routes because on these are the great trade centres through which the life blood of the world pulses. Hong Kong, being the fifth largest port in the world and a great intermediate trading station has all the facilities and all the advantages to render desirable its development as an air port linking China with the near East and Europe on the one hand and Manila, America and Australia on the other. Already aviation has developed sufficiently to make this mechanically possible and all that is needed to make it an accomplished fact is enterprise and goodwill. In view of the immense advantages to be gained by all concerned from the facility of world wide rapid communication we are of the opinion that a vigorous attempt to co-ordinate the various interests which would gain by this air-link should be made and that the goodwill necessary for co-operation and the security for enterprise on an economic basis will be forthcoming.

5. It is natural and right that we should first consider Hong Kong as a Port for British air lines, but as with shipping in the past, so with aviation in the future, and we consider that having secured reasonable British participation Hong Kong must maintain an open port and welcome the aviation interests and air lines of all countries.

6. We must envisage a very definite growth in air-traffic and air-mindedness. With established air routes it will be much easier for business men and others to pay short visits to the Far East. The more wealthy classes of tourists and holidays makers may well be induced to visit Hong Kong and China if they can do so without the need of a long sea journey. The primary reason for through air traffic must, however, be the carriage of mails. We are aware that even though the air-mail to Europe only commences at Singapore the traffic from and to Hong Kong by that route is steadily increasing. With an air connection through to Hong Kong we are confident that there would be a tremendous increase in air-mail traffic. A further consideration is that the definite establishment of Hong Kong as an air-port would, apart from affording increased facilities to Hong Kong and China, tend to create a new business and a new industry which may, to an increasing extent, replace waning business in other directions.

7. With regard to Air Mail we were informed that in spite of the depression there has been a steady increase in the use of the Air Mail services from Hong Kong to Europe as follows:—

1932.	August to December .....	8,618 letters
1933.	January to December .....	31,635 ,,
1934.	January to June .....	17,864 ,,

8. The increase in 1934 was about 10 per cent and the Air Mail letters sent were 2.46 per cent of steamers' letters. We were informed that it was generally estimated that to operate an Air Mail service 5 per cent to 10 per cent of the postal matter should pay air premiums. It must be remembered, however, that the premium on letters from Hong Kong to Europe is heavy and that, owing to lack of direct air communication the saving in time is at present not very great. In view of the fact that a direct Air Mail from Hong Kong to London would probably take no more than seven or eight days we are of the opinion that it would well pay the business man to use such service and that a great increase could therefore be expected.

9. The subject having been exhaustively discussed we finally express our opinion that no time should be lost by the authorities in conjunction with British air interests in connecting Hong Kong by air to the air routes already established. We realise that the matter has already received the attention of both the Hong Kong Government and the United Kingdom authorities and that there are a number of difficulties in the way. We feel, however, that the advantages to all concerned are so considerable that a vigorous attempt to co-ordinate all interests will not meet with failure.

10. Further, we are of the opinion that an endeavour should be made by British air interests in conjunction with Chinese interests to establish a Sino-British Company for the purpose of linking the trunk route with China's domestic services and running in conjunction therewith.

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## Chapter XIII.

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### TOURIST TRAFFIC.

1. From some of the earliest historical records we find that the characteristics of human kind, inquisitiveness, love of beauty, and desire to spend leisure comfortably, have first caused people to wander abroad and secondly to establish pleasure resorts. When Hong Kong first became a Colony it was by no means a pleasure resort, but the energy and foresight of the early Colonists have awarded us with Hong Kong as she is to-day, beautified by man's skilful guidance of natural beauty and rendered comfortable by the use of the most modern scientific discoveries. It is no wonder therefore, that tourists on first seeing Hong Kong become silent with admiration. With some, however, the second impression is disappointing and we have often heard the remark that "Hong Kong is a lovely place, but what a pity there is so little to do". Others have been surprised that Hong Kong has not been more widely advertised.

2. With these remarks and the fact of the depression in mind we have endeavoured to explore the possibility of (a) Hong Kong becoming more widely known as a first class winter resort and (b) the making of Hong Kong more attractive to those who require more than to gaze on our natural scenery during the day and retire at an early hour at night.

3. To those residing for any length of time in the Colony there are, of course, many outdoor attractions such as riding, yachting, golf, tennis, cricket, football, bowls and bathing. There are also a number of social institutions to which the resident may belong. Most of these amenities are, however, not available for the visitor whose stay is too short for the formalities attendant on joining clubs and other institutions but who requires a variety of distractions which together go to the making up of what is usually known as a "good time".

4. While it is plain that no sudden transformation of Hong Kong to a paradise for holiday makers can be made, without the expenditure of considerable sums of money, we feel it necessary to initiate the idea that there is no reason whatever why gradual planning should not make Hong Kong more attractive. We are also of the opinion that there should be organised advertisement of the attractions of the Colony and some endeavour to open to visitors (with proper safeguards) many of the means of recreation at present closed to them.

5. After hearing important evidence relating to this question and having discussed the matter ourselves we decided to address an interim report to the Government as follows:—

6. "The Commission are strongly of the opinion that the Government would be well advised actively to encourage tourists whether from Overseas or from China. They maintain that Government should sponsor the development of tourism and should afford some financial aid for such development as is done in the United Kingdom and elsewhere. The Commission is apprised of the fact that there is scarcely a Political entity having attractions to offer to tourists and holiday makers which does not make organised effort to encourage visitors. In many countries, apart from national organisation, municipalities each have their own organisations for the encouragement and promotion of amenities for the visitor and for the issue of suitable propaganda calculated to attract the visitor from abroad to the areas which they administer.

7. In pursuance of their unanimous opinions the Commission propose that Government should designate an official who, with the advice of the Commission, would invite representatives of Hotels, Shipping Companies, retailers and others interested in the tourist traffic to form with him a preliminary Committee. It is proposed that this Committee should explore the possibility of and take steps towards the organisation of a Travel Association of Hong Kong, the membership of which would be open to all interested in developing the tourist traffic and the provision of amenities for visitors. In due course such Association might itself elect its own Committee. The Committee should, however, always have a representative of the Government; the Government being considered as a particularly interested party.

8. It is recommended that Government should place a sum of money at the disposal of the Committee who will decide on a system of subscription or membership fees from members of the Travel Association. With the use of such funds and such aid as it will be able to obtain from Government and the larger organisations interested in the Tourist Traffic, the Committee of the Association will publish and distribute suitable literature regarding Hong Kong.

9. While it is not proposed in this interim report to go into details of the procedure to be adopted by the Committee of the Travel Association it is envisaged that this body will discuss and actively take up in such direction as is proper and desirable such matters as the following:—

- (1) Moving signs and the general question of attractive advertisement.
- (2) The provision of amenities and amusements for visitors and arrangement for the use of Clubs by approved visitors in a suitable manner which will not interfere with the enjoyment of such clubs by members. The provision of amusement parks is of particular interest to Chinese visitors.
- (3) The Licensing Laws.
- (4) The question of a through road to Canton. The Commission is aware that considerable road development has taken place in Kwangtung and are of the opinion that, suitably taken up, it might be quite possible to make an appropriate arrangement for a through road linking up with the Kwangtung system of roads which will encourage through transport services and benefit not only Hong Kong but also Kwangtung.
- (5) Aviation.
- (6) Measures to be taken by Hotels, Shipping Companies and retailers to attract visitors.

10. Many other matters will present themselves for consideration from time to time. Generally the Commission is unanimously of the opinion that there should be a movement to make Hong Kong as attractive a place as possible in which money will be spent and circulated. It is envisaged that such a movement will in time more than pay for its cost.

11. Finally, the Commission is unanimously of the opinion that the licensing hours applicable to Hotels, Cabarets, Restaurants and Chinese Theatres now allowed to remain open till midnight, should forthwith be extended to 2 a.m.”.

12. Since the submission of the above Interim Report the Government has extended the licensing hours and steps have been taken to implement our major recommendation regarding the establishment of a Travel Association.

13. The numerous suggestions for a “brighter Hong Kong” contained in memoranda and minutes of evidence which have been forwarded to Government may well be left to the consideration of this Association, but we desire to take this opportunity of emphasizing our former recommendation that the question of connecting the roads of this Colony with the road system of Kwangtung province should receive early and serious attention.

Appendix "D".

