

A COMPARISON OF THE ECONOMIC DEVELOPMENT OF HONG KONG AND  
SINGAPORE

by

Shirley Sau Wai Pi

Thesis

Submitted in partial fulfillment of the  
requirements for the degree of  
Bachelor of Arts with  
Honours in Economics

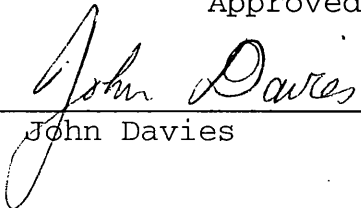
Acadia University

March 1993

© Copyright by Shirley Sau Wai Pi, 1993


This thesis by Shirley Sau Wai Pi  
is accepted in its present form by the  
Department of Economics  
as satisfying the thesis requirements for the degree of  
Bachelor of Arts with Honours

Approved by the Thesis Supervisor

  
\_\_\_\_\_  
Dr. John Davies

Date 5/4/93

Approved by the Head of the Department

  
\_\_\_\_\_  
Dr. R. A. French

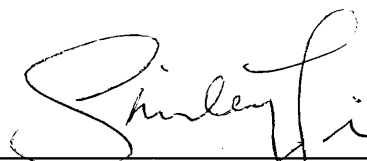
Date 5/4/93

Approved by the Honours Committee

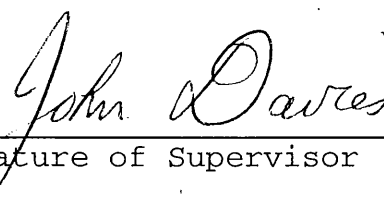
  
\_\_\_\_\_  
Myl Chen

Date 4/20/93

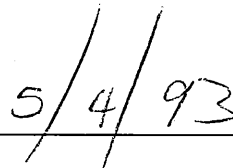
I, Shirley Sau Wai Pi hereby grant permission to the Head Librarian at Acadia University to provide copies of the thesis, on request, on a non-profit basis.



\_\_\_\_\_  
Signature of Author



\_\_\_\_\_  
Signature of Supervisor



\_\_\_\_\_  
Date

**ACKNOWLEDGMENTS**

I would like to express my sincere gratitude to Dr. John Davies. Without his encouragement, support and well-planned schedule, this thesis would not have existed.

I would like to thank Dr. R. Ffrench for his assistance and kindly suggestions.

I also want to thank my family and my friends Bee Pin Tay for providing recent information about Singapore, and Eddie Tai for his support.

Finally, I want to thank God for He has given me strength and answered my prayers.

## TABLE OF CONTENTS

Acknowledgments .....	iv
List of Tables .....	vi
List of Figures .....	vii
Abstract .....	viii
Chapter I      Introduction .....	1
Chapter II     Historic Background .....	7
Chapter III    Economic Structure and Export Performance in Hong Kong and Singapore .....	20
Chapter IV     Government and Policy .....	42
Chapter V      Future Developments in Hong Kong and Singapore .....	63
Chapter VI     Conclusion .....	83
Bibliography .....	86

## LIST OF TABLES

TABLE	TITLE	PAGE
1.1	National Shares of the World Economy and Growth Rate of GDP(%) .....	3
2.1	Singapore Trade by Major Commodities, 1836 and 1936 .....	18
3.1	Basic Economic Indicators in Singapore and Hong Kong, 1990 .....	21
3.2	Singapore Economic Structure-Gross Domestic Product by Industry (at 1985 market price) .....	21
3.3	Hong Kong Economic Structure-Gross Domestic Product by Industry (at current market prices) .....	22
3.4	Hong Kong Economic Structure:% Share of Gross Domestic Product by Industry(1990) .....	24
3.5	Hong Kong's Major Import Commodities, (1991) .....	25
3.6	Hong Kong-Employed Persons by Industry .....	25
3.7	Hong Kong-Number of Establishments and Employment in Manufacturing Industry .....	27
3.8	Hong Kong's Domestic Exports of Principal Commodity Groups .....	28
3.9	Singapore-Economic Structure:% of Gross Domestic Product by Industry, price at 1985 .....	35
3.10	Singapore Employed Persons aged 15 & over by industry and occupation(1991) .....	35
3.11	Singapore: Share of selected sectors .....	37
3.12	Singapore: Number of Establishments and Employment Industry (1991) .....	38

4.1	Hong Kong Central government revenue and expenditure .....	46
4.2	Singapore Central government revenue and expenditure .....	47
4.3	Singapore: output, saving and investment, 1981-1991 .....	59
5.1	Hong Kong's External Trade by Major Trading Partners .....	65
5.2	Intra-ASEAN exports as a percentage of the total value of exports, 1970-87 .....	76
5.3	Singapore Shipping, 1980-1990 .....	77
5.4	Singapore Re-export Trade .....	78
5.5	Singapore/ASEAN Trade .....	79
5.6	Cumulative Foreign Investment in Singapore's Manufacturing Industry by Industry Group .....	79

**LIST OF FIGURES**

Figure	Title	Page
1.1	The Global Distribution of Industry .....	2
5.1	World Competitiveness Report: An Asian Perspective .....	75

**List of Charts**

Chart	Title	Page
4.1	Hong Kong: Government Public Expenditure by Function .....	49



### Abstract

The last two decades have seen the emergence of several newly industrialized countries (NICs) whose growth and export records have been so successful that they have become major competitors to the established industrial economies. For the developing world these models of success are particularly important in that they may provide a recipe for the attainment of self-sustaining growth. Principal amongst these developmental success stories have been the Republic of Korea, Taiwan, Hong Kong and Singapore. In this 'Gang of Four', Hong Kong and Singapore are the smallest states in terms of area but they have easily the most prosperous and mature economies and, therefore, they demonstrate the most complete models of success.

The city-states of Hong Kong and Singapore are so similar in terms of the degree of achievement, size, culture, geography, and resources, that they have been classified as economic twins. Such a characterization is unfortunate for there are major differences between each state. These differences, moreover, have not been well articulated. Accordingly, the purpose of this thesis is to explore these differences, so as to illuminate the different ingredients which have made the distinctive recipes which have led to two city-states' economic success.

To this end, the thesis will examine the two economies from historic times to the present. Particular attention

will be placed on the manufacturing sectors, the trading patterns, and the key role of government policy in the two states.

## CHAPTER I

### Introduction

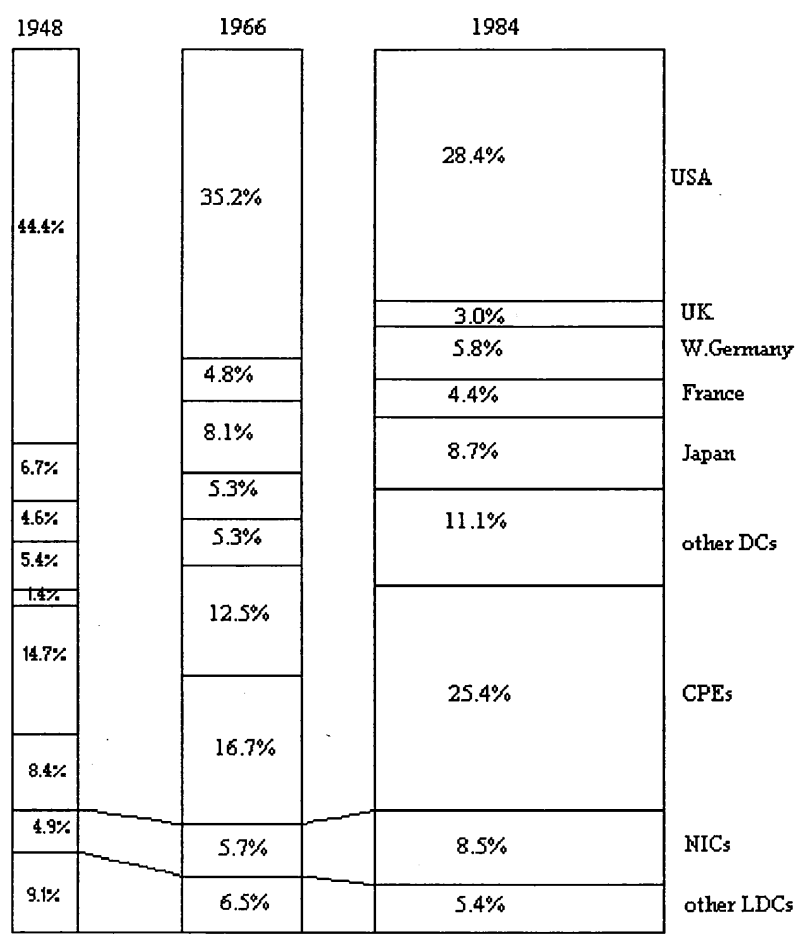
At a time when much of the world seems trapped in perpetual poverty, it is heartening to observe that many miracles have been created within Asia. Japan, of course, has had the most remarkable economic achievement, but recently several small Asian countries, because of their rapid growth rates and a sharp increase in their exports of manufactured goods, have also made the transition to self-sustaining industrialization. Taiwan, Hong Kong, Singapore and South Korea are the most celebrated of such cases. These four NICs have experienced the fastest rates of growth, and have come to be popularly known as Asia's "Gang of Four", or "Four Little Dragons".

Figure 1.1 illustrates the global distribution of industry. We can see that the NICs' percentage share of the world's industrial production has been increasing over time. In contrast, the advanced capitalist countries' share has declined continuously. Table 1.1 displays the rate of growth of the NICs and compares it to the OECD<sup>1</sup> member countries. We can observe that the NICs have achieved impressive growth rates during past decades compared to the developed countries of the West. It can also be observed

---

<sup>1</sup>OECD stands for Organization for Economic Co-operation and Development.

Figure 1.1 The Global Distribution of Industry



Source: Gordon, D., 'The global economy: new edifice or crumbling foundations?', *New Left Review*, 168 (March), pp.24-65.

**Table 1.1**  
**National shares of the World Economy and Growth Rate of GDP (%)**

	Share in World Market Economies					Growth Rates			1964-73	1973-83
	1964	1973	1978	1979	1980	1981	1982	1983		
Australia	1.8	1.9	1.8	1.7	1.8	1.8	1.8	1.7	5.3	1.8
Canada	2.6	2.8	2.9	2.9	2.9	2.9	2.8	2.8	5.8	2.3
France	6.4	6.6	6.6	6.6	6.5	6.5	6.6	6.5	5.5	2.2
Germany	9.1	8.5	8.1	8.2	8.2	8	8	7.9	4.3	1.7
Italy	4	3.9	3.7	3.7	3.8	3.8	3.8	3.6	4.7	1.8
Japan	7	9.9	10.1	10.2	10.5	10.8	11.2	11.3	9.2	3.7
Sweden	1.4	1.2	1.1	1.2	1.2	1.1	1.1	1.1	3.1	1.8
United Kingdom	5	4.2	3.9	3.8	3.6	3.4	3.5	3.6	3.1	0.7
United States	34.8	31.5	30.9	30.5	29.8	30.2	29.6	30.2	3.9	2
<b>Total Above Countries</b>	<b>72.1</b>	<b>70.6</b>	<b>69.1</b>	<b>68.8</b>	<b>68.2</b>	<b>68.5</b>	<b>68.3</b>	<b>68.7</b>	<b>4.8</b>	<b>2.1</b>
<b>Developed Market Economies</b>	<b>84</b>	<b>82.5</b>	<b>80.4</b>	<b>80</b>	<b>79.7</b>	<b>79.9</b>	<b>79.8</b>	<b>80</b>	<b>4.8</b>	<b>2.1</b>
Brazil	1.6	2.2	2.6	2.7	2.8	2.8	2.8	2.7	8.7	4.5
Mexico	1.4	1.6	1.8	1.9	2	2.1	2.1	2	6.9	4.7
Hong Kong	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	9.9	8.6
Korea	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.6	9.9	7.8
Singapore	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	12.1	7.8
Taiwan	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.5	10.8	7.2
<b>NICs Total</b>	<b>3.5</b>	<b>4.7</b>	<b>5.6</b>	<b>5.9</b>	<b>6.1</b>	<b>6.3</b>	<b>6.3</b>	<b>6.2</b>	<b>8.4</b>	<b>5.3</b>
<b>Developing Market Economies</b>	<b>16</b>	<b>17.5</b>	<b>19.6</b>	<b>20</b>	<b>20.3</b>	<b>20.1</b>	<b>20.2</b>	<b>20</b>	<b>6.1</b>	<b>3.7</b>
<b>World Market Economies</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>5</b>	<b>2.4</b>

Source: Office for development research and policy analysis, United Nations, New York, October 28th 1986.

that industrial expansion has not exhibited even growth across the Third World as a whole, but has been largely concentrated in a small group of newly industrialized countries in Asia and Latin American. Further, within Asia, Taiwan, Hong Kong, Singapore and South Korea have had the highest growth rates.

### **The "Four Little Dragons" of Asia**

This "Gang of Four" are poor in terms of natural resources. This constraint has been overcome through development strategies which have placed an emphasis on industrialization supported by the acquisition of technology and the development of human resources and entrepreneurship. Additionally, all countries share an outward-looking industrialization policy. All four countries also have some similarities in terms of culture. Despite such common features, it is nevertheless clear that major differences exist within this group. Most obvious in this respect, is the fact that Taiwan and South Korea are relatively large geographically, while Hong Kong and Singapore are small city states. In addition, there are subtle differences within each subdivision.

Particularly important is the fact that Hong Kong and Singapore are often perceived to be two peas in a pod, economic twins with essentially the same story to tell.

