

The Local Dynamics of Industrial Growth in Hong Kong under the U.S. Embargo Policy in the 1950s

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Abstract: When people think of Hong Kong in the 1960s, most will recall the industrialized prosperity of Hong Kong. Most scholars regard the industrialized prosperity in the 1960s as a direct consequence of the U.S Embargo Policy launched in the 1950s, during the Korean War. However, a no less important driving force, the impacts of the dynamic role of local businessmen and local chambers on the growth of industries has been overlooked. Given the current academic neglect of the local dynamic role, this paper aims to analyze the driving force played by local actors such as associations, chambers of commerce, and even merchants in promoting Hong Kong's industrial growth, especially in the shipping industries. This paper will demonstrate the effect of embargo policy as well as the contribution of local dynamics, which altogether provides a comprehensive understanding of the factors affecting Hong Kong's industrial growth in the 1950s.

Keywords: Hong Kong, embargo policy, industrialization

1. Introduction

Following the disastrous Second World War, the world was separated into two powers, the capitalist bloc led by the U.S. and the socialist bloc led by the Soviet Union. Other than direct conflicts between the U.S. and the Soviet Union, regional contests rose, supported by the two powers behind them. The Korean War was one of the most intense regional conflicts, commonly regarded as the proxy war between the two blocs. As China positioned itself in the opposite alliance with North Korea, the U.S. implemented containment policies towards China, especially several economic trading embargo policies [1]. Among them, economic containment became the epicenter in manipulating the relationship between Britain and China. The U.S. shifted its policy from the mild inference 'preventing CCP from becoming a vassal of the Soviet Union with the policies of restrictions on trade' to hard containment on 'a total embargo towards Hong Kong, Macau' [2].

Hong Kong, an important transit point between the British colony and China, became the strategic control of the United States over China. From the U.S. perspective, Hong Kong was exploited to manipulate the relationship between China and Britain. William Walton Butterworth, Director of the Far Eastern Affairs Division of the State Department, forcefully asserted that 'if Hong Kong could not control its exports, the United States would treat Hong Kong as part of China when imposing export controls' [2]. From British Colonial Government's perspective, its policy towards Hong Kong faced a paradox. Hong Kong was significant for its contribution to trade with China and also the UK's bilateral relations with the U.S. As Li pointed out, the British colonial rule in Hong Kong in the 1950s

revealed the UK's reconciliation with the U.S and its protection of trading benefits with China [3]. Therefore, the British colonial government, on the one hand, had succumbed to the U.S's strong embargo policy against Hong Kong and enacted several trade control decrees in Hong Kong. On the other hand, however, the British colonial government had privately allowed Hong Kong businessmen to maintain commercial ties with the mainland for their interests [4]. Under the U.S. manipulation and British compromise, the shipping, and transportation industries had not been the dominant industries in Hong Kong, the growth of industries was transformed from the shipping to the manufacturing sector. Therefore, the development of manufacturing industries and the decline of shipping and transportation industries were seemingly a forced consequence of the embargo policy, the external force. Nevertheless, Hong Kong local organizations and individuals demonstrated their agency as the internal force of the growth of industries during this period, which has been often less discussed by academics. On account of that, this paper will analyze the ways in which those diverse actors in Hong Kong society helped promote the growth of industries.

2. Literature Review

Hong Kong became a prosperous city in the 1960s, which was commonly marked by the growth of industries in the 1950s. Among the academics, there is a shared awareness that the industrialization of Hong Kong was stimulated by the U.S. embargo policy and British colonial rule. Several works have identified the U.S. embargo policy as stimulating Hong Kong's earlier growth of industries. Wong provided a detailed explanation of the U.S. embargo policy and stressed the driving factor of U.S. policy towards Hong Kong industrialization [5]. In Guo's analysis of the U.S. economic containment of China, Hong Kong was portrayed as a passive 'political instrument' to maintain order in East Asia and to contain Communist China [6]. Lin studied the different stages of this embargo policy, concluding that Hong Kong lived in the dark shadow of it [3]. Some argued that the prosperity of Hong Kong Industries in the 1960s was a direct result of British colonial rule [7].

