An Appraisal of the Squatter Factories Clearance Policy in Hong Kong
University of Hong Kong
Centre of Urban Studies and Urban Planning

Individual Planning Workshop 1985
by TSANG King-man

An Appraisal of the Squatter Factories
Clearance Policy in Hong Kong

This workshop report is submitted for the partial fulfillment of the degree course in Master of Science in Urban Planning offered by the Centre of Urban Studies and Urban Planning at University of Hong Kong.
CONTENTS

1. Introduction
   - Purpose of the Workshop Study

2. Theoretical Perspectives
   - Industrial Location
   - Informal Economic Activities
   - Conceptual Framework

3. Squatter Factories in Hong Kong
   - Industrial Distribution in Hong Kong
   - Growth of Squatter Factories
   - Squatter Settlement as an Environment for Small Factories
   - Environmental Impact of Squatter Factories

4. Economic Significance of Squatter Factories
   - Contribution to Employment and Production
   - Role as Link Industries
   - Other Contributions
   - Summary of Analysis

5. Appraisal of Government Policy on Squatter Factories
   - Government Policy on Industrial Development in Hong Kong
     - Resettlement Flatted Factory Programme
     - Resettlement Flatted Factories as Means for Accommodating Small Factories
   - Policy Considerations
   - Recommended Policy Changes

Notes

Bibliography

Appendix
1. INTRODUCTION
1. **INTRODUCTION**

Recent economic development in Third World countries is characterized by a drive to industrialize through planned or spontaneous efforts. Even though these countries have experienced different rates of industrial growth, they all share one common feature - the predominance of small scale units in their industrial structure. These small enterprises have contributed substantially to the urban economy and at the same time influenced significantly the quality of life in the urban environment.

In Hong Kong, factories with less than 50 workers accounted for 43% of total manufacturing employment and 93% of the total number of establishment in 1984\(^1\). Yet this important sector of the economy has long been neglected by economic planners whose attention has been directed to encourage the growth of large scale industries.

As a result of their limited financial resources, these factories are often obliged to operate in whatever premises are available to them. Thus, a substantial proportion of these factories are located in squatter settlements and domestic building\(^2\). Apart from jeopardizing the productivity in these small factories, their haphazard location also aggravates the deterioration of the urban environment.

**Purpose of the Workshop Study**

Squatter factories are viewed as perhaps not being important in terms of size but as providing important, even essential, links between different parts of the manufacturing sector.
However conditions of many of the industries practising in the squatter factories are unacceptable as they induce excessive environmental pollution and hazard to the adjacent areas. When such factories are cleared for development, they will be phased out because they are inadmissible to factory buildings - either flatted factories provided by Housing Department or privately-owned factory buildings due to various reasons. This may cause significant damage to the economy.

We would therefore argue that if Hong Kong needs these industries, and this study show that they do play an important part in our economy, and since their owners are likely to continue to display the grit and determination to stay in business as they have in the past, then there is a case at least to re-examine the need to reprovision some of the important trades in a place where they can both play their part in the economy and at the same time minimize the effects on the environment.

The study will be carried out with a view to

(i) assess the economic importance of the squatter factories in their respective industries on the basis of their contribution to production, employment and their role as link industries;

(ii) identify the problems caused by squatter factories by a case study, determine the sources and find ways around them;

(iii) review existing Government policy on clearance of squatter factories and try to develop a rational policy for dealing with such factories which are displaced by development clearance.

Due to the limited resource, site survey is not possible and the data used in the analysis are extracted from various sources.
2. THEORETICAL PERSPECTIVES
2. THEORETICAL PERSPECTIVES

The purpose of this study is to examine government policy on squatter factories which are displaced by clearance operations. The aim is to analyze the environment under which the squatter factories are operating and to what extent they contribute to Hong Kong's economic development. Thus the crucial issue in this study is spatial setting of small industries and the role of the informal economic activities in the course of economic development.

Industrial Location

Location theories were mainly developed for inter-regional analysis. According to these theories, locational choice of individual firms is a rational effort to minimise costs on the supply side, i.e. transport inputs, capital and labour (Weber), or to maximise the market area, and hence its profit (Losch). The applicability of such theories in studying intraurban industrial location is highly criticised because the emphasis on transport cost has been eroded by the introduction of motor vehicles (Cameron, 1973). Taking Hong Kong as an example, economic activities and residence are atomised and the distances are short. Hence the total transport cost has little effect on the production cost.