This is an unfortunate perception for despite the similarities between two states in terms of size, culture, geography, resources and economic achievement, each has a very distinctive history and each has different lessons for the rest of the lesser developed world in terms of how economic success may be achieved. It is, accordingly, the purpose of this thesis to tell the story of these two states, and to show that their common economic success has been achieved not inevitably because of any advantageous structural similarities between them, but somewhat surprisingly given the great philosophical differences that exist between the governments of the two states.

In pursuit of this end, this thesis is divided into five chapters. Following this introduction, Chapter 2 seeks to outline the historic background of both states and to observe how they shifted from small, feudal, autarkic economies to major industrialized, export-oriented economies.

Chapter 3 looks at the trends behind the economic and trading development of Hong Kong and Singapore. The Heckscher Ohlin theory of international trade is used to explain the nature of their trade in terms of the economic characteristics of their economies. Particular attention is placed on assessing whether the pattern of trade is similar between the two states, and on whether similar economic variables lie behind their exporting success.

Chapter 4 looks at the government's role in each state. The philosophical basis of the beliefs of each government will be outlined and compared. By comparing the roles of government in the two states, we can show if the forces that have driven the economic success of the two states are the same.

Chapter 5 assesses the future possibilities of further rapid growth, something which cannot be taken for granted given political problems which have been emerging in each country.

The final chapter of the thesis summarizes the conclusions that have been reached in terms of the similarities and differences lying behind the economic success of Hong Kong and Singapore.



## CHAPTER II

### Historic Background

To some extent both Singapore and Hong Kong have shared a similar history. In particular, both were originally British colonies. Moreover, both are very similar in terms of size, geographic location, physical characteristics and both possess splendid natural harbors. Both city-states are also Chinese-oriented, though Singapore has a more complicated composition in terms of population and its Chinese are English educated, while the Chinese in Hong Kong are mainly Cantonese educated. Given these similarities, the two 'economic miracles' have often been described as 'twins'.

However, many differences also exist between Singapore and Hong Kong. Most notable, in this respect, is their founding. To understand their founding, we must look at both city-states' historic and geographic backgrounds. Because of their location, Singapore and Hong Kong both heavily relied on their motherlands- Malaya and China respectively. Malaya and China are different in their nature, hence we can expect them to have a different social and cultural impact on the city-states.

## Hong Kong: Becoming a British Colony

Hong Kong is a British colony situated on the Southeast coast of China, adjoining the province of Guangdong. The total land area of the colony is about 1060 square kilometers (400 square miles). It comprises Hong Kong Island, Stonecutters Island, Kowloon peninsula, New Territories which is part of the mainland, and some offshore islands. Geographically, the island is in a favourable position to be a trading center. It is situated at the mouth of Pearl River, which is the most important outlet to the sea of the Is King, the chief river of Southeast China. Circumstances, moreover, forced it to be a trader, for Hong Kong lacks most natural resources, and therefore it depends on imports of food, consumer goods, raw materials, capital goods, and fuels. In return, Hong Kong exports a wide range of manufactured products to other countries. Trade and manufacturing have a long history in Hong Kong, but more recently this small colony has also become a major financial center, entrepot, and tourist resort. An understanding of this transformation and modernization requires an appreciation of its history.

It is conventional to date the founding of Hong Kong to 26 January 1841 when it was occupied by a British naval force under Sir Gordon Bremer<sup>1</sup>. The following year, on 29

---

<sup>1</sup>Endacott G. B. *A History of Hong Kong*, p17.

August 1842, under the Treaty of Nanking, the Chinese imperial government felt compelled to cede Hong Kong island to the British in perpetuity.

Trade with China was the main reason for the British to possess Hong Kong. By the early years of the 19th century, the British had warehouses in Guangdong, where they stored the opium grown in India, that constituted their main export to China, and the tea, silk porcelain, and other Chinese products they bought in return.

The Chinese imperial government sought to limit and, if possible, to cut off the supply of opium, which was being smoked not only by the wealthier groups, among whom it was traditionally used, but increasingly by the poorer classes. China at this time was a large, resource-abundant, self-sufficient, and closed economy. Its people, moreover, regarded themselves as highly civilized, with little need for foreign imports. Consequently, they imposed many restrictions on foreign traders.

The British merchants at Guangdong were dissatisfied with such regulations and believed that the Chinese would never alter them except by force. Force came with the Opium War of 1840-42. China eventually lost in the Opium War and signed the Treaty of Nanking with Britain in 1842. One result of this was the cession to the British in perpetuity of the 78 square kilometers (29 square miles) Island of Hong Kong. In this treaty, China also agreed to open four

additional ports, Amoy, Foochow, Ningpo and Shanghai. In 1860, after a second war with China, the British acquired the 11 square kilometers (4 square miles) of the Kowloon peninsula, the nearest mainland, and the neighboring Stonecutters Island, also in perpetuity. Finally, in 1898, China was forced to lease to the United Kingdom for 99 years an additional 970 square kilometers (375 square miles) of the contiguous mainland and surrounding islands known as the New Territories. In total the whole colony is just over 1000 square kilometers (400 square miles) of owned and rented territory.

#### **Early Economic Development (1841-1889)**

The British government and traders initially viewed the cession of Hong Kong without enthusiasm. Many thought that it was a mistake. It should be exchanged for some other places which would be closer to the mainland and more suited to the China trade. Few people expected that the new settlement would rapidly expand and become the center of British trade in China. In fact, Hong Kong failed to become an emporium in the first instance. This was because of competition from the opening of trading ports in China. As British trade grew, ships naturally sailed to these ports to avoid the expense of transshipment at Hong Kong.

Although in this early time period Hong Kong did not

become a foreign trading center, it did become an important center for illicit trade, especially the opium trade, and an unauthorized trade in salt. This illicit trade did not create a positive reputation for Hong Kong, but it did support the livelihood of the Island's people. This was important as legitimate trade and entrepot trade grew only slowly until the late nineteenth century.

In the late nineteenth century, the Chinese population of Hong Kong started to grow, their numbers increasing from 20,338 in 1848 to 121,825 in 1865. This growth of the Chinese population increased native trade; and increasing prosperity brought more Chinese into colony. Hong Kong also began to materialize as the supply station for the British manufacture goods. However, much of the colony's growing prosperity was linked to Chinese emigration overseas. The 1849 gold-rush in California and that of 1851 in Australia, brought a wave of Chinese emigration. These new overseas Chinese communities sought ways to cling to their Chinese traditional way of living, and Hong Kong became the center of supplying Chinese communities abroad. In this way exports of tea, rice and sugar, started to increase. Similarly ship refitting, repairing and building began to develop.

At this time the entrepot trade also began to develop. Being a colony under the British flag, Hong Kong was seen as a secure place for traders, therefore, many large firms

established their headquarters in Hong Kong. Up to 1883 almost half the British exports to China passed through the colony. Banking, accounting, insurance, and various agency services, together with shipping, enhanced the colony's prosperity at that time.

### **From Entrepot to Manufacturing**

Throughout the years from its acquisition until the 1940s, Hong Kong grew and flourished as an entrepot in the China trade. Great merchant houses and banking establishments developed. By 1939 this small land boasted a population of 1.6 million.

During the second World War, Japan occupied Hong Kong in August 1945. Hong Kong suffered from economic and social destruction and its business and residential districts became derelict. Also disrupted was the network of its external relationships, something which damaged the entrepot economy. The population shrank from over 1.6 million in mid-1939 to less than 600,000 by mid-1945 as many Chinese fled to towns and villages in Guangdong<sup>2</sup>. Most of the remaining inhabitants were poor and relatively unskilled.

After the war the demand for Chinese commodities from the rest of the world, and the foreign raw materials and manufactured products needed by China, were equally great.

---

<sup>2</sup>Geiger Theodore and Geiger Frances M., *Tales of Two City-States: The Development Progress of Hong Kong and Singapore*, p65.

This opened the way for Hong Kong's surviving British and Chinese mercantile houses to reestablish the entrepot trade.

The civil war on the mainland and the ultimate communist victory in 1949, had a major impact on Hong Kong's economy. China subsequently began to trade with Russia and Eastern Europe, and therefore trade through Hong Kong started to drop. In 1950, China entered the Korean War, a UN sponsored embargo was placed against trade with China, and therefore the re-export business of Hong Kong suffered greatly. Hong Kong's total trade dropped for the first time in the postwar period and it did not begin to increase again until 1955.

The Korean War, in fact, had a double impact on Hong Kong's economy. It smashed its entrepot trade but it also speeded up its industrialization. Merchants on the mainland, especially in Shanghai, were horrified by the communist government. They brought their assets and their skills to Hong Kong and reestablished their firms. This led to massive inflows of resources of labour, capital, and entrepreneurial skill between 1948 and 1951. These resources transformed the economy. This transformation from an entrepot to industrial city took place without any premeditation.

### **Singapore: The Colonial Background**

In the late 18th and early 19th centuries, British merchants and the East India Company increased trade with China. Therefore, they needed a safe and convenient port in which to take on water and supplies and to make ship repairs.

In 1819, Sir Stamford Raffles, the energetic and farsighted agent of the East India Company in the "Eastern Seas," established a trading and military post on the island of Singapore. In 1824 the British purchased the entire island of 225.6 square miles (including the surrounding small islands).

Singapore(Lion City), is situated off the southern tip of the Malay peninsula. It was located astride both the north-south seaway between China and the India Ocean/Cape of Good Hope route to Europe and the east-west seaway between India and China. Thus, it provided both a necessary stopping place on the long sea voyages and a convenient port from which to recuperate.

Throughout the 19th and early 20th centuries, Singapore grew rapidly as an entrepot for European trade with East and Southeast Asia, and as a forward base for Britain's East Asian military and political presence.



### **Entrepot Trade and Immigration**

From the 1820s onwards, Singapore's entrepot trade expanded rapidly. In the main, Singapore exported primary products to Europe and North America and imported manufactured goods - mainly textiles - from India and China, for re-export to the Malay States. There was a period when Singapore became a major station on the sea routes to China. But with the opening of Hong Kong in 1842, Singapore lost its trade with China. It then became apparent that the main source of its growth was to be its trade with Malaya and the East Indies.

The entrepot development in Singapore attracted many labourers and traders to the colony. The population grew rapidly between 1823 and 1871—from 10,000 to 97,111. Unlike Hong Kong, Singapore did not have homogeneity in terms of population. Chinese were the majority in Singapore, but there were also significant numbers of Malaysians and Indians. Cultural differences, therefore, have always been a critical concern in Singapore.

### **Early Economic Conditions and its Independence**

As mentioned above, the Malay States have had an important role in affecting Singapore's early economic development.

For most of the 19th century, the Malay States' export economy was not large. Its export economy did not develop until the British had formalized control over Malaya. Under British government, Malaya had a tighter political and economic system, which gave the confidence necessary for enterprise to develop. In the five years following the establishment of the Federated Malay States (1895-1900), the volume of Malayan trade nearly doubled. In 1900, Malaya was producing nearly half the world's output of tin, and in 1919 Malayan trees were producing half the world's rubber exports. Since then Malaya has retained its position as the world's largest supplier of both commodities.

These developments changed the emphasis of Singapore's economy from entrepot trade to direct import-export dealings with Malaya. A comparison of Singapore's imports and exports figures between 1836 and 1936 is shown in Table 2.1,. This presents clear evidence of this change.

In 1836, over 50% of Singapore's imports and exports were food, drink and tobacco, opium, and textile piece-goods. In 1936, rubber, and liquid fuel became the main items for export and import. There was about a 59-fold increase in the volume of trade over this century, while in value terms trade increased by 63 times.

As Malaya's export economy developed, so too did the trading economy of Singapore. Singapore became Malaya's main outlet for its primary exports, and the main entrance

for its imports of manufactured goods, capital, enterprise, and labour.

Although the economic development of the two countries went hand in hand, they were two different worlds in terms of the political, economic and social structure. While Singapore had an efficient, cohesive, and centralized administration, the Malay States' government was more sluggish and diffuse. Singapore was a highly urbanized city, in contrast, Malaya was just a foundation of rural states. Given these cultural and political differences, their separation was somehow predictable.

In 1957, the Federation of Malaya achieved complete independence, two years later, Singapore attained internal self-government. In 1965, Singapore was expelled from the Federation of Malaysia and it became fully independent.

### **Towards Industrialization**

Unlike Hong Kong, industrialization of Singapore did not come about spontaneously.

When Singapore became self-governing in 1965<sup>3</sup>, the People's Action Party (PAP) won the Assembly election. The party's Secretary-General, Lee Kuan Yew, became Prime Minister. This party was founded by a group of trade-union leaders, journalists, lawyers, and teachers. When they came

---

<sup>3</sup>Singapore gained a period of 'interim independence' between 1959 and 1963. It did not become fully independent until 1965. See Buchanan B. A. Iain, p15.