Since 1990, there has been an emerging body of literature on the U.S. embargo against China. Most of the studies demonstrated the connections between the U.S. embargo policies and British colonial rule. Guo and Lin meticulously divided the U.S. embargo policy into different stages [6]. Yu and Cheng discussed the containment policy of the U.S. toward Hong Kong from the military defense before the Korean War to economic defense in the Korean War [1]. Wang demonstrated the history of embargo and anti-embargo [8]. These studies have yielded important results and conclusions, but the driving factors of local organizations, communities and people in the growth of industries of Hong Kong are less focused. Some glimpses can be found in the biographies. Lau emphasized the initiative of businessmen in transforming the shipping industry. People like Tsao Man Kam and Henry Fok actively pursued industrialization instead of simply following the central command [9]. In Lau's analysis, local commercial associations and chambers were mentioned only briefly. Overall, our understandings of those local dynamic factors were still inadequate.

To address this inadequacy, this paper will focus on the influence of local dynamics, especially local commercial organizations and businessmen, in shaping Hong Kong's industrialization in the 1950s. This paper will first review the U.S. embargo policies and British colonial rule towards Hong Kong, then analyze the influence of local commercial associations and businessmen under U.S. embargo policies and British colonial rule.

3. U.S. Embargo Policy in Hong Kong

The terminology of embargo indicated the barrier set in the export or import of one state partially or integrally from the other state. In Wang's perspective, the U.S. embargo policy was mainly deployed by the capitalist bloc, to intervene in the sphere of trading activities within other countries [5].

Synoptically speaking, the U.S. embargo policy evolved from mild interference to the hard containment of total embargo.

Containment policy toward China had been installed even before the Korean War but at a relatively mild level. After WWII, the Soviet Union became impeded the establishment of the 'new world order' led by the U.S. Two years after the end of WWII, the Truman Doctrine, as one of the most significant processes in setting the new order, established the principles of hostility against the socialist bloc [10]. China confirmed the socialist regime in 1949, which sent an alert to the Truman government. At that time, the economic policy of the United States was relatively constrained with the expectation of "impeding China became the vassal state of the Soviet Union" [6]. As in Lin's demonstration, the strategic aim of the U.S. was with relatively mild interference on "alienating Chinese Communist Party (CCP) from the Soviet Union, the socialist blocs". The Corresponding guideline, the NSC41 was introduced in 1949, demonstrating the policies and guidelines towards China. In contrast to the export containment conducted by other countries within the socialist blocs, including the Soviet Union, North Korea, and Eastern Europe, private trading in China relatively mildly interfered with limited barriers set on trading with Japan and other Western countries [11]. Following the establishment of the PRC, the attitudes toward China and Chinese trading generally remained in NSC48/2 deployed in the same year in the establishment of the socialist regime in China. This relatively loosened position towards China compared to other socialist countries could be interpreted that the policy and guidelines were rather than a special favor offered by the U.S. toward China, but a strategy to alienate the socialist bloc through economic interference implied on the socialist countries. Moreover, the U.S. also tried to manipulate Hong Kong's strategic location for its benefit. In 1949, NSC55 was introduced, which mainly presented the aspiration of America to establish a military defense base opposite Hong Kong, in mainland China, under the precondition that Britain could not admit the regime of the People's Republic of China. By luring the British colonial government to construct the military defense with the threats of the PRC, it could be revealed that the U.S. utilized the special position of Hong Kong to manipulate the relations between the British colonial government and the PRC. However, in serious consideration of the trading benefits, the British colonial government rejected such an offer. As a result, the US switched to the policy of "economic defense of Hong Kong" and only mildly interfered with the trade relations between Hong Kong and mainland China.

After signing the "Sino-Soviet Treaty of Friendship and Mutual Assistance between China and the Soviet Union", and the outbreak of the Korean War, the mild economic containment policy became hardball into a total embargo policy. The exporting products in 1A and 1B were intensively tightened with trading between the U.S and China, in In November 1950 [3]. By December, the U.S. had implemented a full export license on exporting products including non-strategic materials from the U.S. to China. It also banned the export of strategic military materials. The export licenses were not issued to China by the Commercial Department, which meant that comprehensive economic control had begun [3]. In 1951, with the title of "Economic Defence Policy", NSC104 was launched to declare goods from Hong Kong and Macau would be controlled to prevent their exports to mainland China [12]. This was also documented in NSC48/5 issued later in the same year [13]. In 1952, the Export Licensing Policy, known as NSC122/1, clearly targeted Hong Kong and Macau, under which rules only those essential products were allowed for export. In 1953, NSC 152/3 was released. In particular, it was strengthened that Hong Kong and Macau occupied a special position in the economic embargo against China[14]. The British colonial government was required strictly controlled the trade between Hong Kong and mainland China by NSC152/3. Anderson, Deputy Minister of Asian Affairs, once declared: "The Hong Kong authorities will strictly control the US government's trade with China." [1]. Pushed and constrained by the U.S., the British colonial government issued a number of rule to comply with the U.S. trade embargo policy [5].