Moreover, general location theories are oriented mainly towards large industries while small industries are usually attracted to locations that can provide economies of scale. For small entrepreneur in Hong Kong or other developing countries, location decisions are also influenced by "personal" or "social" factors.
Studies in industrial location in Third World Cities revealed the complex land use structure and the low incidence of functional differentiation of land use pattern which was caused by the rapid growth rate, as a result of large scale squatter settlements, rural-urban migration and refugee movements, and insufficient development control (Breese 1966, Sjoberg 1965). In the traditional cities especially the old districts, it is common to find residential, industrial, commercial and service activities taking place in the same street block or even the same building.

In contrast to the district clusters of large-scale industries, the large number of small-scale workshops are scattered all over the city in mixed-use indigenous quarters. Some of them are accommodated in domestic buildings while others are operating within squatter settlements. This complex pattern of location is the result of the social and economic relationships which shape the informal sector of the dual economy.

Informal Economic Activities

The dualistic model can be applied to studies of urban economies in the Third World. Under the dualist model, the two sub-systems of production have been labelled in different terms based on the mode of production, mode of organization and scale of activities. The formal-informal sector division of the urban economy was developed in the ILO employment report in Kenya (1972). The informal sector was named because most of the activities were in the unorganised sector and fell outside the purview of the existing statistical data-collection machinery.
The phenomenal rate of urbanisation, or urban explosion, taking place in the developing countries has created serious problems. Unlike the developed countries during the last century, they do not have the opportunities for territorial expansion growth and labour absorption through trade coupled with industrial development. The economic development in developing countries failed to generate adequate employment opportunities, notably in the modern (formal) sector which received the bulk of the resources, to cope with the problem of labour-force explosion. Under these circumstances, the surplus labour-force has been forced to generate its own means of employment and hence of survival. They engaged in a variety of productive activities, e.g. small-scale manufacturing and repair services, which are so called the informal sector.

The characteristics of the informal sectors are (ILO employment study in Kenya 1972)

1) ease of entry;
2) reliance on indigenous resources;
3) family ownership of enterprises;
4) small scale of operation;
5) labour intensive and adapted technology;
6) skill acquired outside the formal school system; and
7) unregulated and competitive markets.

These informal-sector activities are largely ignored, rarely supported, often regulated and sometimes actively discouraged by the state. Small scale industry can be categorized as an informal sector activities and it displays all the above characteristics.
Conceptual framework

From the above discussion, we can see that the locational choice of small factories in developing countries is more complex and open than what is depicted by existing theories of industrial location and urban land use. Hence the effect of change in location on the operation of a factory cannot be neglected in formulating the policy on squatter factories displaced by squatter clearance.

Furthermore, although squatter factories are creating various environmental problems to the surrounding, their contribution towards the economy especially through the creation of employment opportunities for the surplus labour should be taken into consideration in determining their future and a policy of discouragement should be discarded.
3. SQUATTER FACTORIES IN HONG KONG
3. **SQUATTER FACTORIES IN HONG KONG**

Land is a scarce resource in Hong Kong which is not only limited in size but physically much constrained by steep hillside. New land required for urban expansion has to be created at considerable capital cost through reclamation from the sea and the levelling of hills. The development of the new towns also necessitates expansive transport infrastructure. The high cost of supply, coupled with government policy of speculation, contribute to the high land price in Hong Kong which, in turn, makes finding a site or premise for a new factory or the expansion of an existing factory a chronic problem facing local industrialists.

Most of the land leased before 1930's do not contain any restriction on the use of the sites. Hence industries had complete freedom to locate their plants and small household were factories scattering in the old residential districts.

**Industrial Distribution in Hong Kong**

Just before the Second World War, To Kwa Wan, Hung Hom, Shum Shui Po, Tai Kok Tsui, Ngau Tau Kok, Sai Ying Pun and Quarry Bay were the main industrial areas in Hong Kong. Industrialization began to accelerate in the early fifties. The original industrial zones began to be filled up and large factories migrated to Ma Tau Kok, Lai Chi Kok, along Castle Peak Road and Tsuen Wan. Small factories which did not need and could not afford large premises, established themselves illegally in squatter settlements and residential areas.
When the vacant sites suitable for industrial development were rapidly taken up, the Government, in response to request from industrialists, began reclamation in Kwan Tong in 1954 and designated Tsuen Wan as the first new town in 1959 to absorb the rapidly increasing industries.

This pattern of industrial location was altered in the seventies under the decentralization policy. New industrial land was provided in the new towns of Tuen Mun and Shatin and industrial estates were established in Tai Po and Yuen Long. The only major industrial zones set up in the Urban Area during this period are Chai Wan and Kowloon Bay reclamation.