**Table 2.1**  
**Singapore Trade by Major Commodities, 1836 and 1936**

Major Commodity	1836 (a)				1936 (b)			
	IMPORTS		EXPORTS		IMPORTS		EXPORTS	
	Value	%age	Value	%age	Value	%age	Value	%age
Food, drink, and tobacco(c)	1025	22.3	1318	28.3	69407	25	33947	11.4
Opium	1083	23.6	795	17				
Copra					9805	3.6	11541	4
Vegetable oil					1401	0.5	7640	2.6
Metal ore and concentrates	686	15	990	21.2	7281	2.7		
Metal smelted					7051	2.6	63457	21.4
Textile unwoven	237	5.2	283	6.1				
Piece-goods	1304	28.4	1056	22.6	19464	7.1	2249	0.7
Rubber					78176	28.5	129356	43.6
Liquid fuel					60628	22.1	43932	14.8
Other manufactured goods(d)					15238	5.6	1519	0.5
Miscellaneous	265	5.5	224	4.8	6489	2.3	2974	1
<b>Total</b>	<b>4600</b>	<b>100</b>	<b>4666</b>	<b>100</b>	<b>273940</b>	<b>100</b>	<b>296625</b>	<b>100</b>

Notes:

- (a) In spanish dollars including commodities valued at 50000 Spanish dollars or more
- (b) In Malayan dollars, including commodities valued at M\$1 million or more
- (c) Includes spices, tea and coffee
- (d) Includes moter-cars

Source: Hughes, H. and You, P.S., *Foreign Investment and Industrialization in Singapore*, A.N.U. Press, pp. 6-7, pp.10-11.

to power, unemployment was very high and people were generally poor. They sought to promote economic growth for they believed that economic and social progress were the determining factors for Singapore to survive as an independent country. However, they didn't believe that the invisible hand of the market could alone bring prosperity to the country. Thus, an active government role was their basic economic doctrine.

There were two tasks faced by the government in 1965: restructuring the economy away from dependence on traditional entrepot trade and the alleviation of unemployment. Industrialization was the answer they found for achieving these objectives. They protected infant industries and encouraged the production of manufacture goods. However, the divorce from Malaysia created numerous problems such as the costs of defense, external political relationships etc. At the same time, its domestic market was reduced. In response, Singapore's PAP leaders shifted to a strategy of export-oriented industrialization from import-substitution. They also provided factory sites for foreigners to develop manufactured exports in the country.

Singapore's push for industrialization has been a resounding success. From 1960 to 1965, manufacturing production(measured by value added) increased by almost 20% per year. After independence, manufacturing increased even more, by 28% per year through 1973.

## CHAPTER III

**Economic Structure and Export Performance in Hong Kong and  
Singapore**

As noted in Chapters 1 and 2, Hong Kong and Singapore are physically very similar. They are similar in terms of size, in their lack of natural resources, and in possessing an excellent port which has enabled them to develop as entreport trade centers. During the last 30 years, this initial entrepot function has been superseded by the emergence in each country of a highly commercialised, industrialised, economy. In the past two decades, both countries, through this transformation, have achieved impressive rates of economic growth. Thus, the average growth rates of GDP between 1964-73 were 9.9% and 12.1%, for Hong Kong and Singapore respectively. Between 73-83, Hong Kong's average growth rate was 8.6% and Singapore's average growth rate was 7.8%<sup>1</sup>. Table 3.1 shows that both states' growth rates have become relatively modest in the 90s. However, the 5% or 6% growth rates currently achieved are matched by few developed or developing nations.

Table 3.1 and 3.3 provide some basic data on the two states.

---

<sup>1</sup>See OECD, *The Newly Industrialising Counties: Challenge and Opportunity For OECD Industries*, 1988.

**Table 3.1:**  
**Basic economic indicators in Singapore and Hong Kong, 1991**

	Hong Kong	Singapore
Population 1990 (million)	5.8	2.69
Population growth rate	0.7	1.7
GDP in US\$ (bn)	111	52
GDP per head in US\$	18800	18143
% in GDP growth	(1990) 6	5.6
	(1991) 5.3	6.8
% of GDP in Manufacturing	16.7	28
in Agriculture	0.3	0.3
Employed (thousands)	2741	1485.8
% in Manufacturing	27.7	28.4

Source: *Statistical Yearbook for Asia and the Pacific*, United Nations (1991).

**Table 3.2:**  
**Singapore Economic Structure-**  
**Gross Domestic Product by Industry (at 1985 market prices)**

	1978	1980	1985	1989	1990	1991
Agriculture & Fishing	315.0	325.0	292.3	191.8	177.3	160.6
Mining & Quarrying	52.0	65.0	111.3	89.4	81.4	94.7
Manufacturing	6790.0	8500.0	9184.3	15121.5	16557.6	17431.4
Utilities	491.0	578.0	796.0	1085.9	1203.3	1281.1
Construction	1731.0	2056.0	4167.9	2845.0	3050.0	3690.5
Commerce	4768.0	5453.0	6636.3	9268.9	10026.4	10672.0
Transport & Communications	2663.0	3488.0	5234.5	7426.4	8079.2	8723.5
Financial & Business Services	4465.0	5863.0	10652.0	14046.6	15837.5	16691.7
Other Services	3057.0	3389.0	4577.3	5484.2	5783.2	6173.5
GDP	24046.0	28832.0	38923.5	52678.0	57072.7	60895.9

Source: *Statistical Yearbook for Asia and the Pacific*, United Nations (1978-1990).

**Table 3.3: Hong Kong Economic Structure-  
Gross Domestic Product by Industry (at current market  
prices)**

	1976	1978	1980	1985	1989	1990
<b>Agriculture &amp; Fishing</b>	645	856	1109	1238	1415	1441
<b>Mining &amp; Quarrying</b>	28	25	213	385	200	209
<b>Manufacturing</b>	13197	17647	30549	53071	86062	88825
<b>Utilities</b>	793	952	1703	6665	10872	12623
<b>Construction</b>	2512	4612	8570	12038	24903	30730
<b>Commerce</b>	9850	13989	26169	52831	112600	127575
<b>Transport &amp; Communications</b>	3433	4787	9645	19677	43182	49504
<b>Financial &amp; Business Services</b>	8319	13576	22092	27867	68579	109135
<b>Other Services</b>	7923	9899	16066	41979	69080	82472
<b>GDP</b>	51973	69557	137081	261195	490811	555856

Source: *Statistical Yearbook for Asia and the Pacific*,  
United Nations (1976-1990).



Table 3.2 and Table 3.3 together show that both economies have virtually no agricultural sectors (only 0.3% of gross domestic product, or GDP in both cases). Manufacturing is the major sector in both economies. Manufacturing contributed 16.7% to Hong Kong's GDP and 28% to Singapore's GDP in 1990; employment in manufacturing accounted for 27.7% of the total employed labour force of Hong Kong and 28.4% in Singapore. Comparing Tables 3.2 and 3.3, we discover a very similar economic structure between Hong Kong and Singapore. Although manufacturing is the single largest sector, commerce (trade), financing, insurance, real estate and business services also contributed a large percentage to GDP in both countries. High growth rates of manufacturing output and real GDP, together with very low unemployment rates, are also characteristic of the two expanding economies. From this perspective, the two economies are very similar in their economic achievement as well as economic structure. However, it will be too soon to comment on their similarities without looking at their economic sectors in detail.

This chapter tries to analyze the economic structure of both states in detail, with special attention being given to the manufacturing and trade sectors, since these have been most important in their growth.

This chapter is divided into two parts. The first part

examines Hong Kong's economic structure by looking at the manufacturing and service sectors separately. Then a similar analysis will be given to Singapore. The aim of these discussions is to compare the two economic structures, and discover their similarities and differences.

## Hong Kong

### Recent Development of Its Economy and Industry

Table 3.4 shows us the importance of various economic sectors in terms of their contributions to GDP for selected years between 1976 and 1990.

**Table 3.4\*:** Hong Kong-  
Economic Structure: % Share of Gross Domestic Product by  
Industry, 1990

	1976	1978	1980	1985	1989	1990
Agriculture & Fishing	1.4	1.3	1.5	0.6	0.3	0.3
Mining & Quarrying	0.1	0.0	0.2	0.2	0.0	0.0
	28.3	26.6	26.3	24.6	20.6	17.7
Utilities	1.7	1.4	1.5	3.1	2.6	2.5
Construction	5.4	7.0	7.4	5.6	6.0	6.1
Commerce	21.1	21.1	22.5	24.5	27.0	25.4
Transport & Communications	7.4	7.2	8.3	9.1	10.4	9.9
Financial & Business Services	17.8	20.5	19.0	12.9	16.5	21.7
Other Services	17.0	14.9	13.8	19.5	16.6	16.4
GDP	100	100	100	100	100	100

\*calculated from Table 2.2 above.

Table 3.5: Hong Kong's Major Import Commodities, 1991

	\$ Million
Food	39984
Beverages and Tobacco	16093
Crude materials, except fuels	18859
Mineral fuels	16407
Animal and vegetable oils	1205
Chemicals and related products	60151
Manufactured goods	185532
Machinery and Transport Equipment	227045
Miscellaneous manufactured articles	210681
Others	3023
Total Merchandise	778982
Gold and Specie	28639
Grand Total	807674

Source: Hong Kong, Government Printing Department (1992)  
*Hong Kong 1992, (1992).*

Table 3.6: Hong Kong-Employed Persons by Industry

	1985	1990
Total	2543.3	2741
Agriculture	41.5	23.7
Mining	0.7	0.6
Manufacturing	918.8	759.1
Utilities	17	18.8
Construction	191.8	228.4
Commerce	573.8	770.8
Transport and communications	206.5	271.3
Financing	147.4	210.9
Social services	445.7	517.3
Others	0.1	-
Unemployment rate	3.2	1.3

Source: *Statistical Yearbook for Asia and the Pacific*,  
 United Nation, (1990).

As mentioned above, the agriculture sector in Hong Kong is small and insignificant. Not surprisingly, food is the major import commodity in Hong Kong, with almost 50% of its imports being food (Table 3.5).

Within secondary production (including manufacturing, electricity, gas and water, and construction), manufacturing still accounts for the largest share in terms of both GDP and employment. During the 1980s manufacturing maintained its share of GDP at about 20%. In recent years, its share has started to fall gradually, reaching 17.7% in 1990, reflecting partly the slow down in domestic exports and partly the continued expansion of the services sector.

The services sector (which includes wholesale and retail trade, restaurants and hotels, transport, storage and communication, finance, insurance, real estate and business services), in 1990 contributed about 60% to the GDP. It is the largest single economic activity in Hong Kong, both in terms of GDP and employment. If we look at Table 3.6, we can see that the service sectors together employ over 45% of the labour force, while the manufacture sector employs about 28% of the total employed labour force.

### **Manufacturing**

To examine the manufacturing sector in Hong Kong, we first look at Table 3.7, which shows the number of

**Table 3.7: Hong Kong-  
Number of Establishments and Employment in Manufacturing  
Industry**

	no. of establishment		no. of persons engaged		
	Sep 1990	Sep1991	Sep 1990	Sep1991	
<b>Relatively Capital-intensive Industries</b>					
351	Chemicals and Chemical Products	841	768	8128	8037
353/354	Petroleum and Coal Products	2	4	220	254
371	Basic Metal Products	246	219	3944	3620
382	Industrial Machinery (non-electrical)	175	170	3492	3272
384	Transport Equipment	511	589	13340	13269
314	Tobacco	5	6	1285	1288
3699	Non-Metallic Mineral Products	391	385	3873	3655
<b>Sub-total</b>		<b>2171</b>	<b>2141</b>	<b>34282</b>	<b>33395</b>
<b>Relatively Labour-intensive Industries</b>					
311	Food	892	856	18522	18666
313	Beverages	28	22	4871	4054
331	Wood and Cork Products	675	621	3181	2817
332	Furniture and Fixtures	891	909	5181	4569
3341	Paper and Paper Products	1576	1460	15814	13866
342	Printing and Publishing	4354	4569	37653	39118
321	Textiles	5341	5055	107264	98724
324	Footwear	351	284	4216	3205
320	Wearing Apparel (garments)	8186	7336	212653	187554
323	Leather and Leather Products	740	547	6863	5102
355	Rubber Products	119	162	1299	1211
356	Plastic Products	4976	4377	51315	41522
380	Fabricated metal Products	6477	6092	50784	46000
383	Electrical Machinery, Appliances	357	296	13266	10318
385	Scientific Equipment, Watches, Clocks	1690	1624	32724	29120
390	Other Manufacturing Industries (Jewellery and related articles, Others)	3260	3244	27830	25500
<b>Sub-total</b>		<b>39913</b>	<b>37454</b>	<b>593436</b>	<b>531346</b>
<b>Total</b>		<b>49087</b>	<b>46276</b>	<b>730217</b>	<b>654662</b>

Source: Hong Kong, Government Printing Department (1992),  
*Hong Kong 1992*, (Hong Kong).

establishments and employment in the principal manufacturing industry groups. It classifies the principal manufacturing industry groups into capital intensive and labour intensive<sup>2</sup>. In 1991, people engaged in all manufacturing industries numbered 654662. This figure was heavily concentrated in a few labour-intensive industries, namely garments (28.6%), textiles (15.1%), fabricated metal products (7%), plastic products (6.3%). These four groups accounted for 57% of the employment. They also provided the principal export commodities of Hong Kong.

**Table 3.8: Hong Kong's Domestic Exports of Principal Commodity Groups**

	1989	1990	1991	% change
	\$ Million	\$ Million	\$ Million	1991/1990
Textiles and clothing	88688	89071	93464	5
Electronic products	55818	58566	58617	0.08
Watches and clocks	17075	19133	16727	-0.13
Plastic products	9911	8189	7027	-14
Jewellery	6577	6881	6533	-5
Manufactures of metal	5317	4523	4929	9
Toys and dolls	5840	4622	4098	-11
Electrical appliances	4251	3374	3203	-5
Total of the above	177163	177373	179967	1
% of all domestic exports	79%	79%	78%	

Source: Hong Kong, Government Printing Department (1992), *Hong Kong 1992*, (Hong Kong).