4. British Colonial Rule in Hong Kong

British colonial rule in Hong Kong remains controversial for its somehow contradictory reactions to the U.S. embargo policy. For both Robert and William, even during the Korean War, the British colonial government did not completely forbid its trade of non-strategic goods and materials with China [15] [16]. However, Britain reconciled its political benefits with the U.S. in terms of launching several embargo policies on Hong Kong [17].

Although Britain showed its vacillation of economic interests in China and political affiliation with the U.S. before the Korean War, the British colonial rule was mainly on containing the trading with China under the strong pressure from the U.S. Then, the British colonial government introduced a series of trading containment policies to implement the embargo during the Korean War, including the 'Prohibition of Exports to North Korea Order', the 'Export Control Act 1950', the 'Prohibition of Imports and Exports Act 1951', and 'Prohibition of Exports and Imports Supplementary Act 1952' [5]. 190 designated types of items were constrained from import and export [1]. Other than strategic war materials, ordinary items such as cars and steel products, as well as household necessities such as 'four-gallon oil drums' and 'textiles and clothing' were prohibited. Hence, it could be said that in terms of overall positionality, British colonial rule was compromised by the trade between Hong Kong and mainland China.

5. An Overview of Hong Kong Industries

Before the embargo, Hong Kong was dependent on its trade with mainland China for food supplies such as livestock and dry goods, while mainland China was dependent on Hong Kong for foreign goods. Henceforth, the dominant industries were shipping and transportation. As a result of the U.S. embargo policy and the British colonial rule, China's trade share with Hong Kong declined sharply from more than 40% to only 20% [18]. Hong Kong manufacturing such as garment and textile industries developed rapidly. According to Lau, the growth of the textile industry was remarkable, Hong Kong had established approximately eight hundred textile factories and six hundred garment factories [9]. Around 100 thousand workers were employed in the textile and garment industry, accounting for one-fifth of the total workforce [19]. In the 1960s, Hong Kong was almost the manufacturing center of East Asia. In the ensuing decades, the traditional machine-building industry also developed and supported the industrialization of Hong Kong. Especially with the support of the manufacturing development of shipping industries, Hong Kong had become a manufacturing base for many foreign brand-name products [20]. Although there was an initial decline in the shipping and transportation industries in the early 1950s, they improved again thanks to the local dynamic force, such as commercial associations and businessmen. Moreover, the improvement of shipping industries significantly benefited the industrialization of Hong Kong in the 1960s. With the contribution of local associations and chambers, dockyard infrastructures such as fairways, anchorages, and mooring bouys were expanded. And with the dedication of local businessmen, the number of new steamships and motor vessels aggrandized and the shipyard facilities were upgraded for a larger shipbuilding capacity. With the accumulation and contribution of local commercial associations and businessmen, the number of vessels and tonnage largely increased within a short time. In 1955, there were 20,000 vessels. But the number increased to 25,000 in 1958. The number of vessel tonnages reached a peak of 30,000,000, which was evidence of Hong Kong's industrialization [9]. The upgrading of shipping industries was one of the evident proofs of Hong Kong's industrialization. Therefore, the growth of Hong Kong industries had to do with the local contributions of shipping industries.

6. Local Associations and Chambers in Hong Kong

The U.S. and British colonial rule could perform as the external stimulation of the growth of Hong Kong's manufacturing industries. But more importantly, local associations, chambers, and businessmen accumulated the capital foundation and revived the shipping and transportation industries. For local associations and chambers, outrage and strong opposition in Hong Kong provoked the opposite voice against the embargo by the U.S. and Britain and the growth of shipping industries. Hong Kong was a relatively mature capitalist society with a high degree of trade management and a wide variety of trade organizations. The local groups and commercial organizations of Hong Kong were the main dynamic elements in opposing the U.S. embargo policy and the colonial government. They were the Chinese General Chamber of Commerce, the Chinese Manufacturers' Association, the Metal Merchants' Association, the Chiu Chow Chamber of Commerce, the Sun Yat-Sen Chamber of Commerce, the North and South Hong Kong Association, the Chinese Paper Manufacturers' Association and so on [21]. These trade organizations were very active and courageous in their struggle against the embargo. They were able to overcome the intensive policy of the British Colonial Government, exploring ways to help Hong Kong businessmen to overcome their difficulties and transform shipping industries. They often organized meetings for local businessmen to negotiate with and protest against the U.S. Consulate in Hong Kong on many occasions. In 1951, the Hong Kong Chinese General Chamber of Commerce protested against the U.S. interception of purchases [22]. The leadership of the Hong Kong Western Chamber of Commerce in the anti-embargo protest was notable. The Hong Kong West Chamber of Commerce was a trade association of mainly foreign companies. It represented the interests of foreign businessmen, mainly British businessmen. As it was represented in the British Hong Kong Government's Legislative Council every year, it was closely associated with the British Colonial Government. It should have been on the side of the British Colonial Government. However, the Hong Kong West Chamber of Commerce during the Korean War launched a fierce attack on the U.S. embargo policy for the interests of all trades and industries in Hong Kong. By doing this, it promoted industrial growth and the accumulation of local capital [21]. It was sternly pointed out that industrialization was not a passive choice under the embargo policy but actively developed by the local dynamic elements of Hong Kong.