Compared with large factories, small factories have a more diffused locational pattern in the urban environment. The majority of small factories are not accommodated in industrial building. About 75% of the small factories are established in residential buildings and 5% in squatter settlements. The former type is outside the scope of this study and will not be discussed in detail.

**Growth of Squatter Factories**

Squatter settlement is a prominent feature of Hong Kong's urban structure and accounts for about 10% of the population. However, the presence of factories in squatter settlements is insignificant until the late fifties. Less than 1% of the squatter structures were occupied by factories in 1955 (Wong, 1969) and they were only found mainly in relatively flat and accessible sites.
During the fifties, the Government recognized the need of the rapidly growing manufacturing sector and set aside certain areas for industrial development on a temporary permit system which are granted on a year to year basis with relatively low rent.

Squatter factories increased rapidly in the late fifties (Wong, 1969; Fung, 1969) as a result of the high rate of industrialization. Initially, small industrialists who could not afford to build their own factories on industrial land or to rent commercial flatted factory units intruded into urban residential buildings. But as legal regulations and rising rents rendered such infiltration increasing difficult, squatting became the cheapest alternative.

Squatter settlements are steadily declining in size and number since the sixties as they are being cleared for redevelopment. Diamond Hill, Tsz Wan Shan and Tai Kok Tsui are the areas left in Kowloon that has a substantial number of small factories in squatter huts.

The Squatter Settlement as an Environment for Small Factories

In the Industrial Mobility Study (1983), the consultant identified eight "Pull" factors, i.e. conditions or attractions of alternative locations, which determine the factories' choice of locations. They are:

(1) transport and communication costs for goods, workers and management

(2) sources of supply and location of markets
(3) other linkage factors, including subcontracting and agglomeration benefits

(4) premises (cost, type and availability)

(5) labour (cost, type and availability)

(6) facilities which will indirectly assist the retention of key members of existing workforce (e.g. housing, education, etc.)

(7) infrastructure and services (cost, type and availability)

(8) non-economic factors, including government regulations, quality of working environment, personal preferences of management, economic and political stability, etc.

Similar findings were reported in a survey of small factories in Diamond Hill (Pang, 1978) in which factory owners considered (a) low rent and building cost, (b) ease of access, and (c) adequate space for production as the prominent factors in choosing the factory premises. They further considered (a) accessibility for delivery of goods and supplies, (b) a ready supply of workers in the location, and (c) proximity to suppliers as the major locational factors in siting their factories.

Let us now examine how squatter settlement can provide an ideal environment for the small factories by referring to Diamond Hill in Wong Tai Sin district. Diamond Hill is predominantly a squatter settlement occupying the site of two old villages, Tai Hom and Yuen Ling, midway between San Po Kong and
Tsasz Wan Shan. The southern part of the settlement is relatively flat and it rises gently towards the north.

The attraction of this area to manufacturing establishments, especially to small factories, in apparent cheap extensive land can lower the initial cost of production and make future expansion feasibility (probably by displacing nearby residential huts). This is particularly important to small industrialists in the Third World who have difficulties in obtaining capital. The majority of the factory owners rely on their own savings, loans from friends and relatives and suppliers' credit as the main source of capital and loans from banks are rarely. Hence squatter settlements provide a favourable environment for nurturing new establishments.

Food and textile industries are attracted to Diamond Hill because of the availability of extensive land. The noodle and soy factories require large open space for airing and sunning their products while dyeing and bleaching factories are attracted by the cheap water supply provided by streams and wells.

Furthermore, Diamond Hill is located in a strategic position with respect to linkage with other manufacturing firms and to labour supply (Figure 1). It is adjacent to the industrial area of San Po Kong and is relatively close to other industrial zones such as Kwun Tong, To Kwa Wan and Ma Tau Wai and hence is an ideal location for subcontracting industrial establishments.

The labour market of a small factories is much confined because it is less able to offer their workers with higher wages
Figure 1  DIAMOND HILL LOCATION PLAN
Squatter settlement in Diamond Hill clusters of squatter factories are scattered throughout the settlement
or more benefits to compensate for long commuting. Diamond Hill lies within easy reach of densely populated public estates of Tsz Wan Shan, Wong Tai Sin, Tung Tau Tsuen, Choi Hung and Ngau Tau Kok and the private residential blocks in Fung Wong New Village. This provides a ready supply of labour. According to Pang, 1978, more than half of the factories in Diamond Hill drew their workers from Diamond Hill and adjacent districts.