<sup>2</sup>The classification is according to United Nations International Standard Industrial Classification (ISIC).

Table 3.8 shows Hong Kong's principal commodity exports. The above four groups together with jewellery, goldsmiths' and silversmiths' wares and electrical appliances, contributed 78% of the domestic exports in 1991.

### **Heckscher-Ohlin (H-O) Theory**

If we use economic theory to analyze the trading pattern of Hong Kong, the "Heckscher-Ohlin" trade model seems to explain the situation well. The Heckscher-Ohlin (H-O) theory suggests that international trade is determined by relative resource supplies among countries. In other words, each nation should specialize in the production of, and export, the commodity that uses intensively its relatively abundant and cheap factor and import the commodity that uses intensively its relatively scarce and expensive factor. According to the theory, for trade to be beneficial, Hong Kong should save scarce factors (capital and skills) through trade, and use its abundant factor (labour) to produce and export labour-intensive products.

As can be seen from Table 3.8, the predictions of the "Heckscher-Ohlin" trade model are fulfilled. In Hong Kong, not only is trade the biggest economic activity, generating 25.4% of the GDP, (Table 3.4) but most of the trading goods are labour intensive in nature (Table 3.7 and Table 3.8). It is thus reasonable to consider the structure of Hong Kong's

commodity export trade to be relatively labour intensive, in accordance with the prediction of the Heckscher-Ohlin theory.

### **The Service Sectors**

Hong Kong in the 1990s not only exports manufacturing products, but also services. Over the past decades, the rapid growth in external trade enabled Hong Kong to build up a strong manufacturing base and provided the underlying conditions for the service sectors to flourish and diversify. Between 1981 and 1991, exports of services rose at an average annual rate of 9 percent in real terms, while imports of services increased by 11 percent<sup>3</sup>. The major components of Hong Kong's trade services are related to finance and business services, including banking, insurance, real estate, and a wide range of other professional services.

### **Finance and business services**

#### **Banking**

Hong Kong has developed into one of the world's major financial sectors: it has the largest number of overseas

---

<sup>3</sup>Hong Kong 1992



banks and financial companies of any city after London and New York. Since 1981, Hong Kong has maintained a three-tier system of deposit-taking institutions. At the end of 1991, there were 163 licensed banks<sup>4</sup> in Hong Kong, 30 of which were locally incorporated. They maintained a total of 1409 offices in Hong Kong. The total deposit liabilities of all licensed banks at the end of 1991 was \$1,311 billion.

In addition, there were 152 representative offices of foreign banks. There were also 53 restricted licence banks and 159 deposit-taking companies<sup>5</sup>. Their total deposit liability to customers was \$40 billion and \$24 billion respectively.

Apart from deposit-taking, conventional lending, and foreign exchange dealing, banks and deposit taking companies in Hong Kong are increasingly diversifying into other financial services, including securities, fund management and the provision of investment advice.

### **Financial Markets**

Hong Kong has a mature and active foreign exchange

---

<sup>4</sup>Only licensed banks may operate current or savings accounts. They may accept deposits of any size and any maturity from the public.

<sup>5</sup>Following legislation in January 1990, the categories of licensed and registered deposit-taking company have been replaced by restricted licence bank and deposit-taking company respectively. The changes were primarily designed to improve the status of licensed deposit-taking companies.

market, which forms an integral part of the corresponding global market. The link with other major overseas centers enables foreign exchange dealing to continue 24 hours a day around the globe. With an average daily turnover of about US\$49 billion early in 1989, Hong Kong is among the largest markets in Asia along with Tokyo and Singapore. Hong Kong is favoured by a host of factors such as a favourable time zone location, a large volume of trade and other external transactions, the presence of a large number of international banks with experience in foreign exchange transactions, the absence of exchange controls and a highly-advanced telecommunications system.

**Recent direction: Increasing Economic Links between Hong Kong and China**

Since the adoption of open-door policies by China in late 1978, Hong Kong's economic relations with China have undergone such rapid growth and development that the countries are now, in fact, each other's largest trading partner. In 1991, the total value of visible trade between Hong Kong and China amounted to \$501 billion representing an increase of 27% over 1990<sup>6</sup>.

Apart from being the second largest market for Hong Kong's domestic exports (accounting for 24% of the total in

---

<sup>6</sup>See *Hong Kong 1992*, p414.

1991), China is particularly important in Hong Kong's re-export trade. China is the largest market for, as well as the largest supplier of, Hong Kong's re-exports. More than 80% of the goods re-exported through Hong Kong are destined for, or have originated from, China.

Orthodox trade theories suggest that Hong Kong should use labour and save capital through trade. However, wages in Hong Kong have been increasing continuously, so that the abundant factor in Hong Kong, labour, has become highly paid workers. Also, over the years labour productivity has been upgraded by a significant degree<sup>7</sup>. Workers in Hong Kong have become more skilful and are therefore earning that high pay. In order to remain internationally competitive, some Hong Kong producers of low priced clothing and manufactures have begun to secure low cost labour from China in their more labour intensive operations.

---

<sup>7</sup>During the period 1973 to 1989, the value of net output by the manufacturing sector grew at an average annual rate of 16 per cent, while manufacturing employment grew at an average annual rate of only one per cent. Even after taking into account the effect of price increases on the output value, a significant secular improvement in labour productivity was evident.

## Singapore

### Economic Structure

Table 3.9 shows that Singapore is also an export-led economy. The insignificance of its agriculture and mining sectors reflect the fact that Singapore has few natural resources. With a small land area and 2.69 million people, Singapore has been forced to concentrate on becoming a leading free port and a major crossroads of trade, transport and communications as well as an important provider of financial and business services. Basically, these economic activities have built up its economic structure. Manufacturing, however, is also a major sector in Singapore's economy, contributing 26.9% of the GDP. In 1990, about 28% of the labour force held jobs in manufacturing.

The construction sector is also very significant. Moreover, it grew very rapid in 1991, expanding by 21% compared with 7.2 % in 1990 (Table 3.2).

The services sector accounts for the largest share of GDP. In 1991, 55% of the GDP was produced by various service groupings.

In terms of employment, in 1991 72% of the labour force held jobs in the manufacturing, commercial, community and personal services sectors. Looking at Table 3.10,

**Table 3.9\*: Singapore-  
Economic Structure: % of Gross Domestic Product by Industry,  
price at 1985**

	1978	1980	1985	1989	1990	1991
Agriculture & Fishing	1.3	1.1	0.7	0.3	0.3	0.2
Mining & Quarrying	0.2	0.2	0.3	0.2	0.1	0.1
Manufacturing	27.9	28.6	22.1	27.2	27.2	26.9
Utilities	2.0	1.9	1.9	2.0	2.0	2.0
Construction	7.1	6.9	10.0	5.1	5.0	5.7
Commerce	19.6	18.3	15.9	16.7	16.5	16.4
Transport & Communications	10.9	11.7	12.6	13.4	13.3	13.4
Financial & Business Services	18.4	19.7	25.6	25.3	26.1	25.7
Other Services	12.6	11.4	11.0	9.9	9.5	9.5
GDP	100	100	100	100	100	100

\*calculated from Table 2.1 above.

**Table 3.10: Singapore Employed Persons aged 15&over by  
industry and occupation, 1991**

	All	Adm	Prof	Tech	Cler	Sales	Agr	Trans	Oth
Total	1524.3	137.4	77.3	185.7	225.5	215.7	28	616.4	63.6
Agriculture and Fishing	4.3	0.3	-	0.1	0.1	0.1	2	1.7	-
Quarrying	0.4	0.1	0.1	-	-	-	-	0.2	-
Manufacturing	429.6	28.7	16.9	36.6	42.9	5	-	299.5	-
Utilities	7.1	-	0.5	1.6	1.6	0.3	-	3.2	-
Construction	99	10.1	4.3	4.9	5.6	0.1	-	73.7	0.2
Commerce	345.3	66.5	4.4	19.5	52.8	157.8	0.1	44.3	-
Transport and communications	152.9	8.8	3.1	19.5	33.5	10.5	-	77.5	-
Financial and Business services	163.3	16.8	15.4	41.8	55.6	9.9	-	23.7	-
Other Services	322.3	6.2	32.6	61.7	33.4	32	0.7	92.5	63.3

- Notes: (1)Adm: Legislators Administrators and Managers  
 (2)Prof: Professionals  
 (3)Tech: Technicians and Associate Professionals  
 (4)Cler: Clerical Workers  
 (5)Sales: Sales and Service Workers  
 (6)Agr: Agricultural Workers and Fishermen  
 (7)Trans: Production Transport and Other manual Workers  
 (8)Oth: Workers Not Classifiable by Occupation

Source: *Singapore 1992*, Singapore National Printers Ltd (1992 Singapore).

production workers, transport equipment operators and labourers formed the largest group of employed persons, accounting for 40% of the total number. The next two largest groups were professional, managerial and executive workers (26%), and clerical and related workers (15%). Data in Table 3.10 reveals the characteristics of Singapore's labour force. It seems that the greater proportion of the workers are well-trained and skilled.

### **Manufacturing**

The structure of Singapore's manufacturing sector is shown in Table 3.11 and 3.12. Table 3.11 shows that petroleum (a capital intensive product) was the largest manufacturing industry. However, since the early 1980s, the structure of the manufacturing sector has changed. The impetus to export growth has increasingly come from the more up-market products such as electronic components, computers and computer peripherals, and telecommunications equipment. In 1984, for example, electronic components and parts, radio and television receivers and parts, and data processing and other office machines, taken together, accounted for 21.5% of total Singapore's exports (Table 3.11). In 1991, electrical machinery and appliances was the single, most significant industry in Singapore. Together with transport equipment, it accounts for almost 63% of total exports

(Table 3.12).

In contrast to Hong Kong, the garment sector is very small. Although there has been a shift from exporting relatively capital-intensive products to relatively labour-intensive products, compared to Hong Kong Singapore's manufacturing sector is engaged in a relatively high technology or research intensive production. Overall, we may say that the economic structure of Singapore is relatively capital intensive compared to Hong Kong. These two economies are both major exporters of manufacturing goods, but they are engaged in different kinds of production. Compared to Hong Kong, Singapore's economic structure is more capital-intensive.

**Table 3.11: Singapore: Share of selected sectors in manufacturing value added (%)**

	1975	1980	1983	1984
Petroleum products	17.6	17.1	14	8.6
Electronic products and components	11.7	19.5	19.4	26.2
Food, beverages and tobacco	7	4.9	5.9	5.5
Fabricated metal products	5	4.9	7	6.8
Shipbuilding and transport equipment	14.6	12.4	9.4	9.1
Machinery	9	8.7	8.8	8
Electrical machinery and apparatus	4.4	4.2	4.5	4.7
Paints, and chemical products	4	3.5	5	5.8
Industrial Chemicals and gasses	1.3	1.3	1.4	2.3
Wearing apparel	2.7	3.1	3.4	3.3
Printing and publishing	3.6	3.2	4.7	4.8
Structural cement and concrete	0.5	0.6	1.9	2.1

Source: *Yearbook of Statistics Singapore, 1985-86.*

**Table 3.12: Singapore-  
Number of Establishments and Employment in Manufacturing  
Industry(1991)**

		Establishment Number	Workers	Direct export Million Dollars	% of export
Relatively	Capital-Intensive Industries				
351	Chemicals and Chemical Products	178	10173	4007.1	8.2
353/354	Petroleum and Coal Products	15	3328	6271.4	12.8
371	Basic Metal Products	36	2627	272.1	0.6
384	Transport Equipment	237	27024	2530.1	5.2
3699	Non-Metallic Mineral Products	76	5258	121.5	0.2
	<b>Sub-total</b>	<b>542</b>	<b>48410</b>	<b>13202.2</b>	<b>26.9</b>
Relatively	Labour-intensive Industries				
311/313	Food, beverage	292	13977	1468.7	3.0
331	Wood and Cork Products	84	2394	180.5	0.4
332	Furniture and Fixtures	146	6651	203.2	0.4
3341	Paper, Paper Products and Printing	443	21233	725	1.5
321	Textiles	68	3395	151.1	0.3
320	Wearing Apparel (garments)	426	27580	1471.5	3.0
355/356	Rubber Products and Plastic Products	324	17437	370.7	0.8
380	Fabricated metal Products	504	28685	1200.5	2.4
383	Electrical Machinery, Appliances	821	171756	28611.2	58.3
385	Scientific Equipment, Watches, Clocks	60	8235	793	1.6
390	Other Products	154	7757	705.4	1.4
	<b>Sub-total</b>	<b>3322</b>	<b>309100</b>	<b>35880.8</b>	<b>73.1</b>
	<b>Total</b>	<b>3864</b>	<b>357510</b>	<b>49082.9</b>	<b>100</b>

Source: *Singapore 1992*, Singapore National Printers Ltd  
(1992 Singapore).



## Implications of trade theory

In the case of Singapore, the traditional trade theory does not seem applicable. Singapore lacks natural resources (except its port) but possesses abundant labour. According to the H-O theory, it should then export labour-intensive products. From the analysis above, this prediction of the H-O model was not verified given the preponderance of capital intensive exports. We can reconcile the theory by explaining that Singapore had altered its comparative advantage in trade. Its initial endowment did not prevent it from transforming itself into a relatively capital-intensive export nation. The H-O theorem is not wrong, but inadequate. It is legitimate only under a certain time frame or under certain conditions. Singapore transformed its comparative advantage by investing in human capital and state control (this will be discussed in detail in the next chapter). With abundant human capital, Singapore is appropriately qualified to produce and engage in high technology economic activities.