14. By courtesy of the Manager of the Kowloon-Canton Railway we are able to attach a map (Appendix "D") showing existing and projected roads in Southern Kwangtung. It will be seen that the building of a bridge at Shum Chun will immediately link the Colony with Waichow and the Wai Yeung District generally, while it is obvious that direct road communication between Canton, Shum Chun and the Tungku and San On districts is merely a question of time.

15. We on our side should be fully prepared to take advantage of the facilities which are being placed at our door and should make every effort to secure a road connection between this Colony and China, which cannot but be to the mutual advantage of both countries.

16. There was one further suggestion which we felt should receive early consideration. It is universally admitted that in these days one of the most efficacious methods of securing publicity is by means of wireless and we were of the opinion that the range of Hong Kong broadcasting should be extended by the purchase of a short wave transmitter which would be heard at entertainment value from India to Japan.

17. At our request several alternative schemes were put forward by the Chief Electrical Engineer of the Public Works Department and we eventually decided to recommend the adoption of one involving the purchase of a short wave transmitter specially designed for this type of broadcasting.

18. We understand that this recommendation has received provisional approval and we trust that when the apparatus has been installed full advantage will be taken of the possibilities of advertising this Colony throughout the East.

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## Chapter XIV.

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### PIGS AND POULTRY.

1. Shortly before this Commission came into being, a Committee was appointed by His Excellency the Governor to consider and advise as to what practical steps can be taken to improve and extend the breeding of pigs and poultry in the New Territories.

2. That Committee has since issued its report, and we have no hesitation in supporting its recommendations. In doing so we wish to emphasise the economic importance to the Colony of endeavouring to increase as much as possible its own production of foodstuffs.

3. The Colony has always imported the major portion of the foodstuffs consumed by its population. It pays for these imports chiefly out of its earnings from trading activities and when, as at present, the volume of trade passing through the Colony has shrunk it becomes necessary by way of compensation, to increase its own productivity, thereby retaining its money and affording increased employment within the Colony. While obviously this argument is applicable to any article capable of economic production within the Colony it is particularly applicable to pigs, poultry and eggs, of which very large quantities are imported for consumption.

4. Our local production of pigs, though quite considerable and amounting in value to about \$1,500,000 annually, is only one seventh of the quantity imported, and, as pointed out in the Committee's Report, given the requisite guidance and encouragement "an important improvement upon the existing state of affairs can be anticipated with every confidence."

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## Chapter XV.

### MISCELLANEOUS PROBLEMS.

1. In the course of our deliberations we encountered certain questions of some importance which, either by reason of their confidential nature or because of their limited scope, were not suitable for inclusion in the chapters forming the main body of this Report.

2. After consideration, we decided to include in a special Miscellaneous Chapter such of these problems as could appear in a public document and, where reasons of privacy prevailed, to submit our findings in the form of a supplementary confidential Report.

#### (“A”) CABLE RATES.

1. Representations were made to the Commission that the cable rate in Hong Kong was unduly high and constituted a definite burden on the trade of the Colony. It was given in evidence that one important trading concern spent no less than \$30,000 per annum on cables and considered the charges to be excessive especially as between Hong Kong and London.

2. At the invitation of the Commission evidence in explanation of this matter was given by Mr. Carter, Manager in Hong Kong of the Eastern Extension Telegraph Company, Limited. A summary of this evidence is contained in the following paragraphs, Nos. 3, 4, 5, 6 and 7.

3. The Eastern Extension Telegraph Company is a branch of the large Merger concern, Cable & Wireless Limited, an Imperial public utility company administered by private enterprise combined with State supervision of essential elements.

4. International cable charges are fixed in gold francs and converted into local currency at a conversion rate which is subject to periodic readjustment. Since 1913 the gold franc charges, Hong Kong-London, have been reduced from Frs. 5.50 per word, (full rate) to Frs. 3.45 per word, the last reduction taking place in 1929.

5. These rates compare favourably with the rates fixed by the same Company of G.Frs. 3.50 in the Straits Settlements, G.Frs. 3.84 in French Indo-China and G.Frs. 4.00 in the Dutch East Indies. In addition to the full rate there are reduced rate services at one half and one third of the full rate charges.

6. It has not been found possible to make any further reductions since 1929 for although, by the introduction of labour saving inventions, the Company has effected economies to the extent of £2,000,000 sterling during the last two years, yet at the present moment they are only in a position to pay a  $2\frac{3}{4}\%$  dividend on less than half their capital. There are several reasons to account for this:—

(a) Excessive competition has resulted in an over-development of telegraphic facilities which has led to an uneconomic position for all concerned. The establishment of lines of direct communication between various European countries and their Colonies has cut into the whole structure of international telegraphy and, by reducing the volume of international cable traffic, has prevented the reduction of rates.

(b) Cable companies have to carry a heavy burden of taxation in the form of royalties and transit and terminal taxes imposed by various Governments. In some cases these taxes were originally imposed in times of prosperity and have been continued without alleviation in times of depression, while in others they have no justification in services rendered by the taxing Government.

It is hoped that before long modern inventions will provide a weapon wherewith to fight for more reasonable terms, but the whole question is very delicate and is not likely to be solved in the immediate future.

(c) During the past five years Cable Companies have been faced with steadily increasing competition from wireless. Generally speaking, it is far cheaper to operate and maintain a wireless than a cable station, and though communication by this method is open to many objections, especially in times of war, it has made serious inroads into one source of the Cable Companies' revenue.

(d) Finally, we were informed by Mr. Carter that no hopes could be held out for any reduction in rates until such times as a revival of world prosperity had led to a general increase in cable business or until the gradual centralisation under unified control of all the scattered systems of Empire communication had eliminated intra Empire competition.

7. Questioned as to the reason why a cable from Hong Kong to London should cost more than a cable from London to Hong Kong, Mr. Carter explained that the gold franc rate was the same for both outward and inward cables. Owing, however, to the fact that the United Kingdom had gone off the Gold standard the sterling equivalent of the gold franc rate should in fact be considerably higher than it was at present. So far as London was concerned, the Cable Company was endeavouring as far as possible to maintain the volume of trade by leaving their sterling charges unchanged and were themselves carrying the loss occasioned by the depreciation of sterling in terms of gold. There was, however, no possibility that this policy would be extended to embrace other portions of the Empire.

8. While, from this evidence, it would appear that Hong Kong is not worse off than its neighbours, we must emphasise that in our opinion this Colony is entitled to individual consideration, and a general reduction in the cost of cable communication may well help a revival of trade, or at least decrease the burden on a commerce which is in distress. In this connection it must be remembered that the burden of cable charges is in inverse proportion to the magnitude of business transacted.

9. We would point out also that whereas during the past few years of depression there has been a world wide reduction in prices of basic commodities; cable rates in this Colony have remained unaltered since 1929. We consider that it should be a matter for careful investigation by the Cable Company whether their present policy does not stand in need of drastic revision, for, in our opinion, there is a strong possibility that a continuation of the present high scale of charges will result in a permanent loss to the Company of a considerable portion of their semi-urgent traffic which will be diverted into cheaper though less expeditious channels of communication.

(“B”) PRICE OF PETROL IN HONG KONG.

1. Another question considered by the Commission was the price of petrol in Hong Kong as compared with the prices obtaining in other large cities in the Far East and in England. Unfortunately, owing to the number of inconstant factors which determine the selling price of this commodity, it is not easy to compile a table of comparative prices which will be readily intelligible and at the same time accurate and up to date. This must be remembered when considering the following figures, and allowance must be made for fluctuations in exchange values of currencies, variations in Customs and Excise duties, and small errors in the reduction of different measures of capacity to a common selling unit. With these reservations, however, the following table may be taken as representing an approximately correct estimate of the retail selling price of petrol, ex-pump, in the places enumerated, at the end of December, 1934.

*Shanghai.*

<i>Unit of sale.</i>	<i>American Gallon.</i>
Gross retail selling price .....	Sh. 91 cents.
Duty .....	„ 39 „
Nett retail selling price .....	52 „

Converted into Hong Kong currency at rate of Sh. \$123=H.K. \$100, and into Imperial Gallons at rate of 1 American Gallon=0.8325 of an Imperial Gallon, this equals H.K. 51 cents for 1 Imperial Gallon.

*Dairen.*

<i>Unit of sale.</i>	<i>American Gallon.</i>
Retail selling price .....	66 Japanese sen.
Duty .....	nil.
Nett retail selling price .....	66 Japanese sen.

Converted into Hong Kong currency at rate of Yen 146 = H.K. \$100, and into Imperial Gallons at rate of 1 American Gallon = 0.8325 of an Imperial Gallon, this equals H.K. 54 cents for 1 Imperial Gallon.