7. Local Businessmen in Hong Kong

The revival of shipping industries could not survive and grow without local businessmen. Despite many restrictions on exports imposed by the colonial government, Hong Kong merchants and shipowners such as Tsao Man Kam, Fok Henry, and Zhao Congyan developed industrialization and retained their trade links with China [9]. During the embargo, Tsao Man Kam further expanded the shipping company by shifting shipping bulk iron sheets, petrol, and other materials to China. The U.S. and Britain imposed an embargo on mainland China, and freight rates for goods to mainland China were as high as 150 per tonne. The earliest purchase of Tsao Man Kam, the EBNOR, was unfortunately sunk by a mine laid by the GMT Navy at Shantou, destroying the ship and sinking the cargo. Moreover, Tsao bore a huge loss with the refusal from the insurance company to pay out any money, as the ship was not covered by the insurance for being strayed into a forbidden area and sunk by a mine. Despite the tragedy of the ship's destruction, Tsao Man Kam was undeterred. Tsao Man Kam's business with mainland China grew, and he even set up offices in several places on the mainland. With the money he earned, Tsao Man Kam bought several old ships and set up the Shipping Company, expanding his business to Japan [23].

Another inspiring Hong Kong entrepreneur was Fok Henry. Fok organized a fleet of ships to sell and deliver embargoed materials to China [4]. During this period of smuggling, Fok not only

undertook the main task of smuggling military goods between Hong Kong and Macao and mainland China but also organized sophisticated reconnaissance teams to monitor the movements of the British Hong Kong authorities' anti-smuggling boats [24]. Supply of strategic goods to mainland China of Fok caused discontent and continued criticism from the British and Hong Kong governments. At the same time, inspired by the businessmen, more people selected to protect the local benefits by developing a new fairway for reviving shipping industries. Macau became a favorable place for the mainland to purchase much-needed strategic supplies and became a weak link and frontline for breaking the U.S. embargo. At that time, apart from direct cargo, a large amount of trade between mainland China and Hong Kong was transhipped through Macau. In 1951, the total value of Macao's foreign trade imports was \$341.89 million, an increase of 19.28% from 1950; the total value of exports in 1951 was \$182.3 million. In 1951, the total value of Macao's external trade was \$341.89 million, an increase of 19.28% from 1950 [3]. Therefore, the development of industrialization in Hong Kong was not only stimulated by external factors but also the internal local force.

8. Conclusion

In common sense, Hong Kong's industrial prosperity in the 1960s was simply a reluctant response to the U.S. embargo and the British Colonial Rule. However, this paper has found that the dynamic elements of local commercial associations and people were significant in the development of industrialization in Hong Kong, which should not be neglected. To obtain a comprehensive understanding of the reasons for industrialization, this paper has analyzed the respective impacts of the U.S. and British policies, as well as the local dynamics of Hong Kong chambers and people. It has shown that the development of Hong Kong's industrialization was not a forced result of external factors, but rather a result of local initiative.

Besides external factors such as embargo policy, industrialization was also stimulated by a rising sense of local consciousness. By opposing the embargo measures by the U.S. and the British Colonial Government, chambers of commerce and trade organizations, and individuals gradually began to reflect on their identity. The development of national entrepreneurship at the same time influenced the self-identification of Hong Kongers. It can be observed that Hong Kong's issues never stemmed from a single factor and need to be understood in its history. As Tsang suggested, studying the history of Hong Kong is often more complex than we think [25]. The problem of identity in Hong Kong exists until today and originated in the tension between Western culture and traditional Chinese culture. In the 1950s, such tension existed between British colonial rule and the practices of local chambers of commerce and businessmen, which may offer some thoughts on the awakening of local identity in the 1960s.

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