### Service Sectors

#### Finance

Like Hong Kong, Singapore is a major financial center.

The sound regulatory system in Singapore ensures the stability of the financial and banking system. In addition, its well developed telecommunications and financial infrastructure, stable political and economic environment, all contribute as factors favourable for a financial center. The region's strong economic growth, high savings rate and increased international investor interest led a number of financial institutions to set up risk and fund management activities in Singapore. In recent years, multinational corporations based in Singapore have also been increasingly active in treasury and financial management activities.

### **Conclusion**

This chapter suggests two different perspectives concerning the economic growth and structures of Hong Kong and Singapore. If we look at them from the world as a whole, then Hong Kong and Singapore appear to be identical. They are engaged in similar economic activities, such as international trade, entrepot trade and manufacturing. They both are major financial centers. Their service sectors have expanded in recent years. With these like features, combined with impressive growth rates, similar geographical locations, culture and history, they can be considered as twins.

However, when we examine each of their industry sectors in detail, we discover a different economic structure between the two states. They are committed to different styles of production. We may classify Hong Kong's economic structure and its trading pattern as relatively labour-intensive. In contrast, Singapore's economic structure and its trading pattern is relatively capital-intensive. Thus without denying the similarities, these twins, in fact, have significantly different characteristics.

## CHAPTER IV

### Government Policy

The previous chapters looked at both similarities and differences between Hong Kong and Singapore. They have a similar historic background and economic achievement. Both represent a successful model of economic development. They both employ export-oriented industrialization (EOI) strategies which emphasize free trade and the development of the manufacturing sector. Both economies are also characterized by high growth rates and very low unemployment rates. In addition, both countries are small, lack natural resources and have excellent ports. However, despite strong similarities there are, nevertheless, some important differences. Of particular importance are the economic structure, economic philosophies and industrial strategies followed by the two governments. We have already seen the differences in their economic structures in Chapter 3. This chapter accordingly endeavours to look behind the economic pattern and examine the role of government in determining each country's growth and development.

With respect firstly to Hong Kong's experience, it has operated under a kind of modified laissez-faire doctrine. It has always been believed that government intervention serves simply to distort the state's comparative advantage and therefore restricts economic opportunities. In

contrast, small government equates with greater economic growth.<sup>1</sup> The history of Hong Kong seems to prove to us that a successful EOI strategy requires, or is at least compatible with, a bear minimum of state intervention.

The experience of Singapore, in contrast, seems to suggest the opposite. Despite having the same export-oriented trade outlook as Hong Kong, Singapore's economic success is the result more of the Long Arm of state intervention than it is of the Invisible Hand of the free market<sup>2</sup>. In fact, the record of most of the successful nations in Asia, such as Singapore, South Korea, Taiwan and Japan shows that their economic success went hand-in-hand with state assistance and control. Investment incentives, infrastructural provisions, effective labour management policies, productive investments and the provision of loan capital all contributed to shape the investment climate in these countries which have successfully adopted export-oriented industrialization<sup>3</sup>. The case of Singapore is thus a classic contrast to that of Hong Kong in that it shows how an active government can guide the country towards economic development.

---

<sup>1</sup>See Milton Friedman (1981), *The Invisible Hand in Economics and Politics*, Singapore: Institute of Southeast Asian Studies.

<sup>2</sup>Lim, Linda Y. C., "Singapore's Success: They Myth of the Free Market Economy", *Asian Survey*, 23:6(1983, June).

<sup>3</sup>See Rodan Garry, "Industrialization and the Singapore state in the context of the New International Division of Labour", *South East Asia: Essays in the Political Economy of Structural Change* (1985).

Given that the governments of Hong Kong and Singapore have played such a different role in the economy, the purpose of this chapter is to focus on the role of government and economic strategies, and to compare and expose the differences between the experience of Hong Kong and Singapore.

### **Government Policy and the Nature of the Economy in Hong Kong**

There is a general agreement among economists that Hong Kong represents the classical laissez-faire model. Thus it has been characterized as "the world's last practitioner of the pure 19th-century laissez-faire doctrine."<sup>4</sup> The nature of the Hong Kong economy has contributed to this argument. It is small and lacks resources. It relies heavily on international trade. Owing to its small size and open nature, the economy is vulnerable to external factors; accordingly any government actions designed to offset unfavourable external influences are likely of limited effectiveness. Its trade policy consequently seeks to promote a free, open and stable trading system. There is substantial freedom of capital movements and both domestic and foreign entrepreneurs have easy and equal chances to enter into business. They also enjoy extremely low corporate

---

<sup>4</sup>Geiger Theodore, *Tales of Two City-States: The Development Progress of Hong Kong and Singapore*, National Planning Association (Washington, 1973).

and personal tax rates. Hong Kong can be said, without undue hyperbole, to have the freest economic system on the planet.

The classical ideal, moreover, is not confined simply to freedom of trade and capital movements. More relevant is its declared general policy of keeping the public sector and the government's role as small as possible while giving the private sector the maximum latitude to carry on its activities in accordance with external and internal market forces. Economic life in Hong Kong is largely determined by thousands of decisions made by individual and corporate players coordinated by the market. In fact, since the founding of Hong Kong in 1841, the government has generally maintained a hands-off approach toward the private sector. Under this policy paradigm of non-intervention, private efforts have been the driving force of the economy of Hong Kong. It is market-regulated, no protection or government assistance policy is typically extended to manufacturing industries, utilities, service industries, and even private citizens. No attempt has been made to distort factor prices to favour any particular type of development. The government considers that, except where social considerations are over-riding, the allocation of resources in the economy is best left to market forces rather than to be determined through government involvement. This basically free-enterprise, market-disciplined system has

**Table 4.1 Hong Kong Central government revenue and expenditure**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
<b>Revenue</b>										
<b>Total</b>	35846	32269	32813	38510	43694	48603	60877	72658	82429	89863
<b>Current revenue</b>	24014	14883	17251	30581	36461	41894	53555	64302	73430	81855
<b>Taxes</b>	16514	17062	18933	21838	27658	31731	41216	48295	53879	61628
<b>Non-taxes</b>	7500	7821	8318	8743	8803	10163	12339	16007	19551	20227
<b>Capital revenue</b>	11832	7386	5562	7929	7233	6709	7322	8356	8999	8008
<b>Expenditure</b>										
<b>Total</b>	29385	35684	38596	59882	43444	47930	53636	64799	81945	100190
<b>General public services</b>	3274	4800	5438	5922	6246	6485	6971	7810	9470	13126
<b>Defense</b>	1499	1471	1558	1523	1493	1564	1640	1640	1539	1686
<b>Education</b>	4172	5105	5758	6951	7240	8408	9192	11364	13030	16841
<b>Health</b>	2160	2665	2956	3312	3693	4365	4978	5673	7307	9381
<b>Social Security &amp; welfare</b>	1220	1710	1938	2232	2520	2780	3138	3804	4762	5916
<b>Housing, and community amenities</b>	5738	7274	8293	8222	9113	9309	10987	14395	18040	21642
<b>Economic services</b>										
<b>Agriculture, forestry, fishing and hunting</b>	88	106	100	82	71	84	107	116	177	262
<b>Mining, manufacturing and construction</b>	568	536	459	464	576	638	771	941	1162	1433
<b>Electricity</b>	1263	1413	1342	1240	1313	1603	1770	2073	2826	3173
<b>Transport and communications</b>	6477	6581	6494	5466	5675	6215	7006	8340	12880	13346
<b>Other economic services</b>	621	713	798	868	557	689	746	838	975	1093
<b>Other purposes</b>	2305	3337	3462	3600	4947	5790	6330	7805	9777	12291

Source: *Statistical Yearbook for Asia and the Pacific*, United Nation, (1990).



**Table 4.2 Singapore Central government revenue and expenditure**

	1980	1981	1982	1983	1984	1985	1986	1987	1988
<b>Revenue</b>									
<b>Total</b>	6620	8696	10086	11717	11697	14764	14971	13805	14459
<b>Current revenue</b>	6365	7797	9054	10935	11451	10768	10411	12947	13856
<b>Taxes</b>	4396	5427	6428	7140	7371	6400	5208	5957	7519
<b>Non-taxes</b>	1969	2370	2626	3795	4080	4368	5203	6990	6337
<b>Capital revenue</b>	255	899	1032	782	246	3996	4560	858	603
<b>Expenditure</b>									
<b>Total</b>	5027	6833	6961	8273	10474	10580	11437	15271	11742
<b>General public services</b>	493	915	929	1013	1167	1119	1037	1894	796
<b>Defense</b>	1267	1496	1608	1529	2103	2378	2172	2231	2492
<b>Public order and safety</b>						372	345	352	449
<b>Education</b>	735	1312	1351	1783	2113	2284	2076	2204	2231
<b>Health</b>	350	494	449	530	649	684	464	548	608
<b>Social Security &amp; welfare</b>	68	94	97	84	97	167	182	196	236
<b>Housing, and community amenities</b>	314	482	480	377	588	440	1638	1483	1387
<b>Recreational, cultural, and religious affairs and services</b>	72	482	480	377	588	440	1638	1483	1387
<b>Economic services</b>	891	1045	1001	125	198	67	61	71	109
<b>Fuel and energy</b>	1	2	1	1	1				
<b>Agriculture, forestry, fishing and hunting</b>	22	36	29	24	37	40			
<b>Mining, manufacturing and construction</b>	6	20	8	9	9	9			
<b>Transport and communications</b>	508	444	411	471	638	1060			
<b>Other economic services</b>	354	543	552	674	890	762	2269		
<b>Other purposes</b>	837	894	942	1653	1984	1199	1190	3909	1556

Source: *Statistical Yearbook for Asia and the Pacific*, United Nation, (1988).

allowed the economy to be extremely responsive to international market developments and to grow very rapidly, as described earlier in Chapter 3.

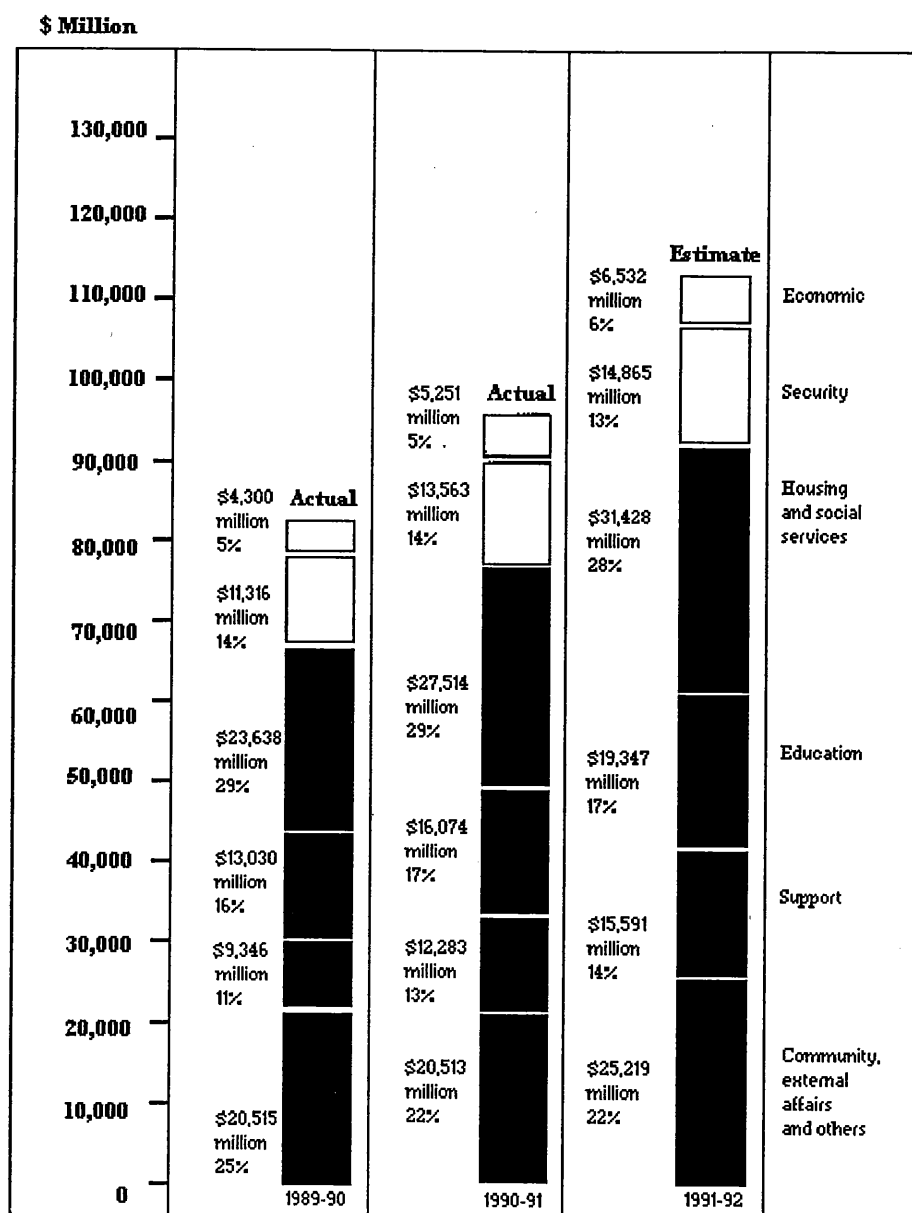
### **Increasing Role of Hong Kong Government**

Comparing the central government revenue and expenditure of Singapore and Hong Kong in Table 4.1 and Table 4.2, we notice that both governments spend a very high proportion of their revenues on economic affairs and services. In 1986, about 20 per cent of Hong Kong's government expenditure was spent on economic services, which compares to 16 per cent for Singapore's. Consequently, some people are now arguing that Hong Kong is no more a laissez-faire ideal, and its traditional role of minimal government intervention no longer true.