*England.*

<i>Unit of sale.</i>	<i>Imperial Gallon.</i>
Gross retail selling price .....	1/5d.
Duty .....	8d.
Nett retail selling price .....	9d.

Converted into Hong Kong currency at rate of H.K. \$1.00 = 1/8d. this equals H.K. 45 cents for 1 Imperial Gallon.

*Canton.*

<i>Unit of sale.</i>	<i>American Gallon.</i>
Gross retail selling price .....	97 cents H.K.
Duty .....	41½ (40 to 43 c. H.K., say 41½).
Nett retail selling price .....	55½ cents H.K.

Converted at rate of 1 American Gallon = 0.8325 of an Imperial Gallon, this equals H.K. 66.7 cents for 1 Imperial Gallon.

*Hong Kong.*

<i>Unit of sale.</i>	<i>Imperial Gallon.</i>
Gross retail selling price .....	\$1.10.
Duty .....	.25.
Nett retail selling price .....	.85 prior to 25.12.34,
Nett retail selling price .....	.75 since 25.12.34.

*Summary.*

Gross returns to Oil Companies on one Imperial Gallon reduced to Hong Kong currency.

Shanghai .....	51 cents,
Dairen .....	54 ,,
England .....	45 ,,
Canton .....	66.7 ,,
Hong Kong .....	85 ,, before 25.12.34,
	75 ,, since 25.12.34.

2. While realising that the discrepancies revealed in this table were partly accentuated by the conversion of prices into terms of Hong Kong currency, nevertheless we felt that some explanation was needed of the apparently excessive charges in Hong Kong and we accordingly requested the views on this matter of the three big oil concerns in the Colony.

3. Summarized briefly, the explanations given by the Oil Companies are as follows:—

“ A.” Owing to over production throughout the world prices of petroleum products have been forced down to unremunerative levels, and as a consequence the major distributing companies have been faced from time to time in various parts of

the world with competition from smaller producers and sellers who, not having incurred the expenditure of creating an extensive marketing organisation, are in a position to market their products at prices which are definitely unremunerative so far as the major companies are concerned.

“ B. ” The charges in this Colony do not represent more than a reasonable return on money expended by the companies and should not in fairness be compared with charges in areas where cut-throat competition has forced down prices to an uneconomic level.

“ C. ” In support of the first statement in “ B ” it must be remembered that physical conditions in Hong Kong are such as to necessitate a certain amount of duplication of plant and equipment and to increase overhead expenses generally without securing a corresponding return in the shape of increased sales. The total monthly trade in petrol in Hong Kong averages approximately 310,000 American gallons, as compared with 1,000,000 American gallons in Shanghai, and an even larger quantity in Manila. This difference in turnover means a very much higher overhead, especially since the distribution facilities provided in the Colony are designed to cater for a much larger volume of trade. Rents, rates and labour are more expensive in Hong Kong than in most of the areas mentioned above, while regulations regarding the provision of special and often very expensive forms of fire fighting appliances are strictly enforced.

“ D. ” The figures given in the summarized table represent the approximate gross returns to the Oil Companies and not the nett returns. No allowances are made for dealers' discounts and for rebates granted to important commercial customers. Here again the restricted gallonage in Hong Kong plays an important part. Dealers sales are smaller and their discounts from the Oil Companies correspondingly larger than in areas where petrol dealing is a more profitable business. It has been estimated that the average nett return to the Oil Companies is 68 cents per Imperial Gallon, as opposed to the gross return of 85 cents.

“ E. ” Finally, it was pointed out that the cost of motor fuel represents only a small part (roughly 20%) of the total cost of operating trucks and automobiles. A reduction in the price of petrol would, therefore, have but little effect in reducing the operating costs of local industries, whereas the aggregate loss to the Oil Companies would be considerable.

4. There can be no question but that the geographical condition of this Colony, together with the restricted gallonage, must tend to render working costs higher and profits less. Nevertheless we are not entirely satisfied that in the existing circumstances Hong Kong is not being made to shoulder some part of the burden imposed on the Companies by competition in other areas. It is, for example, remarkable that petrol which has been stored in Hong Kong and carried from Hong Kong to Canton should, in spite of additional freightage and other charges, be sold at a cheaper rate in that city than in Hong Kong itself.

5. Undoubtedly the most potent factor in the reduction of prices is open competition and it must be admitted that, so far as this Colony is concerned, this factor is largely non-existent. While we would not, at the present time, advocate any measures which might tend to reduce prices to uneconomical levels, we find it difficult to credit that the large Oil Companies are selling at a loss in the above mentioned markets where prices are so much lower than in Hong Kong and, if this is indeed the case, we find it still more difficult to believe that Hong Kong sales could offset such losses.

6. We would remind those Companies that the possession of a virtual monopoly carries with it a duty to the community which should not be overlooked and that it is in their own interests to ensure, by charging reasonable prices, that the public of Hong Kong will not welcome with enthusiasm the advent of fresh competitors.

7. In particular we would urge on them the propriety of passing on to the consumer with the least possible delay the benefits received from an appreciated currency. We note with pleasure that since we began to consider this subject the price

of petrol has been reduced by ten cents a gallon, but in view of the fact that the Hong Kong dollar has been rising steadily for the past six months we do not feel that this reduction should be regarded as more than a step in the right direction. We appreciate that daily fluctuations in prices are not practicable or desirable, but we do consider that a somewhat less conservative policy might be pursued with advantage in the light of a rising exchange.

(“C”) HONG KONG, CANTON AND MACAO STEAMBOAT COMPANY, LIMITED.

1. A comprehensive Memorandum was received from the Hong Kong, Canton and Macao Steamboat Company, Limited, setting out various problems and difficulties with which this Company is forced to contend. Most of these problems are not capable of solution in this Colony and we feel that we can take no useful action beyond transmitting them to Government for sympathetic consideration.

2. There is, however, one complaint that must be referred to here. It is alleged that during the past three years, and especially during 1934, the Steamboat Company has suffered heavy losses in respect of its passenger traffic owing to steadily increasing competition by the Kowloon-Canton Railway.

3. This competition is described as “unfair” on the grounds that the Railway is a Government subsidised concern supported by the revenues of the Colony to which the Steamboat Company as a taxpayer is forced to contribute.

4. A railway, whether Government or privately owned, is a public utility concern and as such cannot help but compete with businesses of a similar nature. The Kowloon-Canton Railway for a period of eighteen years failed to cover its working expenses, not through maladministration but owing to circumstances in China, etc. If the Hong Kong taxpayer is to be regarded as a Railway shareholder then in equity he should be entitled to recover his losses when the opportunity to do so occurs.

5. Moreover, in our opinion, competition in transport stimulates trade provided that the rates charged are compatible with business efficiency. The criterion of transport efficiency is the “Operating Ratio”, *i.e.*, the ratio between working expenditure and gross receipts. So long as a decrease in rates and fares leads to an increase in revenue it is a benefit both to the public and the transportation company. Any decrease which did not produce this result might, if maintained, be open to the accusation of unfair competition, but we have evidence that the Railway administration has always aimed at decreasing the ratio and any experimental reductions in fares which have proved unremunerative have been altered without delay.

6. In these circumstances we find ourselves unable to endorse the complaint of the Steamboat Company that they are suffering from unfair competition by the Railway, or to recommend that any steps be taken to eliminate this competition which we regard as beneficial to the Colony as a whole.

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## Chapter XVI.

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### CONCLUDING CHAPTER.

1. The Commission soon shed any illusions which they may have entertained regarding the possibility of discovering any easy road to recovery and approached their task free from any economic bias. It became obvious from the outset that factors beyond the Colony's control dominated the situation. In fact, the task from a practical point of view resolved itself into a modest enquiry into the Colony's activities, - and resources, and the problem of their conservation. There is little scope in a Colony like Hong Kong, having no natural raw products and but a small domestic consumption, for the ambitious schemes of economic reconstruction or national planning which have become the modern fashion.

2. Although we quickly realised that there was no call for radical reorientation of the Colony's economic policy, we acknowledge that our investigations have been rewarded by the acquisition of interesting information regarding the Colony and the economic role it fulfils which hitherto was not fully realised. The interplay of political, geographical and financial forces has produced in Hong Kong an extremely complex organised community which is in a constant state of flux and if the Commission has achieved nothing but an analysis of this we feel that our labours would not have been in vain and that the commercial community should benefit from a consequent adjustment of the administrative viewpoint.