Stricter law enforcement is expected in industrial buildings. It is common that squatter settlements usually remain at the periphery or even outside the influence of the law. Hence industries engaged in trades inadmissible to industrial buildings are attracted to squatter settlements. For example, plastic factories, which are prohibited in residential buildings because materials and products for this industry is inflammable, are attracted to Diamond Hill.

Another board type of industries that are common found in squatter settlements are those require large ground floor area. For example, the materials and products of wood and furniture industries are usually too bulky to be moved up and down in multi-storey buildings. Similarly, machinery used in metal industries are too heavy for upper floors of residential buildings. Since ground floor premises in residential areas are limited in supply and more expensive, the squatter structures in Diamond Hill provide an alternative premises for small factories in these industries.
On the other hand, industrial growth in squatter settlements is checked by the saturation of the settlement, the increasing government control and the massive squatter clearance programme.

The growth of manufacturing industries in squatter settlement began to level off since late sixties. This can be ascribed to the saturation of the settlements which lack further open space for new construction or expansion of existing residences or factories. New squatter settlements in late seventies and early eighties were located in hilly areas, such as Sau Mau Ping, the conditions in which were not suitable for factories developments that demanded a lot of flat land and good access.

The increased government effort to control new squatting had also helped to, in the least, prohibit the setting up of factories that took up large sites although setting up of new factories and expansion of existing one could still be possible by displacing residential structures. The massive clearance efforts had also stunted the further growth of squatter factories.

Furthermore, squatter factories had also encountered difficulties in obtaining loans from banks or legal electricity supply due to their illegal status. Their unknown future also discouraged substantial investment to be injected into their operations.
Squatter workshops along Choi Hung Road - majority of which are involved in metal works and machinery
A dyeing factory in Diamond Hill

A furniture manufacturing factory in Diamond Hill

Working in a plastic factory in Diamond Hill
Environmental Impact of Squatter Factories

It has long been recognised that the presence of factory units in the squatter area produced serious environmental problems and hazards. A simple survey in Diamond Hill area revealed the following areas of concern.

(i) Air pollution: There were a number of metal workshops which, due to the primitive method of production, release large volume of dust and black smoke into the air endangering the health of nearby residents.

(ii) Noise pollution: Besides air pollution, this metal workshops, the machinery and the textile factories are also sources of noise pollution as a result of simple construction and the proximity to other squatter huts. Some even operate in open air.

(iii) Pollution to drainage: Similar to other squatter areas, there is no proper foul sewer in Diamond Hill. Wastes from pigsties, chemical treated water from dyeing industry and foul from food processing industries discharge into the sewers or even onto the footpath causing blockage, bad smells, flooding and a lot of other environmental problems.

(iv) Traffic Congestion: There is a number of narrow roads built by the residents in Diamond Hill. Loading and unloading as a result of the factory operation often
cause serious traffic congestion in these roads, sometimes
the traffic can be stagnated for half an hour.

(v) Fire hazard: Fire has always been the number one
enemy in squatter area because most of the huts are
built of timber which are easily inflammable. The
presence of plastic factories and furniture
manufacturers are potential sources of fire hazard.
Traffic congestion due to loading and unloading activities of squatter factories is not uncommon in Diamond Hill.
Footpaths are generally narrow in squatter settlement

Wastes and storage of raw materials and finished products of squatter factories occupying the already very narrow footpath

Discharges from squatter factories polluting the already very poor drainage system
4. ECONOMIC SIGNIFICANCE OF SQUATTER FACTORIES
ECONOMIC SIGNIFICANCE OF SQUATTER FACTORIES

Collectively squatter factories are relatively unimportant to the economy in terms of output and employment. They contribute less than 4% of either. Further, with the exception of food processing industry, squatter factories generally account for less than 10% of the output or employment of any industry group.

However squatter factories provide important, even essential, links between different parts of the manufacturing sector. About one third of the output of squatter factories is sold to other local manufacturers, with another 40% exported, 17% sold to local retailers and wholesalers and 11% to other buyers, including final consumers.

In assessing the economic importance of the squatter factories and their role in providing a linkage with other industries, the following criteria are used:-

(i) contribution to production
(ii) contribution to employment
(iii) role as link industries
(iv) other contributions

Contribution to Employment and Production

Squatter factories provide significant employment to workers in the vicinity. It was estimated that the 13,000 squatter factories was employing a total of 102,000 workers or 13% of the labour force in the manufacturing industry in 1978, 6% of these workers were recruited from the nearby districts. (Hong Kong Productivity Centre, 1978)
Regarding production, it was estimated that the squatter factories contributed approximately $5,493 million worth of total sales and work-done and $2,884 million worth of value added in 1978.