Like Singapore, Hong Kong now spends much on education, public welfare and health, and especially on housing. In fact, in terms of government-sponsored social welfare, Hong Kong ranks among the highest in Asia and Latin America. The resettlement and low-rent housing programs, which are carried out by the Hong Kong government, are amongst the largest in the world. There are also guarantees of free primary education to every child.

With the increasing degree of government participation, the government, nevertheless, still claims that it has been

Chart 4.1 Hong Kong 's Public Expenditure by Function



Source: Hong Kong, Government Printing Department (1992) *Hong Kong 1992*, (Hong Kong).

pursuing the policy of positive non-intervention. However, the government does not think that the "invisible hand" in the economy would automatically enhance the welfare of the state as a whole. Therefore, certain economic and social-welfare objectives are pursued by the government, even though it does not engage in directive economic planning and active macroeconomic management.

It seems, then, that on one hand, Hong Kong promotes and practices free trade under a philosophy of minimum intervention. On the other hand, it anticipates the economy's needs for new and expanded infrastructure facilities. It aims to provide the private sector with an economic environment and the infrastructure conducive to rapid growth, including the provision of adequate industrial support facilities and services. This is indicated in Chart 4.1 which shows that the Hong Kong government spends a particularly large portion of its budget on education, housing, and infrastructure.

### **Recent industry and trade policies in Hong Kong**

In order to promote the manufacture of higher quality products, the government's industrial policies and programmes have been designed to support the process of technology upgrading. It encourages technology transfer through an inward investment promotion programme and through

the establishment of a Committee on Science and Technology (CST) in 1988.

Industrial policies are kept under review by the Trade and Industry Branch of the Government Secretariat, which acts on the advice of the Industry Development Board (IDB). Members of this board include prominent industrialists, government officials, representatives from the tertiary education sector, and representatives of the most important trade and industry organizations. Productivity, product innovation and quality improvement services are mainly provided by the Hong Kong Productivity Council and the Industry Department. The Industry Department also promotes inward investment in Hong Kong's manufacturing industries.<sup>5</sup>

Although there have been numerous institutions established for the purpose of encouraging the development of technology, infrastructure and social welfare, we must keep in mind that the Hong Kong government does not pursue a policy of targeting industries for development. The government still trusts market forces in deciding which type of industry will be developed. In contrast, Singapore with similar achievement displays active government involvement in the economic development process. This is, perhaps, the major difference observed between the economic systems of the two countries.

---

<sup>5</sup>*Hong Kong 1991.*

## The Role of Government in Singapore's Economic Development

A first glance at the economic conditions in Singapore suggests its economy to be a very open one, almost the same as Hong Kong's. It has no import and foreign exchange controls, only a few remaining low-level protective tariffs, no approval procedure for domestic or foreign investment, no limitations on profit remittances, technology payments or capital repatriation. But within this free market framework, and in marked contradiction to Hong Kong, the government of Singapore has been very active in influencing and directing its economic development. In particular, it exercises a strong influence on the process and direction of industrial investment. It is the role of government in the economy that really makes a difference between Hong Kong and Singapore.

The current, and long ruling, party in Singapore, the People's Action Party (PAP), has never believed in the laissez faire doctrine. They regard themselves as the only means capable of preserving Singapore's independence, maintaining an adequate rate of economic growth, and steadily improving the well-being of its people. It has directed Singapore from an initial strategy of import substitution to its current export-led growth policy<sup>6</sup>. Starting from a position of low per capita income and high

<sup>6</sup>OECD, *"The Newly Industrializing Countries: Challenge and Opportunity for OECD Industries"* (OECD, 1988).

unemployment at the time of independence (1965), the PAP transformed it into one of the most successful industrial nations in the world. The government's hand has had a direct effect on the country's rise.

### **How did the PAP transform Singapore: Industrial Strategies during the Period of Industrial Take Off (1965-1978)**

#### **Problems of Independence**

After its independence in 1965, there was intense anxiety in Singapore over its economic survival and many problems were created. Firstly, the internal market in Singapore was small, and the separation from Malaysia put an end to any hope of a common market that would have assured Singapore of the large outlets necessary to guarantee the viability of its nascent industries. Secondly, there was a high rate of unemployment. Thirdly, the economy depended heavily on entrepot trade and Britain's air and naval base on the island. However, on 18 July 1967, Britain's Labour government announced that during the next decade British forces would withdraw from the base. This posed a danger for its survival, for the British forces not only constituted the island's only military defence, but they also provided a quarter of all its economic activity and directly created 20% of GNP and 40,000 jobs.

Facing these urgent challenges, Lee Kuan Yew, the PAP's leader, decided to adopt an export-oriented industrialization (EOI) strategy. He came to the conclusion that foreign investors alone could not provide the means to attain rapid economic growth. Therefore, Singaporean authorities added a whole series of inducements to foreign investment: the maintenance of a free port, free convertibility, no exchange control, conversion of the entrepot, tax exemptions, export incentives, development of transport and communication infrastructures, education and training facilities. PAP established a government-sponsored National Trades Union Congress (NTUC). This union acted as a pressure group to promote a sense of special responsibility in the labour movement, encouraging it to make sacrifices to avert economic crises. Moreover, to enhance the attractiveness of Singapore's labour to international capital, PAP passed the Employment Act (1968) and the Industrial Relations Act (1969). Through them, employees' wages and benefits were reduced, working hours were increased, and the bargaining powers of unions severely curtailed. Government had successfully institutionalized labour control.

In addition to forming the NTUC, the PAP also introduced a number of economic initiatives in support of its EOI strategy. In particular, the Economic Development Board, established in 1961, was made responsible for the



planning and promotion of investment so as to bring about a balanced economy of manufacturing and service industries, and local and multinational enterprises. PAP established a public limited trading company in 1968, the International Trading Company (INTRACO), to help develop overseas markets for Singapore-made products and to find cheaper sources of raw materials for local industries. In 1968, PAP created the Development Bank of Singapore. This is a public company with majority government equity. Its mandate is to provide finance for industry at below market rates and to stimulate investments through equity participation. The government's direct participation in the finance sector also extended to the Central Provident Fund (CPF)<sup>7</sup> and the Post Office Savings Bank<sup>8</sup>, through which it appropriated the major share of domestic savings. These savings were important to the government's ability to provide the social and physical infrastructure required by the strategy.

Under the guidance of the PAP, the export oriented industrialization strategy achieved remarkable and rapid success. Singapore's real gross domestic product (GDP) grew by about 10% a year during 1965-78, supported by a rapid expansion of exports and inflows of foreign direct

---

<sup>7</sup>CPF was set up in 1955 to provide financial security for workers when they retire or are no longer able to work. Both the employer and the employee have the obligation to contribute part of their wages to the fund.

<sup>8</sup>POSBank was established in 1877 as part of the Postal Services Department. POSB has the twin objectives of encouraging thrift and mobilizing savings for national development.

investment. This growth was also supported by high rates of domestic saving and investment. The steady rise of the savings rate was partly the result of conservative financial policies. The high growth and the resulting increase in the demand for labour led to a sharp decline in the unemployment rate. At the end of 1978 Singapore's official unemployment rate had fallen to just 3.6%. The secondary sector in this period concentrated on labour intensive industries. However it was heavy industry, such as naval yards, construction and petroleum which was the primary focus of Singapore's activities.

#### **The Second Industrial Revolution (1979-85)**

The years 1979-85 have been characterized as the 'Second Industrial Revolution' in Singapore. This is because they witnessed a radical restructuring of the Singaporean economy. In particular, the government sought to discourage low-value-added, labour intensive products, and to encourage areas that required more highly skilled labour and had a high value-added content.

This revolution was partly caused by labour shortages. This in particular threatened the planned expansions and upgradings in Singapore's important electronics industry. The PAP was also concerned about the possible political consequences of an expanded dependence upon foreign labour.

Hence, PAP started to foster high-value-added industries, and high technology services.

PAP started the restructure by using what it called a "Corrective" wage policy. The previous policy of holding down wage levels was considered responsible for the developing labour shortages. By 'correcting' wage costs or rapidly increasing the wages, the government hoped to discourage labour-intensive activities. Government also placed more emphasis on education and training, the development of ultra-modern infrastructures, and the improvement of productivity. In order to encourage investment in higher value-added products, PAP also introduced a range of tax credits and financial assistance schemes especially for electronics.

### **The 1985 Recession and its Afterworth**

The 'Second Industrial Revolution' was not a complete success. High wages led to a very high level of production costs. This, coupled with appreciation of the Singapore dollar led to a substantial loss of competitiveness. The growth rate declined from 8.2% in 1984 to 1.8% in 1985, while the unemployment rate rose to 4.1%.

In the latter part of 1985, the Government relaxed its financial policies through accelerated expenditure. In 1986, it also reduced individual and corporate tax rates.

The 'corrective' wage policy was reversed to achieve an immediate and substantial reduction in labour costs. The employer's contribution to the Central Provident Fund was reduced from 25 to 10% of employees' gross pay. The effect of these measures on competitiveness was strongly reinforced by a significant effective depreciation of the Singapore dollar, and by the end of 1986 much of the loss in competitiveness had been regained.

The state also revised its internal economic policy. In 1986, it began a programme of privatizing public enterprises. It sold its shares in several public companies, including Singapore Airlines. The authorities also tried to inspire the private sector, which had been ignored for a long time, by increasing its programmes of financial and technical support.

With this rapid change in government policy, the economy recovered in 1986, with a growth rate 1.9%. In 1987, it returned to 8.8% growth rate, a figure more usual for the state.

### **The Importance of the Government**

From Singapore's experience, it seems that the government has had a direct impact on the economy. PAP

**Table 4.3**  
**Singapore-output, saving and investment, 1984-1991 ( at**  
**current price, \$Million)**

	1984	1985	1986	1987	1988	1989	1990	1991
<b>Gross National Product</b>								
Gross National Product at Market Price	40815.1	40330.4	39612.5	4207.1	49862	57278.1	64467.4	70657.1
Gross Domestic Product at Factor Cost	36551.7	35619.4	36069.1	39766.8	46637.5	52440.4	58570.5	63545.3
Indirect Taxes	3496.2	3304.1	2594.4	2869	3360.5	4403.8	5102.4	5530.7
Net Factor Income from Abroad	767.2	1406.9	949	-428.7	-136	433.9	794.5	1581.1
<b>Gross National Saving</b>								
Gross National Saving	18596.4	16543.4	1588.5	16304.8	20224	24518.3	28850.5	33107.6
Gross Domestic Saving	18304.3	15605.5	15037.9	17225.7	20962.2	24824.6	28788.4	32355.9
Gross Domestic Product at Market Prices	10047.9	38923.5	38663.5	42635.8	49998	56844.2	63672.9	69076
Less :Private & Governmetn consumption Expenditure	21902.5	23101.4	23462	25564	28752	31742.5	34774.6	37212.4
Statistical Discrepancy	158.9	-216.6	-163.6	153.9	-283.8	-277.1	-109.9	492.3
Net Factor Income from Abroad	767.2	1406.9	949	-428.7	-136	433.9	794.5	1581.1
Net Transfers from Abroad	-475.1	-469	-398.4	-492.2	-602.2	-740.2	-732.4	-829.4
<b>Finance of Gross Capital Formation</b>								
Gross Capital Formation	19417.3	16551.2	14894.8	16636.6	18435	19782.1	24918.1	25838
Gross National Saving	18596.4	16543.4	1588.5	16304.8	20224	24518.3	28850.5	33107.6
Net Borrowing from/lending (-) to Abroad	820.9	7.8	-693.7	331.8	-1789	-4736.2	-3932.4	-7269.6

Source : *Singapore 1992*, Singapore National Printers Ltd (1992 Singapore).

successfully transformed the country from a small, inward looking colony into a dynamic export-led open economy; it moved Singapore from labour-intensive production to high-technology and service-oriented industries, with a high value-added content. This transformation was facilitated by the development of a modern infrastructure, measures to upgrade labour skills that were accompanied by a high-wage policy, and the promotion of foreign direct investment. Government also forced people to save and its investment in the economy was sponsored by this forced saving. Table 4.3 shows us the amount of output, saving and investment in Singapore from 1984-1991. Gross domestic saving is about 51 per cent of gross domestic product. We can also see from the Table that gross capital formation is mostly financed by gross national saving.

The mistaken policies of the Second Industrial Revolution dampened Singapore's competitiveness and investment. Incorrect government policy induced the 1985 recession. PAP reaction to this was timely and decisive: it restrained wages, allowed the Singapore dollar to depreciate, and relaxed fiscal policy. The economy recovered rapidly.

## **Conclusion**

Hong Kong and Singapore represent two different models

of success. Despite ranking amongst the most successful exporters in the world, these two free-market states have very distinctive governments and their respective policies and are driven by different economic ideologies. The Hong Kong government declares its policy to be "positive nonintervention", but in Singapore, government intervention is the engine of the state's economic development. The latter is involved not only in the development of infrastructure, but also in direct investment. Today state-owned and state-linked firms together account for two-fifths of GDP. However, there has recently been a demand for a narrower government role in the economy. Hence, Singapore's government plans to sell some of its companies<sup>9</sup>. In fact, it has already privatized some of the state-owned corporations, such as Singapore Airlines. Thus the government of Singapore has started to change and to realize the significance of the private sector<sup>10</sup>.