3. In Chapter II reference was made to an enquiry on the Colony's Economic Resources which was made in 1920. In 1896 a similar economic enquiry on a much smaller scale was made at the instance of the then Secretary of State, Mr. J. Chamberlain. These reports reveal a gradual transformation of the Colony's economic function. In 1896 the entrepot trade was the predominant and practically sole activity of the Colony to such an extent that that vigorous and purposeful statesman recognised the position at a glance. Twenty-four years later, in 1920, no fundamental change was apparent but other activities, though subsidiary, had grown sufficiently to justify what might be termed a census of production. In 1934 the transformation has progressed a little further and the industrialisation of the Colony has accelerated though it is still of subsidiary importance. Its progress would, however, have been much greater but for one external event namely, the achievement of tariff autonomy by China in 1925. Under the previous regime of what was practically mutual free trade Hong Kong was essentially as Chinese in its commercial and social relations as Shanghai or Tientsin. The flag was different but this constituted no economic impediment.

4. As soon as China became free to do what she liked with her Customs tariff she raised it, the main object of that time being an increase in revenue. Increases in the tariff duties have since then been rather frequent and the purpose has evolved from a simple desire to increase income to the complex aims of economic nationalism with its fiscal restrictions on the importation of foreign goods. While it is realised that this policy has not been specifically directed against Hong Kong, it has in fact caused a special hurt to the Chinese of the Colony.

5. Not that Hong Kong's entrepot trade has been so seriously affected as her other activities. Foreign goods are still imported because in the main they are essential and non-competitive with Chinese products, though many of them are likely to be gradually replaced by Chinese manufacturers. The products of Hong Kong factories are, however, now barred out from their former adjacent markets and have to seek a precarious outlet overseas. Now that, following the world depression, the overseas markets have shrunk, the instability of Hong Kong's position outside China's tariff wall is apparent.

6. Unless therefore the entrepot trade can develop sufficiently, or alternative markets be found to compensate for the loss of entry into South China of local products, the Colony's rate of growth must slow down. The prospects of such development are not, however, promising as it is China's policy to curtail overseas imports or at any rate to import only essential raw materials and heavy machinery. Development of trade as a result of advancement of China's industrial policy must eventually depend on world recovery and an increase in China's ability to export or at least to produce more of her own common needs. These matters are entirely beyond local control and, therefore, need not here be further discussed.

7. Whether the Government of China were well advised or not in instituting a policy of restriction on foreign imports is beside the question. It is, however, extremely likely that the weapon was never intended for use against Hong Kong and that the damage the Colony has sustained is only a by-product of the tariff. It seems incredible that the Chinese Authorities should ever contemplate striking a blow at a contiguous community 98% Chinese in race whose social and financial associations are almost exclusively with their brethren in the Kwang Tung Province; a community moreover whose wealth automatically flows back into China.

8. It is quite obvious that foreign trade is the source of this wealth but it must be clearly seen that it is a two-way foreign trade which while providing foreign articles which China needs also takes from China those of her products which are needed by the rest of the world. A very great amount of this business is performed by Chinese, and one means of relieving depression in this major portion of the community would be the partial removal of the Chinese Customs barrier in favour of the products manufactured in Hong Kong by the Chinese.

9. The method by which some such alleviation might be afforded is a matter for (Government consideration and diplomatic negotiation). We have pointed out the economic value to China of the preponderant Chinese population of the Colony. This does not constitute a concession which can be offered by the Colony, but it does constitute a very cogent reason for a friendly and sympathetic gesture by the Chinese Government to the Colony. That the Colony is prepared to do all it can to assist the country of China is manifest in very many ways and we wish to go on record as being desirous more than anything of the establishment between Hong Kong and China of a *concrete* friendly co-operation, with China as willing as we are to show practical proof. Whether or not this may be effected by a tariff concession in respect of Chinese labour, Chinese capital and Chinese raw materials comprising the manufactured goods of the Colony; or whether a silver dollar duty analogous to the duties levied on inter-provincial trade could be applied to Hong Kong products instead of treating them as goods in which there is no Chinese interest, are matters for very friendly discussion and finally for diplomatic negotiation. (Suggestions have been made for the establishment of a manufacturing zone within the Chinese tariff to be set up in the New Territory.)

10. Until there is some liaison and discussion with the Chinese it will not be possible to specify what concrete benefits Hong Kong can offer China, but it is difficult to believe that she can do nothing. For example, for many years now both Hong Kong and China have been anxious to curb smuggling, and it is conceivable that with closer co-operation in anti-smuggling measures much might be achieved.

11. The Commission is in no sense under the illusion that such negotiations can be easily and readily brought to a successful issue, if for no other reason than the dualism of authority between the Central Government and provincial administrations. They do, however, stress the desirability of exploring every avenue that holds out possibilities of compensation for the loss of trade which seems inevitable if (the policy of self-sufficiency adopted by almost every nation in the world) has come to stay. It is a policy particularly unsuited to the economic welfare of the Colony, further restricting, as it probably will, the world's overseas trade, which is Hong Kong's lifeblood. It is difficult to believe that this policy will not ultimately give way to one of International reciprocity, but there is sufficient likelihood of its persisting long enough to (become an increasing menace to the Colony's entrepot trade.)

12. As part of the Empire it is (reasonable) to suppose that (Hong Kong would receive some compensating) benefits under the Ottawa Agreements. The somewhat complicated framework of these Agreements, however, (does not) in every case permit Hong Kong in practice to share in Empire benefits that its political status merits. (Curiously enough in the matter of Imperial Preference Hong Kong's close connection with China is the obstacle.) Certain Dominions regard Hong Kong as more Chinese than British in the factors of labour and capital. (The local Government) have, however, upheld the point of view that Hong Kong is entitled to be regarded as an integral portion of the British Empire. Her facilities for distribution have for several decades of free trade (rendered inestimable service to British trade) and now that the Empire has seen fit to change that policy, mere justice demands that the Colony should not be denied the advantages accruing from that change.

13. It is perhaps questionable whether, in the event of a satisfactory conclusion being reached upon this issue, this very success might not hamper negotiations with China along the lines already suggested, but success in even one direction should go some considerable way towards arresting the present trade decline. On the other hand should overtures in both directions fail, it may well be that the Colony's natural assets, wisely employed, will eventually enable her to overcome difficulties,

which perhaps at the moment appear more serious than they really are. In her central position, her unique harbour, political security, law and order, freedom from tariffs and absence of restrictions on currency, trade, capital and labour, the Colony possesses advantages gradually becoming unique in the world, and which for that very reason may enhance her value as a trade, financial, and even an industrial centre. To exploit these assets to the full however, the Colony's attraction as a free port is not enough; her reputation as one of the cheapest ports in the world must be maintained, and if possible enhanced. Whether she can do this and maintain the establishment of Government at its present scale is questionable, but in any case the burdens on the community in respect of taxation and services must ever be kept under enlightened control, and there must be constant vigilance to allow free play to the enterprise of her merchants and the skill of her workers.

**14.** In the course of our enquiry we came to the conclusion that, while in no way questioning the goodwill of the Government, there is some doubt whether all departments appreciate the desirability of facilitating trade to the utmost of their ability. We have heard complaints that often the official attitude has been one of aloofness, and, although we would not subscribe to the statements we have heard that there is sometimes obstruction, we feel that there must have been lack of consideration. Generally we should say that the departments of Government concerned at times either do not, or are unable to give sympathetic consideration to enterprises tending to benefit the Colony.

**15.** For instance, the complaint was constantly repeated that the most onerous conditions were imposed on grants of land irrespective of the purpose for which they were acquired. This applies not merely to private industrialists, but to public utility companies, who have to pay prices, based on bargaining conditions, which of course the public have ultimately to shoulder. Still more do these bargaining methods apply to the interpretation of the various departmental regulations which control the erection and the subsequent working of factories. Many of the proprietors are uninfluential and inexperienced, and while they have the European General Chamber of Commerce and the Chinese Chamber of Commerce through which to make representation to Government, we recommend that the General Chamber should set up a special Committee comprising members of their own Chamber, members of the Chinese Chambers, members of the Government, His Majesty's Trade Commissioner, and such others as they may choose to co-opt, under the Chairmanship of the representative of the General Chamber of Commerce on the Legislative Council.

**16.** While not in any way wishing to belittle the good work of the two existing Chambers of Commerce, we feel that such a special committee would facilitate liaison between both the Chambers themselves, between industrial interests, tourist traffic interests, the Import and Export Office, the Colonial Secretariat and other Government departments whose activities should include careful consideration of economic factors.