Squatter factories generally had relatively lower labour productivity. Squatter factories which could not operate in conventional multi-storey industrial buildings accounted for a high percentage of the production and employment in their respective industries (Table 1). This suggests that the squatter factories in most of the industries with inadmissible trades (for example, bleaching and dyeing, tanneries and leather finishing, shipbuilding and repairing boatyards, and some of the food industries) are established as squatter factories primarily because the nature of their business and the processes they employed excluded them from operating in ordinary flatted factory buildings.

Role as Link Industries

Squatter factories serve a significant link to other manufacturing industries through sub-contract work and other supporting services. According to a survey in 1978, 30% of the squatter factories carried out sub-contract work on behalf of other manufacturing companies. The amount of sub-contract work represented approximately 81% of the total sales and work-done of these factories indicating their high degree of dependence on sub-contract work. (Hong Kong Productivity Centre, 1978). The type of sub-contract work carried out are mainly silk
<table>
<thead>
<tr>
<th>Inadmissible Trades (Industry Sector)</th>
<th>$\pi$ share attributable to their respective trades</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employment</td>
</tr>
<tr>
<td>Shipbuilding and repairing boatyards</td>
<td>32.3</td>
</tr>
<tr>
<td>Tanneries &amp; leather finishing</td>
<td>50.2</td>
</tr>
<tr>
<td>Manufacture of glass &amp; glass products</td>
<td>34.6</td>
</tr>
<tr>
<td>Sawmill, planing and other wood mills</td>
<td>35.1</td>
</tr>
<tr>
<td>Manufacture of chemical products</td>
<td>50.7</td>
</tr>
<tr>
<td>Non-ferrous metal basic industries- other</td>
<td>45.3</td>
</tr>
<tr>
<td>Iron &amp; steel basic industries</td>
<td>37.8</td>
</tr>
<tr>
<td>Slaughtering, preparing and preserving meat</td>
<td>52.7</td>
</tr>
<tr>
<td>Grain mill products</td>
<td>44.3</td>
</tr>
</tbody>
</table>
weaving, rattan weaving and conditioning, metal fabrication, assembly of plastic products, metal castings, machinery parts and repairs, paint spraying and bleaching dyeing.

In addition, squatter factories provided significant supporting services, e.g. sand foundry, electroplating, screen printing, semi-precious stone polishing etc. and supplied semi-finished and finished products to other manufacturing companies.

Other Contributions

(i) Export earning - In addition to local sales, squatter factories, especially those engaged in admissible trades, have exported approximately 25% of their products. (Hong Kong Productivity Centre, 1978). They also provide significant subcontract and industry supporting services to other manufacturing industries which are export oriented.

(ii) Pioneers of industrial development - Some squatter factories are prepared to look into the possibilities of diversifying into new product lines, or improve the efficiency and technology of their existing manufacturing facilities. However some of these development plans fail to materialise because of the squatter clearance.
(iii) Unique contribution - Squatter factories, which are inadmissible to conventional multi-storey industrial buildings, provide an unique and vital process in those particular manufacturing industries which will otherwise be unable to exist.

(iv) Informal Economic Activities : - Furthermore, due to the small scale of operation and hence ease of establishment, squatter factories provide a form of self-help economic activities and can be a step stone prior to setting up larger factories.

Summary of Analysis

In macro-economic terms, as regards both output and employment, squatter factories are not of major importance to the economy. Much of the work carried out in squatter factories could be and is being carried out in conventional flatted factory accommodation or else by importing. In most cases, the motivation for a firm to operate in a squatter factory, rather than a flatted factory, appears to be the lower cost of accommodation, and not the nature of the process being employed.

Nevertheless, there are a number of industries in which firms employ processes that are unsuitable in flatted factory accommodation and quite frequently such firms operate in squatter factories. Examples are bleaching and dyeing, sawmills, tanneries
and leather finishing, glass, shipbuilding etc. The squatter factories in these industries generally account for a high proportion of the production in their respective trades. Some squatter industries do also provide a significant link to other manufacturing industries. The loss of such factories through squatter clearance are of significant importance to the economy of Hong Kong.