In complete contrast, the Hong Kong Government has been increasing its participation in the economy over time. Although its role in industrial development is largely confined to providing an efficient infrastructure, it has

---

<sup>9</sup>See *The Economist* (Aug 22, 1992).

<sup>10</sup>The Finance Minister Richard Hu stated in an interview published in early 1987: "The government has, during the early stages of the economy, had to take the lead to get the economy going. Now we have to move on to a different level of development, different industries - smaller, entrepreneurial - where I think the private sector must play a far larger role." (See "The Government's Role"; *FEER*, January 8, 1987, p.70.)

clearly increased its participation in the economy. However, the market is still the main force of determining the pattern economic development. The primary function of the government is to support and facilitate the economy in a relatively passive way, unlike the direct approach of Singapore.

It is interesting to see that both governments are adjusting their participation in a contrary manner, something which over time will make their governments increasingly similar. With such a convergence, the two states really would be twins. But until such time as this happens, it is clear that the major difference between these two success stories is that they have two very distinctive philosophies concerning the role of government in the economy.



## CHAPTER V

### Future Development in Hong Kong and Singapore

In previous chapters we have retrospectively examined the history, geography, economic and trading structures, and the role of government in Singapore and Hong Kong. In this chapter we explore their futures, as the two city-states face both economic and political difficulties. The survival of Hong Kong after 1997 is a challenging topic for many economists. In the 1990's, China is emerging as a major trading partner for Hong Kong, while it also provides it with cheap labour and land. In some respects, then, China and Hong Kong are helping each other, particularly in terms of extending their economies. However, the people in Hong Kong fear and worry about control by the Chinese government, and more and more people are moving abroad fearing the reunification in 1997. These mixed evidences make Hong Kong's future somewhat questionable.

Regarding Singapore's future, the PAP government, although rejoicing in its accomplishments, nevertheless faces increasing opposition. Thus the role of PAP and an associated debate over the future of its economy are creating concerns in Singapore.

### **Challenges to Hong Kong's economy**

Hong Kong's economy is almost completely dependent upon foreign trade. It is therefore sensitive to any changes in the external economic situation. Table 5.1 lists the major trading partners of Hong Kong. The United States is the biggest trading partner for Hong Kong's domestic exports; Germany and United Kingdom are the third and fourth largest trading partners. However, at the global level international trade has been moving away from free trade. Major trading blocs have been established in North America and Europe. Germany and United Kingdom are the members of European Economic Community (EEC). In 1992, the EEC achieved the status of a single common market. The completion of the common market within Europe is expected to create trade and increase welfare within the single market; but to Hong Kong this likely will mean more obstacles to trade with European countries and unfair competition.

The North American free trade agreement is also an obstacle for Hong Kong's trade with the United States and Canada. This agreement is expected to help the United States to meet the intensified competition from East Asia and from European Economic Community (EEC). Moreover, there is increasing protectionism in the United States, and although it is Hong Kong's major trading partner, the percentage of trade with US has recently exhibited a

**Table 5.1 Hong Kong's External Trade by Major Trading Partners**

Source	1989		1989		1990-91		%change
	\$Million	%	\$Million	%	\$Million	%	
<b>Imports</b>							
China	196676	34.9	236134	36.8	293356	37.7	24.2
Japan	93202	16.6	103326	16.1	127402	16.4	23.3
Taiwan	51587	9.2	58084	9	74591	9.6	28.4
United States	46234	8.2	51788	8.1	58837	7.6	13.6
Republic of Korea	25465	4.5	28155	4.4	34944	4.5	24.1
Singapore	22244	4	26122	4.1	31525	4	20.7
Federal Republic of Germany	13803	2.5	14828	2.3	16641	2.1	12.2
United Kingdom	12965	2.3	14118	2.2	16545	2.1	17.2
Italy	9901	1.8	10842	1.7	11729	1.5	8.2
Switzerland	9696	1.7	11480	1.8	10781	1.4	-6.1
Others	81007	14.4	87618	13.6	102632	13.2	17.1
Merchandise total	562781	100	642530	100	778982	100	21.2
<b>Domestic Exports</b>							
Destination							
United States	72162	32.2	66370	29.4	62870	27.2	-5.3
China	43272	19.3	47470	21	54404	23.5	14.6
Federal Republic of Germany	15757	7	17991	8	19318	8.4	7.4
United Kingdom	14638	6.5	13496	6	13706	5.9	1.6
Japan	13028	5.8	12079	5.3	11666	5	-3.4
Singapore	5804	2.6	7796	3.5	8794	3.8	12.8
Taiwan	4460	2	5720	2.5	6066	2.6	6.1
Netherlands	4756	2.1	4964	2.2	5238	2.3	5.5
Canada	6299	2.8	5366	2.4	5014	2.2	-6.6
France	3620	1.6	3626	1.6	3710	1.6	2.3
Others	40308	18	40998	18.2	40260	17.4	-1.8
Merchandise total	224104	100	225875	100	231045	100	2.3
<b>Re-exports</b>							
Destination							
China	103492	29.9	110908	26.8	153318	28.7	38.2
United States	72033	20.8	87752	21.2	110802	20.7	26.3
Federal Republic of Germany	13502	3.9	23406	5.7	32073	6	37
Japan	22268	6.4	24376	5.9	29574	5.5	21.3
Taiwan	16478	4.8	21248	5.1	24765	4.6	16.6
United Kingdom	8918	2.6	12107	2.9	14663	2.7	21.1
Republic of Korea	13279	3.8	13011	3.1	14631	2.7	12.5
Singapore	11029	3.2	12572	3	12094	2.3	-3.8
France	4543	1.3	6415	1.5	9038	1.7	40.9
Canada	5413	1.6	6527	1.6	9498	1.6	30.2
others	75451	21.8	95677	23.1	125385	23.4	31.1
Merchandise total	346405	100	413999	100	534841	100	29.2

Source: Hong Kong, Government Printing Department (1992), *Hong Kong 1992*, (Hong Kong).

decreasing trend (Table 5.1).

As trading opportunities in industrialized countries deteriorate as a result of rising competition and protectionism, trade with China has grown to pick up the slack. Table 5.1 shows that China was Hong Kong's second biggest trading partner in 1991<sup>1</sup>. This development is the result of China's modernization programme and the opening of special economic zones to attract foreign investment. The "open policy" of China has contributed substantially to the changes in the economic environment of Hong Kong. Hong Kong industrialists were the first to take advantage of this change. More and more Hong Kong factories have moved their operations to China to take advantage of low labour and land costs. It is estimated that over 70 percent of all foreign investment in China has been made by Hong Kong firms and more than four million workers in China are employment by Hong Kong manufacturers<sup>2</sup>.

It can also be seen in Table 5.1, that China is the number one supplier of Hong Kong's imports, providing 37.7 percent of the total. In the pattern of re-exports, Hong Kong has resumed its traditional role as an entrepot for China's trade, and China is the largest country of origin and destination for Hong Kong's re-exports. In 1991, it

---

<sup>1</sup>In 1978, China's share of Hong Kong's total exports was zero percent and that of total imports amounted to 16.8 percent only.

<sup>2</sup>Kuan H.C., "Hong Kong: Economic Policy under Stress", *Economic policy-Making in the Asia-Pacific Region*, pp 251-271.

accounted for 28.7 of the total. Thus, the economy of Hong Kong has been relieved of much of the stress caused by fierce world competition by the restructuring of its manufacturing industry through the relocation of production and the associated growth in China-related re-exports. However, there are still pressures for Hong Kong in that it faces keen competition, both from technology-intensive producers in Taiwan, Singapore and South Korea and low-cost industries in Thailand and Malaysia.

### **The Future of Hong Kong**

To most investors and entrepreneurs, economic structure may not be the main concern governing the viability of investments in Hong Kong. Rather, political stability may affect their confidence in investing in, and supporting, Hong Kong's economic prosperity. Since 1949 Hong Kong has constantly faced an uncertain future. Residents and investors alike knew that 1997 lay over the horizon. Nevertheless, from 1950 through 1982, Hong Kong maintained a sound economic system. As the 1980s approached, there was increasing anxiety among international and domestic investors. In late September 1982, the Chinese government declared its intention to assert its sovereign right to control the whole territory of Hong Kong no later than July 1, 1997. A series of economic, political, legal and social

questions were raised. Pre-eminent among these issues were changes in Hong Kong's free-market system of economic organization, the independence and convertibility of the Hong Kong dollar, guarantees for civil rights, and immigration restrictions on travel to and from Hong Kong. On December 19, 1984, the British and Chinese governments signed the Sino-British Joint Declaration on the Question of Hong Kong.

### **Sino-British Joint Declaration**

Under the terms of the Joint Declaration, the British administration and jurisdiction over Hong Kong will continue to June 30, 1997, and Hong Kong will from July 1, 1997, become a Special Administrative Region (SAR) of the People's Republic of China. The Joint Declaration provides that for 50 years after 1997, Hong Kong's lifestyle will remain unchanged, and China's socialist system and policies will not be practiced in the SAR.

Although China's government promised to continue the policies that created the prosperity of Hong Kong, asset values on the stock exchanges nevertheless fell by one-third within a few months. The Hong Kong dollar, free to float since 1974, fell from a rate of HK\$6.2 = US\$1 in mid-1982 to a low of HK\$9.55 = US\$1 on September 24, 1983, until the government linked the Hong Kong dollar to the US dollar at a

fixed rate of HK\$7.8 = US\$1, and required that new issue of Hong Kong bank notes be backed by equivalent US dollar reserves.

The crisis also forced the government to depart from its traditional laissez-faire policy when it temporarily took over the Hang Lung bank to ward off failure and any further loss of confidence in the banking system. Real investment declined 8 percent in 1983, and the government had to raise the top corporate and individual tax rates 2 percent, use fiscal reserves and enter the local credit markets for the first time to borrow HK\$1 billion to reduce the HK\$3 billion deficit for the 1984-1985 fiscal year. All of these incidents showed that investors lacked confidence in the prospect of Chinese rule. Since the mid 1980s Hong Kong has recovered slowly. But local citizens continue to indicate their nervousness, and emigration amounted to roughly 1,200 people per month throughout 1991. Inflation increased at 12% in 1991, and a rapid increase in land prices contributed to this problem.

Hong Kong, at present, retains its premier role as the largest source of direct foreign investment in China. It stays competitive in the international economy in large part because it can use Guangdong land and labour, and yet it remains acutely sensitive to China's national politics. With this mixed evidence about Hong Kong's future, it is impossible to state positively what the future holds for

Hong Kong. There are optimistic and pessimistic points of view toward this issue.

### **Growth and Stability After 1997**

At the present time, the Hong Kong economy has become increasingly integrated with that of Guangdong. While Guangdong provides cheap labour and natural resources, Hong Kong provides infusions of capital, technology, and international marketing skills. Real growth in industrial output in Guangdong averaged 17.8 percent per year from 1978 to 1990, a figure exceeding any of the "four dragons" - South Korea, Taiwan, Hong Kong and Singapore. This growth has occurred in a fashion that is integrally tied in with the Hong Kong economy, very much to the benefit of both sides.

People worry whether Beijing will continue to allow Guangdong's economic dynamism and relationship with Hong Kong. In fact, Guangdong has now become the main source of hard currency for the country, to the extent that Beijing can apply strong controls only at major cost to national priorities. This situation bodes well for the future. As long as Guangdong can remain vital to Beijing, in the future it is likely to make a very good partner for Hong Kong's subsequent growth.

A prosperous Hong Kong is, indeed, important to the



interests of the Chinese government. One of the important developments of the 1980s was the People's Republic of China becoming directly and substantially involved in Hong Kong's economy. This involvement has taken many forms, including purchases of property leases that run beyond 1997, equity investments in numerous firms, establishment of banking services, and the development of trading firms. By 1992 it is estimated that Chinese investment in Hong Kong totaled US\$15 billion<sup>3</sup>. These investments have given many Chinese mainland entities a concrete interest in Hong Kong's continued well-being.

The senior statesman of Singapore, Mr. Lee Kuan Yew, recently gave a lecture at the University of Hong Kong (HKU). He offered some thoughts on how Hong Kong should be strengthened during this transitional period. He suggested that "there is no need for Hong Kong to challenge Beijing politically"; rather, Hong Kong should strengthen its international links and diversify its trading partners, something which could supplement its economic ties with China. For, the more Hong Kong becomes internationally linked, the more useful it becomes to China<sup>4</sup>. If Hong Kong can play an important part in supplementing China's links with the outside world, the future of Hong Kong will become more secure.

---

<sup>3</sup>Lieberthal Kenneth, "The Future of Hong Kong", *Asian Survey*, vol.32, no.7, pp 666-682.

<sup>4</sup>*The Straits Time*, Nov 1990, Singapore.

### **Instability of Hong Kong Economy After 1997**

Although Hong Kong will undoubtedly be an important asset to China, fears of an uncertain future still induce many Hong Kong Chinese to go abroad and seek foreign passports. According to official estimates, 22,400 persons left Hong Kong for residence overseas in 1980. Then, in 1987, three years after the signing of the Sino-British Agreement on the future of Hong Kong, the number of emigrants rose to 30,000. By 1990 the outflow of people had reached a peak of 62,000, or about 1% of the population<sup>5</sup>. The emigrants are usually young, educated, middle-class professionals. There are fears that such an outflow will undermine social stability and lead to a depletion of the economy.