**17.** It has already been observed that the promulgation of purely municipal by-laws and regulations in statute form makes for cumbrous inflexibility. In any case, whatever form be adopted, such laws and regulations should be easily understandable and definite, so that a prospective owner may know in advance what conditions he must rigidly fulfil and what margin is left to official discretion. Not only would this simplify enterprise, but it would facilitate a reduction of official staff by eliminating inter-departmental bargaining and the imposition of extra unauthorised conditions when the obligatory requirements have already been fulfilled.

**18.** Apart from the resulting inflexibility it is exactly this type of legislation which lends itself so readily to the evil of Government by regulations, under which wide powers are entrusted to individual officials. This danger must be ever present in a bureaucracy such as exists in Hong Kong. Often in times of emergency measures are enacted and are allowed to remain in force indefinitely. This should be guarded against by encouraging and welcoming representations from those members of the public whose interests are affected, and by periodic revision.

19. These regulations do not in general affect the entrepot trade so much as the miscellaneous activities of the community and the ordinary life of the citizen. Strong representations were, however, made in respect of one deficiency in the commercial law of the Colony, namely, lack of any provision for the registration of partnerships. Traders within and without the Colony constantly suffer losses when debtor firms disappear and their proprietors cannot be legally identified. We are well aware of the difficulties compulsory registration would involve in this cosmopolitan community and consequently confine ourselves to urging the Government to compel all firms to signify on their letter headings or advertisements whether they are or are not officially registered, although registrations should still remain optional as hitherto. This would at any rate indicate the possibly ephemeral nature of a trading firm to its correspondents.

20. As already emphasised, we approached our task with no preconceived views on economic doctrine and were quite prepared to consider the merits of protection either for local industries or for Imperial products, subsidies, Government monopolies of certain products, or any of the other forms of State control of trade that have been introduced elsewhere. Though we reject them in toto as impracticable in Hong Kong we would be prepared to relent to a minor degree in respect of one industry only, agriculture. The lack of balance between agriculture and commerce is now universally recognised as a modern evil to be redressed. Admittedly Hong Kong can do very little in this respect, but the Government should take active steps to remedy the position by implementing as soon as possible the recommendations of the Pigs and Poultry Committee and effecting a greater degree of social and economic stability by making the Colony more self-supporting.

21. It will have been observed that from this Report much detail has been excluded. The evidence, memoranda and minutes which form three bulky typescript volumes have been communicated to Government and the Report may be taken as a general survey thereof to which our own opinions have been added. While a much more detailed Report might possibly be more interesting to read, the production of such would be a physical impossibility for the Commission constituted as it is of men who are all actively engaged in various business and Governmental activities.

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Appendix "A".

Table I.

Total values, in Sterling and Hong Kong currency, of Imports and Exports of Merchandise during the years 1921, 1922, 1923, 1924 and 1931, 1932, 1933 and first half year 1934.

Year	Average Rate of Exchange	IMPORTS.		EXPORTS.	
		H.K.\$	£	H.K.\$	£
1921	2/7 $\frac{15}{16}$ d.	511,791,180	68,105,545	508,682,598	67,691,877
1922	2/6 $\frac{5}{16}$ d.	484,528,587	61,196,970	482,798,560	60,978,464
1923	2/3 $\frac{5}{16}$ d.	544,290,607	61,941,405	539,290,048	61,372,331
1924	2/4 $\frac{1}{2}$ d.	607,625,078	72,155,478	536,208,792	63,674,794
1931	1/0 $\frac{3}{4}$ d.	652,518,949	34,665,069	542,049,838	28,796,398
1932	1/3 $\frac{3}{4}$ d.	552,388,563	36,250,499	471,859,706	30,965,793
1933	1/4 $\frac{1}{4}$ d.	432,396,507	29,276,847	403,092,170	27,292,699
1st half 1934	1/5 $\frac{1}{2}$ d.	166,553,174	12,144,502	157,107,557	11,455,759

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Table II.

Total values of Imports and Exports of PIECE GOODS AND TEXTILES and percentage table of distribution of Imports, during the first half years 1931, 1932, 1933 and 1934.

Average Rate of Exchange From.....	IMPORTS.			
	1/0 $\frac{3}{4}$ 1931	1/3 $\frac{3}{4}$ 1932	1/4 $\frac{1}{4}$ 1933	1/5 $\frac{1}{2}$ 1934
	\$	\$	\$	\$
United Kingdom...	23,981,983	26,197,022	10,316,915	4,228,564
Japan .....	12,489,669	3,481,402	2,901,875	4,431,873
China, North .....	12,807,498	15,661,725	17,082,496	15,273,634
Germany .....	1,047,640	796,230	622,995	282,672
Italy .....	1,000,319	371,875	548,070	624,269
France .....	225,796	135,527	145,919	120,322
Others .....	6,732,032	6,759,947	4,779,781	3,889,017
Total.....	58,284,937	53,403,728	36,398,051	28,850,351
Total Exports .....	35,263,422	30,985,699	26,362,260	21,967,616

From.	IMPORT PERCENTAGES.			
	1931	1932	1933	1934
	%	%	%	%
United Kingdom...	41.1	49.1	28.4	14.6
Japan .....	21.4	6.5	8.0	15.4
China, North .....	22.0	29.3	46.9	52.9
Germany .....	1.8	1.5	1.7	1.0
Italy .....	1.7	0.7	1.5	2.2
France .....	0.4	0.2	0.4	0.4
Others .....	11.6	12.7	13.1	13.5
Total .....	100.0	100.0	100.0	100.0

Appendix "A".

Table III.

Total quantities and values of Imports and Exports of COAL during the first half years 1931, 1932, 1933 and 1934.

From	IMPORTS.							
	1931		1932		1933		1934	
	Tons	\$	Tons	\$	Tons	\$	Tons	\$
India .....	—	—	102,509	1,563,523	101,586	1,410,152	37,574	420,652
China, North .....	111,928	1,734,326	130,341	2,020,205	88,185	1,114,291	95,782	1,101,495
Japan .....	137,582	2,497,308	162,423	2,870,027	231,469	3,084,126	212,374	2,772,068
French Indo-China ....	49,513	601,057	29,800	406,685	28,961	361,896	30,983	296,370
Others .....	11,434	178,672	24,844	363,566	16,928	249,390	4,405	55,152
<b>Total .....</b>	<b>310,457</b>	<b>5,011,363</b>	<b>449,917</b>	<b>7,224,006</b>	<b>467,129</b>	<b>6,219,855</b>	<b>381,118</b>	<b>4,645,737</b>
<b>Total Exports .....</b>	<b>98,550</b>	<b>1,391,960</b>	<b>77,277</b>	<b>1,136,594</b>	<b>95,891</b>	<b>1,341,188</b>	<b>37,337</b>	<b>531,055</b>
Average Rate of Exchange for <i>whole</i> year .....		1/0 $\frac{3}{4}$		1/3 $\frac{3}{4}$		1/4 $\frac{1}{4}$		1/5 $\frac{1}{2}$

Appendix "A".

Table IV.

Total quantities and values of Imports and Exports of WHEAT FLOUR during the first half years 1931, 1932, 1933 and 1934.

From	IMPORTS.							
	1931		1932		1933		1934	
	Piculs	\$	Piculs	\$	Piculs	\$	Piculs	\$
U.S.A. ....	479,233	4,731,252	386,437	2,995,890	187,384	1,254,316	179,550	1,062,242
Canada ....	136,729	1,302,601	221,829	1,869,812	144,292	1,074,700	122,104	828,789
Australia ....	36,541	332,305	639,717	4,892,838	228,023	1,525,522	171,626	905,946
Others ....	23,794	177,909	182	2,285	37	327	15,899	88,937
Total .....	676,297	6,544,067	1,248,165	9,760,825	553,736	3,854,865	489,179	2,885,914
Total Exports .....	709,980	6,166,803	786,492	6,500,464	701,414	5,147,815	351,807	2,101,280
Average Rate of Exchange for whole year .....		1/0 $\frac{3}{4}$		1/3 $\frac{3}{4}$		1/4 $\frac{1}{4}$		1/5 $\frac{1}{2}$

Appendix "A".

Table V.

Total quantities and values of Imports and Exports of SUGAR during the first half years 1931, 1932, 1933 and 1934.