It is these groups of squatter factories, which are inadmissible to flatted factory accommodation and are of significant importance to the economy, that merit special consideration upon squatter clearance.
5. APPRAISAL OF GOVERNMENT POLICY ON SQUATTER FACILITIES
5. **APPRAISAL OF GOVERNMENT POLICY ON SQUATTER FACTORIES**

**Government Policy on Industrial Development in Hong Kong**

Hong Kong Government has maintained the principle of minimum interference and private enterprise had a full reign in Hong Kong's economic affairs. Although the government has increased its direct influence on the development of Hong Kong's economy, especially in promoting growth of the manufacturing sector, since the sixties, the small industry sector had never enjoyed a full share of government support.

In mid-fifties, the rapidly expanding manufacturing sector was confronted with a shortage of industrial sites. The government was actively involved in developing industrial land which was 'sold' to the industrialists at favourable terms, e.g. by installment plan. However, in spite of this, the factory units built on these sites are too costly for the small factories.

By the sixties, several quasi-governmental organisations were established to promote industrial development. Among these, the Federation of Hong Kong industries was set up in 1960 to represent the interests of the industrialists and to provide technical services, the Trade Development Council was established in 1966 to promote Hong Kong's overseas trade, and the Hong Kong Productivity Council was founded in 1967 to promote the increased productivity of industry through research, consultation and training programmes. At the same time, the government had also increased its direct support to industry through the Commerce and Industry Department (which was defederated into the Commerce Department, Trades Department and Industrial Department in 1982) which assumed the responsibilities to conduct overseas commercial relations and the Labour Department which expanded its regulatory activities into manpower training. (Hong Kong Government 1974, 44-45)
In the late sixties, the manufacturing sector in Hong Kong, which was then mainly engaged in labour-intensive light industrial products, was challenged by rapidly rising competitors, such as South Korea, Taiwan and Singapore and had to confront stricter trade barriers in major overseas markets. Hence the government expanded its assistance to help the manufacturing sector to upgrade its technology and diversify into more sophisticated products and new markets in the seventies. The Polytechnic was founding in 1972 to provide technical training at post-graduate level. At the same time, the land policy was modified to make industrial land available at favourable terms to industries with high technology through private treaty or invited tender, thus avoiding competition in usual land auction which tends to drive up land price.

In 1976, a special committee was set up to promote foreign investment in Hong Kong's industry in order to attract industries with high technology (SCMP 11/9/75). The Industrial Estate Authority was set up in the same year with the responsibility for the development and management of industrial estates within which sites are made available to industries that

1) utilize higher technology
2) provide employment opportunities which high level of skill
3) produce for sale in local market product(s) needed by an industry already existing in Hong Kong; and
4) manufacture products with high value added from local input (SCMP 15/12/76)
In 1977, the Advisory Committee on Diversification was formed to advise whether the process of diversification of the economy, with particular reference to the manufacturing sector, can be facilitated by the modification of existing policies or the introduction of new policies.

The report published in 1979 concluded that the serious inadequacy of industrial support facilities and of technical back-up services, as well as the absence of a programme of applied research, had limited the speed with which manufacturers had been able to diversify. It recommended the Hong Kong Productivity Centre and the Standards and Testing Centre be given the task of co-ordinating research and development, providing technical service and improving the quality certification service. It also proposed the establishment of a standard Industrial Development Board to plan, monitor and advise government on these activities.

It is not difficult to find that the government policy on industry has little impact on the small factories. They are barred from participating in the Federation of Industries or the Trade Development Council. Moreover the programmes and services provided by these quasi-government organisations are all oriented to the needs of larger factories. The policies in the seventies to promote upgrading and diversification also favoured the large and capital intensive industries and even foreign investors. The small factories were again being neglected.
The only government programmes specifically designed to assist small industries are the Loans for Small Industry Scheme launched in 1972 and the resettlement factories. The former aimed to assist small factories to upgrade their machinery and equipments. However the scheme was burden with unrealistic requirements, such as a costly feasibility study and account statements of previous years, which discouraged small factory owners to apply and the scheme was discontinued after 4 years trial period within which only 10 loans were approved.

The Resettlement Flatted Factory (RFF) Programme

The programme was set up under the Resettlement Department in 1957 to accommodate squatter workshops, which are displaced from land destined for development, in multi-storey factory buildings grouped in industry estates. These industrial estates are usually located in the vicinity of government low cost housing estates and planned industrial zones. Factory units are rented to the displaced squatter factories at a subsidized rate. However factories requiring more than 5000 square metres or engaged in certain 'inadmissible' trades are not eligible for resettlement. Although remaining as a minor part in the total squatter resettlement effort, RFF Programme has significantly affect the survival of small factories operating in squatter settlements which are cleared for development.
The Resettlement Flatted Factory Estate as an Environment for Small Factories

Unlike the squatter factories, government regulations and policies are the dominant elements that shape the environment of the resettlement flatted factory estates since it is planned, implemented and administered by the government.