	IMPORTS.							
	1931		1932		1933		1934	
	Piculs	\$	Piculs	\$	Piculs	\$	Piculs	\$
Unrefined Brown .....	719,288	5,675,300	969,509	6,678,960	702,118	4,385,202	961,780	4,453,973
Unrefined White .....	—	—	1,401,560	10,632,835	679,886	4,889,687	732,898	4,511,722
Refined White .....	1,327,385	11,221,630	30,218	269,099	21,829	155,419	7,326	55,187
Total .....	2,046,673	16,896,930	2,401,287	17,580,894	1,403,833	9,430,308	1,702,004	9,020,882
Total Exports .....	1,737,219	16,345,769	1,894,428	16,362,476	1,055,516	8,665,487	1,038,579	7,228,344
Average Rate of Exchange for whole year .....		$1/0\frac{3}{4}$		$1/3\frac{3}{4}$		$1/4\frac{1}{4}$		$1/5\frac{1}{2}$

Appendix "A".

Table VI.

Total quantities and values of Imports and Exports of MINERAL OILS during the first half years 1931, 1932, 1933 and 1934.

		IMPORTS.			
		1931	1932	1933	1934
Petrol .....	{ Imp. Gallons .....	4,164,685	5,060,177	6,652,152	7,814,521
	{ \$ .....	3,602,613	3,547,460	3,969,470	2,937,643
Fuel Oil .....	{ Tons .....	87,685	85,810	103,123	94,153
	{ \$ .....	4,215,140	9,618,850	4,969,980	4,354,603
Diesel Oil .....	{ Tons .....	—	1,344	6,884	682
	{ \$ .....	—	98,100	485,163	28,439
Kerosine .....	{ Imp. Gallons .....	15,463,951	14,508,080	10,666,443	9,170,138
	{ \$ .....	9,916,296	7,903,697	4,594,319	3,110,408
Lubricating Oil .....	{ Imp. Gallons .....	780,571	693,053	715,867	1,068,206
	{ \$ .....	989,330	1,071,488	563,716	817,598
Total Tons .....		87,685	87,154	110,007	94,835
Total Imperial Gallons .....		20,409,207	20,261,310	18,034,462	18,052,865
Total \$ .....		18,723,379	22,239,595	14,582,648	11,248,691
Total Exports .....	{ Tons .....	28,287	30,726	52,594	78,138
	{ Imperial Gallons .....	16,937,860	18,175,045	15,776,385	6,134,368
	{ \$ .....	14,349,848	13,749,749	11,882,644	6,951,881
Average Rate of Exchange for <i>whole year</i> .....		1/0 $\frac{3}{4}$	1/3 $\frac{3}{4}$	1/4 $\frac{1}{4}$	1/5 $\frac{1}{2}$

**Appendix "A".**

**Table VII.**

Total values of Imports and Exports of MACHINERY AND ENGINES during the first half years 1931, 1932, 1933 and 1934.

	IMPORTS.			
	1931	1932	1933	1934
Total .....	\$ 5,517,373	\$ 3,498,779	\$ 2,827,005	\$ 2,475,552
Total Exports .....	795,390	791,176	1,018,479	752,758
Average Rate of Exchange for <i>whole</i> year .....	1/0 $\frac{3}{4}$	1/3 $\frac{3}{4}$	1/4 $\frac{1}{4}$	1/5 $\frac{1}{2}$

**Appendix "A".**

**Table VIII.**

Total quantities and values of Imports and Exports of SULPHATE OF AMMONIA during the first half years 1931, 1932, 1933 and 1934.

	IMPORTS.							
	1931		1932		1933		1934	
	Piculs	\$	Piculs	\$	Piculs	\$	Piculs	\$
Totals .....	898,720	8,198,168	890,435	6,853,813	901,280	6,561,345	227,361	1,363,687
Total Exports .....	646,237	6,434,728	655,663	5,439,532	677,898	5,680,248	208,398	1,361,299
Average Rate of Exchange for <i>whole</i> year .....		1/0 $\frac{3}{4}$		1/3 $\frac{3}{4}$		1/4 $\frac{1}{4}$		1/5 $\frac{1}{2}$

**Appendix "A".**

**Table IX.**

Total quantities and values of Imports and Exports of COTTON YARN during the first half years 1931, 1932, 1933 and 1934.

	IMPORTS.							
	1931		1932		1933		1934	
	lbs.	\$	lbs.	\$	lbs.	\$	lbs.	\$
Total .....	14,564,339	10,841,625	22,481,229	16,478,325	21,997,194	11,290,936	21,431,150	9,883,771
(Note.—Above figures are included in Table II).								
Total Exports .....	12,971,056	6,721,067	16,216,270	9,302,968	20,302,086	9,863,951	19,845,779	8,610,636
Average Rate of Exchange for <i>whole</i> year .....		1/0 $\frac{3}{4}$		1/3 $\frac{3}{4}$		1/4 $\frac{1}{4}$		1/5 $\frac{1}{2}$

**Appendix "A".**

**Table X.**

Total values of Imports and Exports of METALS during the first half years, 1931, 1932, 1933 and 1934.

	IMPORTS.			
	1931	1932	1933	1934
	\$	\$	\$	\$
Totals .....	23,861,997	20,525,301	16,807,279	14,813,714
Total Exports .....	19,938,399	14,395,412	15,842,748	15,162,787
Average Rate of Exchange for <i>whole</i> year .....	1/0 $\frac{3}{4}$	1/3 $\frac{3}{4}$	1/4 $\frac{1}{4}$	1/5 $\frac{1}{2}$

Appendix "A".

Table XI.

Comparative statement of VOLUME of Imports and Exports in the years 1924, 1931, 1932 and 1933, showing principal commodities.

	IMPORTS.			
	1924	1931	1932	1933
Piculs .....	38,348,567	39,386,180	39,743,765	37,679,988
Tons .....	1,200,748	847,644	948,026	1,101,786
(Coal and Coke) .....	(990,638)	(664,246)	(779,101)	(901,370)
(Fuel Oil, etc.) .....	(210,110)	(183,398)	(168,925)	(200,416)
lbs. ....	56,865,458	55,185,940	71,087,520	61,673,889
(Meats) .....	(3,079,381)	(2,319,810)	(2,339,372)	(2,249,744)
(Blankets, Woollen) .....	(1,561,313)	(1,066,236)	(1,046,157)	(1,134,164)
(Yarn, all kinds) .....	(52,224,764)	(42,022,701)	(55,788,704)	(49,418,293)
Yards .....	102,210,078	136,457,474	97,066,288	66,365,363
(Piece Goods) .....	(102,210,078)	(136,394,595)	(97,005,520)	(66,177,874)
Pieces .....	15,287,399	71,161,601	63,261,775	53,608,474
(Piece Goods) .....	(1,432,407)	(1,115,899)	(1,190,457)	(1,198,269)
(Bricks and Tiles) .....	(1,738,286)	(37,103,155)	(28,825,674)	(14,534,338)
(Blankets, Cotton) .....	(855,036)	(651,686)	(223,609)	(403,756)
(Bags, Gunny) .....	(10,499,385)	(31,516,321)	(32,502,754)	(36,516,864)
Gallons .....	31,050,807	36,799,087	38,766,733	30,068,618
(Mineral Oils) .....	(31,050,807)	(35,418,377)	(37,552,457)	(29,033,851)
Square Feet .....	8,248,584	8,297,652	8,140,855	7,284,270
Cubic Feet .....	5,058,882	4,010,907	5,456,002	4,275,767

Table XI,—Continued.

	EXPORTS.			
	1924	1931	1932	1933
Piculs .....	31,315,765	29,281,239	30,366,787	28,970,531
Tons .....	218,634	256,062	231,507	254,961
(Coal and Coke) .....	(199,438)	(200,116)	(164,067)	(146,468)
(Fuel Oil, etc.) .....	(19,196)	(55,946)	(67,440)	(108,493)
lbs. ....	49,791,750	45,527,654	55,702,877	53,211,186
(Meats) .....	(455,379)	(622,549)	(534,224)	(295,036)
(Blankets, Woollen) .....	(494,206)	(262,227)	(332,326)	(309,518)
(Yarn, all kinds) .....	(48,842,165)	(35,491,293)	(44,872,344)	(45,165,255)
Yards .....	86,141,945	95,894,305	70,158,856	54,655,876
(Piece Goods) .....	(86,141,943)	(95,609,182)	(70,011,189)	(54,361,184)
Pieces .....	23,790,041	36,317,282	39,186,798	40,913,078
(Piece Goods) .....	(1,169,439)	(683,207)	(617,089)	(766,807)
(Bricks and Tiles) .....	(1,860,503)	(2,339,680)	(2,832,095)	(1,294,198)
(Blankets, Cotton) .....	(689,070)	(654,175)	(335,695)	(378,640)
(Bags, Gunny) .....	(19,610,440)	(31,585,323)	(34,571,955)	(37,638,841)
Gallons .....	26,692,502	35,909,137	33,090,227	25,354,227
(Mineral Oils) .....	(26,692,502)	(35,374,830)	(32,612,276)	(24,912,355)
Square Feet .....	4,381,785	8,255,770	8,253,565	6,290,589
Cubic Feet .....	1,723,383	2,018,224	1,861,762	1,354,142

Appendix "A".

Table XII.

INDEX NUMBER OF WHOLESALE PRICES.

The following Price Index has been constructed on the basis of the declared quantities and c.i.f. values of commodities imported into Hong Kong:—

Average Rate of Exchange  $2/6\frac{5}{16}$ .

1922 = 100.

	2/4½ 1924	1/0¾ 1931	1/3¾ 1932	1/4¼ 1933	1/5½ 1st Half Year 1934
Foodstuffs .....	106.1	144.3	126.5	113.4	94.0
Textiles .....	112.5	135.8	125.2	97.0	98.9
Metals .....	102.3	140.9	128.1	107.8	102.3
Miscellaneous .....	106.3	125.4	109.7	95.7	88.4
Average .....	106.8	136.6	122.4	103.5	95.9

INDIVIDUAL AVERAGES.

$2/6\frac{5}{16}$ .

1922 = 100.

Foodstuffs.

	2/4½ 1924	1/0¾ 1931	1/3¾ 1932	1/4¼ 1933	1/5½ 1st Half Year 1934
Beans .....	100.3	130.9	118.6	101.3	80.3
Beef .....	116.9	218.0	152.3	173.2	124.1
Eggs .....	94.5	131.1	104.5	96.7	82.0
Flour (Wheat) .....	96.4	114.0	98.5	85.7	75.0
Salt Fish .....	87.6	125.9	150.0	153.4	134.7
Fruits, Fresh .....	123.4	306.7	274.5	250.1	218.3
Lard .....	106.9	138.0	114.7	101.2	81.5
Milk (Condensed) .....	92.2	185.2	176.8	170.9	140.4
Mutton .....	114.3	173.9	132.9	139.4	137.1
Onions .....	103.1	141.1	104.1	81.6	79.2
Peanut Oil .....	111.6	117.1	122.1	101.7	71.9
Pork .....	103.6	133.8	119.8	109.6	90.5
Potatoes .....	93.4	109.0	109.6	86.2	75.5
Poultry .....	111.0	175.2	147.7	117.0	90.4
Rice (Broken) .....	112.3	126.1	118.3	88.9	62.8
Rice (White) .....	110.2	133.2	113.5	93.5	71.4
Sugar (Raw) .....	135.8	99.0	86.6	78.7	63.7
Vegetables (Dried, etc.) .....	96.3	64.3	56.8	45.2	42.1
Vermicelli .....	106.5	120.2	101.7	80.3	65.2

**Table XII,—Continued.**

*Textiles.*

	2/4 $\frac{1}{2}$ 1924	1/0 $\frac{3}{4}$ 1931	1/3 $\frac{3}{4}$ 1932	1/4 $\frac{1}{4}$ 1933	1/5 $\frac{1}{2}$ 1st Half Year 1934
Cotton Yarn .....	120.5	141.4	120.1	92.3	86.8
Cotton (Dyed Plain) .....	100.4	94.8	88.4	77.6	62.4
Italians (Dyed Figured, Plain)..	82.2	87.5	100.0	61.8	66.7
Shirtings (White 40/43 yds.) ...	91.4	97.5	83.5	68.8	53.9
Hemp (Manila) .....	137.9	116.9	97.3	80.8	66.7
Gunny Bags .....	201.5	291.1	240.6	220.5	166.7
Hessian Cloth .....	138.0	64.9	83.2	73.6	72.7
Silk Piece Goods .....	91.4	85.3	75.9	72.2	64.8
Silk Yarn (Artificial) .....	94.3	45.1	45.0	40.0	32.7
Blankets (Wool and Union) ....	105.2	156.5	124.3	101.5	96.3
Flannels .....	105.0	352.4	349.2	181.2	301.7
Suitings and Tweeds (Woollen).	81.8	96.0	94.6	93.7	115.3

*Metals and Minerals.*

Brass Sheets .....	99.9	127.1	100.1	99.9	94.2
Yellow Metal Sheathing .....	95.8	159.5	115.9	109.7	88.8
Coal .....	88.1	119.8	110.2	92.9	86.9
Iron and Steel Bars .....	90.1	113.3	85.3	84.4	92.7
Iron and Steel Nails .....	93.5	116.5	117.0	118.8	107.6
Iron and Steel Plates .....	124.7	191.9	147.5	157.3	151.9
Lead (Pig) .....	131.2	150.8	120.3	86.6	87.3
Kerosene .....	72.0	103.7	91.0	67.6	49.0
Oil Fuel .....	97.0	212.0	285.5	151.7	142.2
Lubricating Oil .....	93.5	131.8	140.6	79.6	80.9
Petrol .....	91.1	87.5	74.6	55.9	39.3
Tin .....	150.4	177.4	149.4	188.8	206.8

*Miscellaneous.*

Cement .....	75.0	71.8	61.2	41.9	46.3
Charcoal .....	118.3	43.6	35.9	33.8	36.8
Feather (Duck) .....	157.4	160.7	124.1	80.8	101.2
Firewood .....	89.7	114.6	110.6	104.6	98.4
Hardwoods .....	80.5	92.7	80.8	80.8	75.3
Hides (Cow) .....	178.8	192.8	134.5	113.1	147.4
Hides (Buffalo) .....	114.3	192.6	159.0	164.6	73.3
Leather (Sole) .....	87.3	135.7	123.3	102.3	100.6
Paper (Chinese) .....	108.8	98.3	110.0	69.4	56.4
Rattans .....	89.5	130.2	126.4	118.4	116.3
Saltpetre .....	98.0	154.0	132.2	120.2	98.9
Softwoods .....	115.9	127.0	114.9	95.5	87.9
Soda Ash .....	98.3	147.7	128.8	101.0	82.0
Sulphuric Acid .....	85.4	131.2	127.7	136.2	144.1
Sulphate of Ammonia .....	96.7	87.5	76.8	72.4	61.1

## Appendix "A".

### Table XIII.

The following statement, extracted from B.O.T. Journal dated March 29th, 1934, page 484, shows the *decline in values* of the Imports for Home Consumption and Domestic Exports of certain of the principal countries during the half-yearly periods of 1931, 1932, and 1933 as compared with the corresponding periods in 1929:—

Conversions to sterling have been made at par rates\*

Country.	Declared Value in 1933.		Percentage decrease as compared with the corresponding period of 1929.					
			1931.		1932.		1933.	
	Jan.-June.	July-Dec.	Jan.-June.	July-Dec.	Jan.-June.	July-Dec.	Jan.-June.	July-Dec.
Imports for Home Consumption.								
	Million £.		Per cent.		Per cent.		Per cent.	
United Kingdom .....	295.2	331.6	29.8	26.7	39.1	43.7	45.8	41.5
Canada (a) .....	34.5	47.9	46.7	56.8	63.6	66.8	74.7	63.2
Australia (b) .....	26.4	28.9	68.5	71.5	67.6	59.3	62.5	61.4
British India (b) .....	44.9	43.7	40.9	50.1	48.4	45.8	56.1	52.0
British Malaya (b) .....	19.7	21.6	45.4	51.6	56.3	58.1	62.4	57.8
U.S.A. (b) .....	121.7	176.0	51.6	53.5	67.3	72.7	74.1	59.5
Germany .....	102.1	103.6	44.2	55.9	65.0	65.6	69.4	68.1
Japan (b), (c) .....	104.0	91.9	46.9	40.8	37.2	33.1	21.8	2.0
Czechoslovakia .....	15.8	19.5	44.0	38.5	60.4	64.7	73.7	68.2

Table XIII,—Continued.