The primary objectives of the resettlement programme in Hong Kong are considerations of public safety, law and order and optimal land use rather than individual welfare. Accordingly the RFF programme has never intended to improve the lot of the factory owners or to contribute to economic development. It is merely a measure to expedite clearance of valuable land occupied by the squatter factories.

The programme was administrated by Housing Department (Resettlement Department before 1973) which is not involved in formulating industrial policy. Hence the development of flatted factory estate is determined by the need to clear land for housing and other development rather than to improve the environment for the small factories. This lack of concern is undoubtedly a reflection of the neglect of the government towards small factories in general.
In addition, certain criteria have to be satisfied before
the factory is eligible to resettle in these estates. They must
occupy tolerated structures in the squatter area, i.e. structures
built before a certain date (this criteria has now been deleted and
under the present policy flatted factory units can be rented upon
application as a result of poor response from displaced squatter
factories). There are also trade and size restrictions which
create undue hardships to individual factories affected by them
and endanger their survival. As a result these restrictions jeopardize
the performance of the resettlement programme in assisting the squatter
factories affecting by clearance projects to resume their operation
and to develop into more permanent enterprises.

To overcome these hardships, two changes have been
introduced into the resettlement programme. Class III Licensed
Areas were established in 1969 for the resettlement of the more
land industries. However due to difficulties in obtaining suitable
land for such purpose, only three licensed areas have
established so far among which two have been subsequently cleared
away.

The second change is the introduction of ex gratia cash
compensation in 1973 for those industries engaged in non-permissible
trades. This has not worked satisfactorily neither because the cash
compensation is inadequate for the industries to set up elsewhere.
The standard design for RFF buildings prohibited the resettlement of industries which have special requirements such as heavy floor loading, high ceiling etc. The design was guided by the criteria of low cost, speedy construction, and capability to accommodate factories with various trades and sizes. No individual supply of water and gas is allowed and internal layout is subject to stringent criteria.

Despite all these weaknesses, the RFF estates have many advantages over squatter areas in accommodating small factories. Besides having better environment, the permanent nature of RFF estates permit factory owners to increase investment, for example in machinery, and hence productivity is improved.

The rents charged in RFF estates is comparable to those in squatter areas and are much less than those in other industrial buildings. Furthermore, most RFF estates are located in the heart of growing industrial areas and close to public housing estates. All these contribute to produce a satisfactory environment for the development of industries in the RFF estates although those inadmissible trades have been prohibited to take a share. Nevertheless, the RFF programme will continue to affect a substantial number of squatter factories and is also significant as a prototypical programme for accommodating small factories in Hong Kong and other Third World Cities.
Policy Considerations

Having identified that the squatter factories in some industries could not be allowed to disappear without risking significant damage to the economy, the current government policy in clearing such factories as part of the land development programmes need to be reviewed. Their re-provisioning should be seen as a precondition for implementing a development clearance involving them and the following criteria should be adhered to in formulating the policy:

(i) efforts should be made to ensure that these factories do not squat again - thus becoming a potential future problem

(ii) they do not deprived of a place to conduct their business

(iii) the location of re-provisioning should not make their operation unviable.

Financial and technical assistance should be offered to factories which can be accommodated in Housing Department's flatted factory units or ordinary industrial buildings so that they can continue their operation. For factories which are inadmissible to these units/buildings, measures should be derived to prevent their disappearance. A number of possible solutions to accommodate these inadmissible squatter factories will be examined in the following paragraphs.
Housing Department's flatted factories

The first possible solution lies with the expansion of the Housing Department's flatted factory units. The current admission criteria is too stringent and the standard units are not suitable for accommodating certain trades. Hence it would be appropriate to review the applicability of some of the criteria and minor modifications to the standard units to suit individual requirements should be allowed. Given sufficient demand, specially designed buildings should be constructed to accommodate presently inadmissible trades.

Specially Designed Industrial Buildings

The second possible solution was the provision of special buildings to accommodate the inadmissible process used by squatter factories. This can be achieved by disposing of industrial sites with special requirements, for example, high ceilings, wider spans or higher floor loading; or by increasing the amount of ground floor space available for industrial use by providing ramps to upper floors.

Industrial Park (See appendix for example)

The third possible solution would be the provision by Government of sites for these factories to allow them to obtain legal accommodation. This can be achieved by relaxing the criteria for obtaining land from the Hong Kong Industrial Estates Corporation or in the form of temporary waivers on unused agricultural land in the New Territories that would not developed in the near future.