Country.	Declared Value in 1933.		Percentage decrease as compared with the corresponding period of 1929.					
			1931.		1932.		1933.	
	Jan.-June.	July-Dec.	Jan.-June.	July-Dec.	Jan.-June.	July-Dec.	Jan.-June.	July-Dec.
Exports of Domestic Produce.								
	Million £.		Per cent.		Per cent.		Per cent.	
United Kingdom .....	175.3	192.1	44.5	48.3	47.9	52.0	51.1	48.2
Canada .....	42.3	66.9	49.5	48.2	61.4	55.2	64.3	46.2
Australia .....	41.1	49.4	52.0	28.6	46.7	25.4	44.5	0.3
British India .....	52.2	56.2	48.9	48.7	59.7	56.2	58.8	51.3
British Malaya .....	19.2	24.5	52.3	60.3	64.7	65.2	64.6	54.5
U.S.A. ....	135.0	203.4	50.0	57.8	68.2	70.7	74.5	61.6
Germany .....	116.4	122.1	27.0	30.5	54.2	60.4	63.6	64.1
Japan (c) .....	83.2	104.4	42.5	50.4	47.0	24.5	17.7	8.6
Czechoslovakia .....	16.0	19.6	31.0	40.1	60.1	67.7	71.6	71.4

\* The official Australian sterling figures have been used for 1931, 1932 and 1933.

(a) Including silver bullion.

(b) Total imports.

(c) Particulars relate to the trade of Japan with foreign countries only.

Appendix "B".

Revenue.

	1931	1932	1933	1934	Decrease since 1932
	\$	\$	\$	\$	\$
Liquor .....	*2,416,838.94	*2,387,257.19	*2,172,448.51	*1,973,820.00	*413,437.19
Tobacco .....	*3,364,522.13	*3,476,137.45	*2,921,456.05	*2,953,833.88	*522,303.57
Bets and Sweeps .....		323,684.74	254,109.21	166,753.99	156,930.75
Entertainment .....	334,574.25	286,479.85	275,745.90	262,974.90	23,504.95

\*Since 1931, Import duty has been calculated in "conventional" dollars and then converted into local currency. Average conversion rates for 1932, 1933 and 1934=1.25, 1.24 and 1.13 respectively.

Decrease in 1934 as compared with 1932 is partially attributable to lower conversion rate in force in 1934.

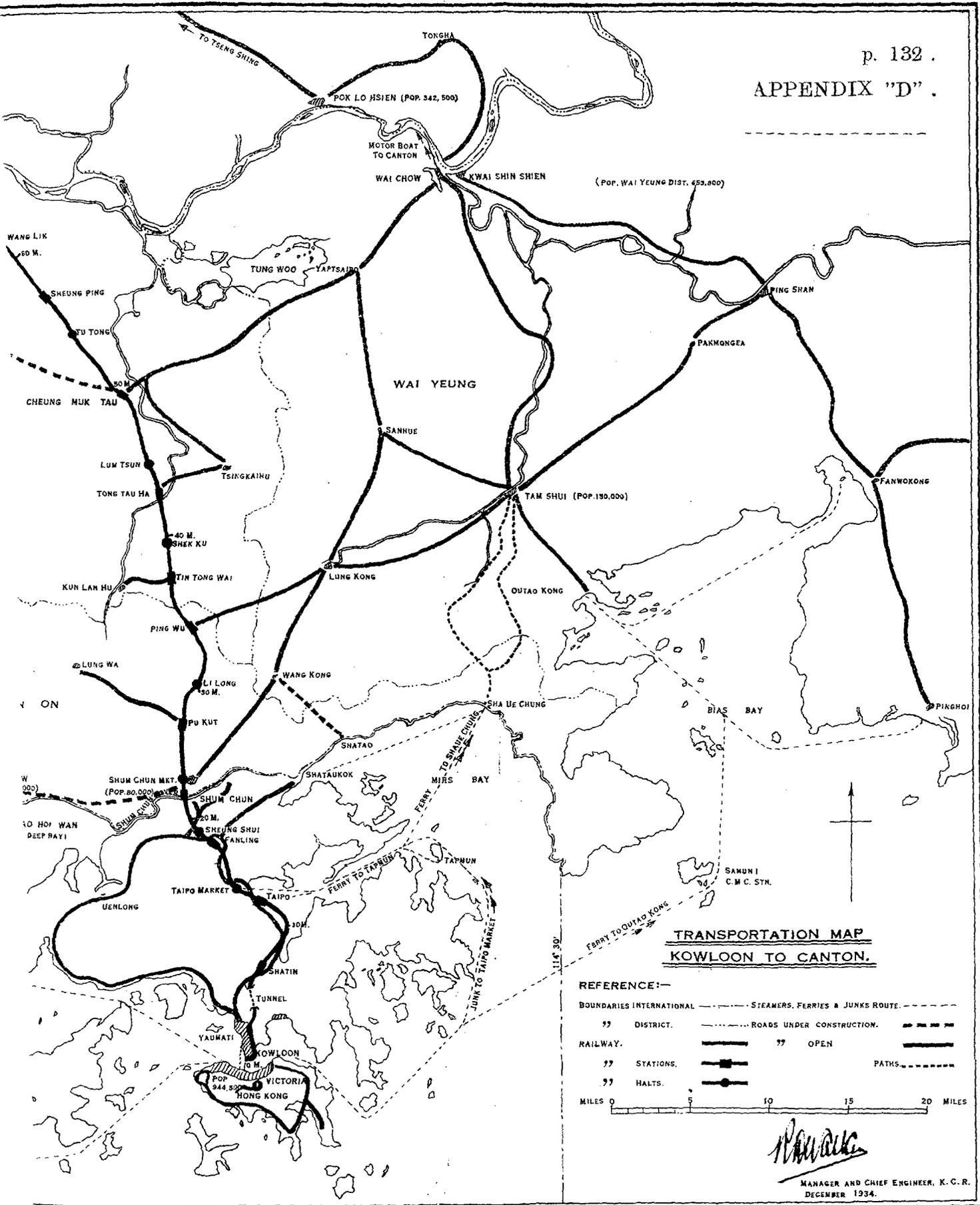
Appendix "C".

Table showing average monthly sterling exchange values of the Hong Kong dollar, January, 1931, to December, 1934.

	1931	1932	1933	1934
	d.	d.	d.	d.
January .....	$11\frac{3}{4}$	$1/4\frac{13}{16}$	$1/3\frac{1}{4}$	$1/5\frac{5}{8}$
February .....	$11\frac{1}{16}$	$1/5\frac{3}{16}$	$1/3\frac{3}{16}$	$1/5\frac{15}{16}$
March .....	$11\frac{3}{4}$	$1/3\frac{15}{16}$	$1/3\frac{5}{8}$	$1/6$
April .....	$11\frac{3}{4}$	$1/2\frac{3}{4}$	$1/3\frac{11}{16}$	$1/5\frac{1}{2}$
May .....	$11\frac{9}{16}$	$1/2\frac{13}{16}$	$1/4\frac{5}{16}$	$1/4\frac{3}{4}$
June .....	$11\frac{7}{16}$	$1/3\frac{1}{16}$	$1/4\frac{5}{8}$	$1/5\frac{1}{16}$
July .....	1/-	$1/3\frac{3}{16}$	$1/4\frac{11}{16}$	$1/6\frac{7}{16}$
August .....	$11\frac{1}{2}$	$1/3\frac{13}{16}$	$1/4\frac{1}{2}$	$1/6\frac{1}{16}$
September .....	$1/-\frac{3}{16}$	$1/4$	$1/4\frac{3}{4}$	$1/6\frac{5}{8}$
October .....	$1/2\frac{7}{16}$	$1/3\frac{15}{16}$	$1/4\frac{13}{16}$	$1/7\frac{1}{2}$
November .....	$1/4\frac{1}{16}$	$1/4\frac{3}{16}$	$1/4\frac{13}{16}$	$1/7\frac{3}{16}$
December .....	$1/5\frac{3}{16}$	$1/3\frac{5}{16}$	$1/4\frac{15}{16}$	$1/8\frac{1}{4}$







**TRANSPORTATION MAP  
KOWLOON TO CANTON.**

REFERENCE:—

BOUNDARIES INTERNATIONAL ——— STEAMERS, FERRIES & JUNKS ROUTE

?? DISTRICT. ——— ROADS UNDER CONSTRUCTION. ———

RAILWAY. ——— ? ? OPEN ———

?? STATIONS. ——— ? ? HALTS. ———

MILES 0 5 10 15 20 MILES

*Handwritten signature*

MANAGER AND CHIEF ENGINEER, K. C. R.  
DECEMBER 1934.