Relocation of Squatter Factories

A fourth possibility was to resite the squatter factories across the border in Shenzhen economic zone.
Recommended Policy Changes

The appraisal of existing policies and measures on squatter factories displaced by squatter clearance above leads to the following recommendations:

(i) More attention/programme should be drawn to assist small-scale industries operating in squatter settlements.

(ii) Admissible squatter factories which are small enough to be eligible for accommodation in a RFF unit should be offered such accommodation;

(iii) The present admissibility criteria to RFF units should be reviewed with a view to admitting more trades. Minor modifications to standard units and specially designed factories should be encouraged so that admissibility can be expanded to cover a greater number of trades;

(iv) Squatter factories that are too large to be eligible for accommodation in a RFF unit should be allowed to rebuild in an area specially designed for such purpose, that is, the industrial park. Such land should be allocated by means of short term tenancy or restricted tender.

(v) Enforcement action against new squatter should be stepped up to prevent further alienation of agricultural land and other undeveloped Crown Land;
(vi) squatter factories occupying land not required for development should be allowed to continue their operations and even to rebuild their structures with more permanent materials. However, enforcement regarding the general working conditions and against environment pollution should be stepped up so as to lower the pollution impact on the locality.

(vii) other policies, such as long term low interest loan, technical advice, assistance to open up oversea market etc. should be derived to help the establishment and survival of small factories.
NOTES

1. Derived from 'Employment & Vacancies Statistics (Detailed Tables) in Manufacturing, Mining & Quarrying, Electricity & Gas', 1984 compiled by Employment and Earnings Statistics Section, Census and Statistics Department, Hong Kong.

2. The siting of a large amount of small scale factories in squatter settlements and domestic buildings is well documented in studies by Mr. Luke Wong, Mr. B. Fung and Dr. V. Sit.

3. The following quotation from the governor's annual speech to the Legislative Council in 1954, announcing the reasons for setting up the Resettlement Department, illustrates succinctly the government's main concern:

```
..... It should however be remembered that what we are doing for the squatter is not done primarily for his benefit but for the benefit of the community at large. The purposes of squatter clearance and resettlement are threefold: firstly to put an end to the appalling fires; secondly, to eradicate the risks to health and good order which the illegal squatter colonies present; and thirdly, to free land for the large scale organized low cost housing schemes which are the only way to relieve over-crowding in the tenements.
```
BIBLIOGRAPHY


8. Hong Kong Government, 'Hong Kong Government, 1974'.


14. Resettlement Department, Hong Kong "The Resettlement of Small-Scale Industries in Hong Kong" 1965.


20. South China Morning Post.


Industrial Park - Cha Kwo Ling

Cha Kwo Ling is in a cul-de-sac location in the East Kowloon area to the South-East of Victoria Harbour (Fig. 2). The area was originally dominated by Cha Kwo Ling hill which has now been removed by quarry operations. North of the quarry is the Sai Tso Wan controlled tip which has been completed.

Besides quarry operation and the controlled tip, existing land use comprises of the Cha Kwo Ling quarry and a number of post related activities occupying the narrow strip between Cha Kwo Ling Road and the waterfront.

Cha Kwo Ling as an environment for the development of industrial park

The area lies directly under the air flight path and hence is subject to severe noise exposure (it falls with the 30 noise exposure factor). Hence it is not suitable for residential development if Kai Tak remains. Besides, the existing shell oil depot located immediately to the west of the area and the quarry operation are potential hazards which prevent massive developments.

The proximity of the area to the Mass Transit Railway and the possibility of constructing the second harbour crossing between Cha Kwo Ling and Tai Koo Shing make the area easily accessible. The area is also served by major roads, Lei Yue Mun Road and Cha Kwo Ling, connecting to the town centre. This, together with the post facilities, form an ideal area for industrial development.
The workers required in the industries can be drawn from adjacent public housing estates such as Yau Tong Estate, Ko Chiu Road Estate, Lam Tin Estate and Sau Mau Ping Estate and the squatter areas in Yau Tong and Lam Tin area.

Cha Kwo Ling is located close to the Kwan Tong and Kowloon Bay industrial areas and hence sub-contracting works can be developed easily. Moreover, the area is provided with the various services such as water, electricity and drainage system which are required by the industries.

From the above discussion, Cha Kwo Ling offers an ideal location for siting squatter factories which are inadmissible to flatted factories for the certain period say 5 - 10 years until when the area is ripe for development, e.g. when the airport is relocated.