Mainland politics are critical to Hong Kong's future. China's political orientation, political stability, and ability to manage the major problems confronting the country will critically affect Hong Kong's prospects. Even though there is widespread desire for change in China, there are few guarantees that the country will remain politically stable. Hong Kong residents, especially after the Tiananmen

---

<sup>5</sup>Estimates by the Hong Kong Government Secretariat, cited in R. Skeldon, "Emigration and the Future of Hong Kong" *Pacific Affairs*, 63:4 (1990-91), p. 502.

events, are very aware of the political situation in China. The little confidence of the Hong Kong people regarding China's government may reduce the chances for a successful transition to mainland rule.

### **Outlook for Singapore**

The future of Singapore seems more assured than Hong Kong. From the latest 'World Competitiveness Report<sup>6</sup>', Singapore has an almost flawless score in the competitiveness score sheet. The Republic was rated number one among the Newly Industrializing Economies (NIEs) for domestic economic strength, infrastructure, internationalization, management, government, finance and people. In terms of science and technology, it was second behind Taiwan (See Figure 5.1). It has the highest per capita gross domestic product, total gross domestic investment and gross domestic savings compared to other NICs, and the Singapore Government's policies were judged most effective and relevant to economic realities.

Today, Singapore functions as a regional and global distribution center for commodities and manufactured goods, the East Asian 'inter-bank market channeling excess funds between regions, and a center for activities such as oil

---

<sup>6</sup>Published by International Management Development (IMD) and the World Economic Forum (WEF). See also *The Straits Times*, June 27, 1992.

refining, producer services and manufacturing.

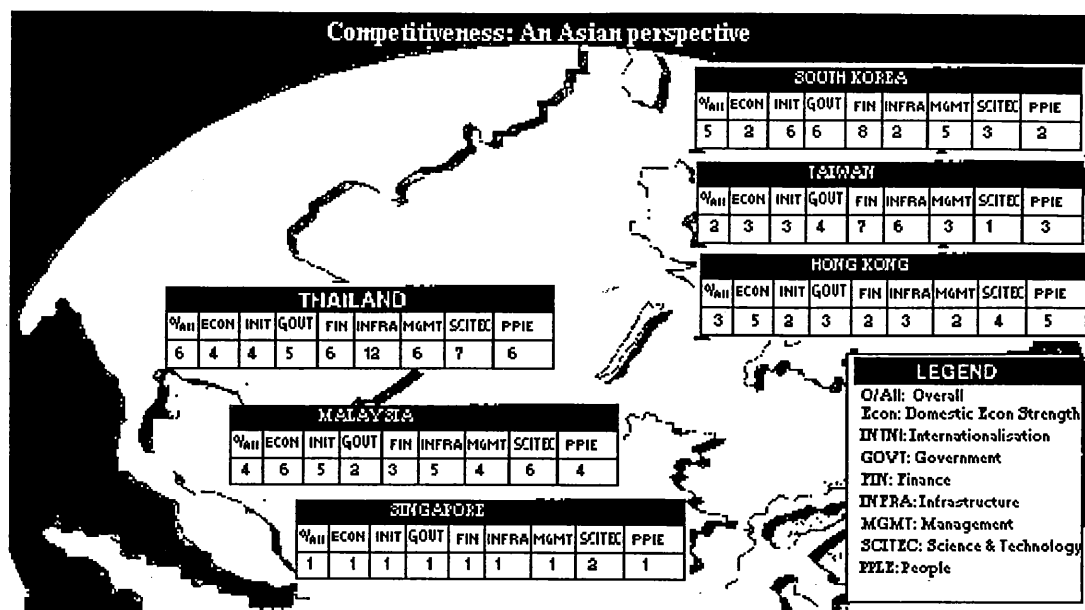
Essentially Singapore plays an intermediate role in linking the resource-rich countries of South East Asia, especially Malaysia with the developed countries. Within the South East Asian region, over 40 per cent of Singapore's trade is with other ASEAN<sup>7</sup> countries (Table 5.2). Table 5.3 shows that there has been a continuous expansion of the state's entrepot role. The re-export trade in Singapore, which is shown by Table 5.4, is mainly to the South East Asia and ASEAN countries, which accounted for 66% of the total in 1987.

From Table 5.5, it can be observed that Singapore has increased its trade with the ASEAN countries since the 1980s. The main imports of Singapore from the ASEAN countries are oil and rubber and the main exports are chemicals, petroleum products, machinery and transport equipment. Multinational corporations have also tended to establish their headquarters in Singapore, and are beginning to relocate labour-intensive production to other parts of the region where land and labour costs are lower. We can observe from Table 5.6 that foreign investors in Singapore concentrated their investments in the electrical industry group, which is a high value-added manufacturing product. There is increasing evidence of a regional division of

---

<sup>7</sup>ASEAN stands for Association of South East Asian nations.

Figure 5.1: World Competitiveness Report



Source: *The Straits Times*, June, 1992.

**Table 5.2**  
**Intra-ASEAN exports as a percentage of the total value of exports, 1970-87**

		Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total
Brunei	1970	-	0	82.2	0	1	0	83.2
	1976	-	0	6.3	1.7	1.7	0	9.7
	1982	-	0	0.03	2.2	0.4	0.5	3.1
	1987	-	0.03	0.6	2.6	6.6	12.3	21.6
Indonesia	1970	0	-	3.2	2.3	15.5	0	21
	1976	0	-	0.3	1.1	7.5	0.02	8.9
	1982	0	-	0.3	1	5.2	0.02	6.52
	1987	0.05	-	0.6	0.4	6.1	0.6	7.8
Malaysia	1970	0.6	0.6	-	1.7	21.6	0.9	25.4
	1976	0.7	0.4	-	1.5	18.3	1.3	22.2
	1982	0.3	0.3	-	1	25.7	3	30.3
	1987	0.5	0.8	-	1.8	18	2.8	23.9
Philippines	1970	0	0.2	0	-	0.7	0.3	1.2
	1976	0	0.5	0.2	-	2.2	0.3	3.2
	1982	0.1	1.1	3.6	-	2.2	0.3	7.3
	1987	0.8	1.1	2	-	3.4	21.7	29.2
Singapore	1970	1.6	n.a.	21.9	0.3	-	3.3	27.1
	1976	1.5	n.a.	15.2	0.8	-	3	20.8
	1982	1.7	n.a.	17.7	1.6	-	3.8	24.8
	1987	1.2	n.a.	14.2	1.5	-	4.2	21.1
Thailand	1970	0	2.3	5.6	0.1	7	-	15
	1976	0.1	5.2	4.2	1	6.8	-	17.2
	1982	0.1	2	5.4	0.5	6.8	-	14.7
	1987	0.1	3.3	3.1	0.6	8.7	-	15.8

## Notes:

Total value of intra-ASEAN exports as percentage of the total value of members exports	1970	21.5
	1976	14.8
	1982	22.7
	1987	17.1

(1) Philippine exports to Thailand have grown sharply since 1984.

Source: *IMF Directory of Trade Statistics Year Book*, Washington, various issues

Table 5.3 Singapore Shipping

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Merchant shipping: fleets (thousand gross registered tons)										
Total	6888	7183	7009	6512	6505	6268	7098	7209	7273	
Tankers	2586	2583	2429	2036	2049	1604	2161	2443	2553	
Ore and bulk carrier fleets	1542	1866	1937	2044	2258	2478	2305	2287	2083	
International maritime transport Vessels (thousna net registered tons)										
Entered	62880	69845	74666	73607	75520	75529	81712	99871		
Cleared	54924	57956	61644	60142	62229	65501	68990	129072		
Goods (thousand freight tons)										
Goods loaded	37627	40133	40466	44486	43750	50959	53679	64090	75931	81567
Goods unloaded	54936	61356	65883	67411	62086	69757	75780	90649	98367	106223

Source: Statistical Yearbook for Asia And the Pacific, United Nation (1990).

Table 5.4 Singapore Re-export Trade (\$ millions and %)

	1970				1980			
	Total	Export %	Total	Re-export %	Total	Export %	Total	Re-export %
S.E. Asia	1661	35	963	33	9571	23	5122	36
ASEAN (excl. Indonesia)	1210	25	879	30	9250	22	4268	30
N.E. Asia (incl. China)	709	15	361	13	8588	21	1905	13
Japan	362	8	145	5	3338	8	418	3
Hong Kong	194	4	71	2	3196	8	525	4
N. America	584	12	369	13	5555	13	1337	9
U.S.A.	527	11	380	13	5272	13	1245	9
W. Europe	904	19	628	22	5899	14	1691	12
E.C.	740	16	525	18	5081	12	1337	9
W. Asia	104	2	67	2	2476	6	968	7
Saudi Arabia	12				825	2	341	2
S. Asia	81	2	45	2	2393	6	825	6
Oceania	227	5	106	4	3252	8	405	3
Australia	160	3			1671	4	298	2
Africa	137	3	68	2	1916	5	984	7
Latin America	85	2	72	2	602	1	560	4
E. Europe and USSR	233	5	203	7	1241	3	447	3
Total (world)	4756	100	2882	100	41493	100	14244	100
	1984				1987			
	Total	Export %	Total	Re-export %	Total	Export %	Total	Re-export %
S.E. Asia								
ASEAN (excl. Indonesia)	12180	24	6289	36	13245	22	7105	34
N.E. Asia (incl. China)	11850	23	6070	34	12699	21	6803	32
Japan	10199	20	2574	15	13505	22	4188	20
Hong Kong	4807	9	782	4	5449	9	1300	6
N. America	3176	6	863	5	3815	6	1274	6
U.S.A.	10677	21	2446	14	15179	25	2587	12
W. Europe	10292	20	2285	13	14695	24	2455	11
E.C.	5404	11	1664	9	8113	13	2751	13
W. Asia	4980	9	1564	9	7353	12	2461	12
Saudi Arabia	3422	7	1738	10	1933	3	917	4
S. Asia	1364	3	951	5	579	1	276	1
Oceania	2993	6	1206	7	2618	4	1427	7
Australia	2916	6	610	3	2525	4	700	3
Africa	1751	3	458	3	1650	3	1328	6
Latin America	1500	3	482	3				
E. Europe and USSR	697	1	315	2	428	1	297	1
Total (world)	875	2	307	2	613	1	357	2
	50863	100	17631	100	60268	100	21194	100

Source: Singapore Trade Statistics, Singapore, (1987).



Table 5.5 Singapore/ASEAN Trade (\$ millions and %)

	Singapore/ASEAN			Indonesia			Malaysia		
	Imp.	Exp.	Total	Imp.	Exp.	Total	Imp.	Exp.	Total
1960	1554	1222	2777	327	33	360	1075	1003	2078
%	100	100	100	100	3	13	69	82	75
1965	1284	1321	2605	17	-	17	1109	1220	2329
%	100	100	100	100	-	1	86	92	89
1970	2108	1462	3750	526	174	700	1404	1040	2443
%	100	100	100	100	12	20	67	71	68
1975	4219	3823	8082	1500	814	2314	2240	2188	4427
%	100	100	100	100	21	29	53	57	54
1980	13687	11078	24765	4967	1873	6840	7116	6218	13334
%	100	100	100	100	17	28	52	56	54
1983	17075	19170	36241	6692	7414	14106	8640	8123	16760
%	100	100	100	100	39	39	51	42	46
1984	17923	18560	36483	6582	6710	13291	9185	8324	17503
%	100	100	100	100	36	36	51	45	48
1987	14263	20483	34439	2027	3800	5127	9447	13245	22692
%	100	100	100	100	15	15	66	65	66

Source: *Singapore Trade Statistics and Imf Directorate of Trade*, (1987 Singapore).

Table 5.6  
Cumulative Foreign Investment in Singapore's Manufacturing Industry by Industry Group

	1986	1987	1988	1989	1990
Food, Beverage and tobacco	517	583	665	714	779
Textiles	68	77	90	96	106
Clothing, textiles and footwear	74	83	94	88	99
Leather and rubber products	45	56	65	60	74
Wood Products and furniture	160	153	147	155	112
Paper and paper products	273	316	391	428	521
Industrial chemicals	1381	1442	1542	2485	2720
Other chemical products	440	444	468	538	706
Petroleum and petroleum products	4441	4541	4927	5376	5841
Plastic products	138	205	266	307	386
Non-metal industries	293	247	212	424	387
Basic metal products	70	80	91	127	140
Fabricated metal products (except machinery and equipment)	803	926	1027	1129	1223
Machinery (except electrical machinery)	894	1087	1182	1269	1408
Electrical/electronic machinery, apparatus, appliances and supplies	3677	4783	5944	7116	7848
Transport equipment	501	466	743	659	804
Precision equipment	250	292	333	375	565
Other manufacturing industries	97	114	138	144	164
Total	14120	15893	18323	21490	23903

Source: *Singapore 1992*, Singapore National Printers Ltd (1992 Singapore).

labour, with Singapore trying to insert itself between the multinational corporations and cheaper labour locations, such as Malaysia, Thailand, and the Philippines.

### **Problems of Success in Singapore**

As discussed in the previous chapter, the success of Singapore has been largely due to the effective strategies set by the PAP. Under the control of PAP, Singapore has become a model of successful development. The city of Singapore is orderly, regimented, well-planned and with low pollution. An article from *Time* magazine points out that it is the hefty penalties, vigorously enforced, which separates Singapore from most other modern societies. The penalty for littering is \$625, for failing to flush a public toilet it is \$94, and the penalty for eating in a subway is \$312. Since 1992, the sale of chewing gum has been banned. The government also owns the TV stations and indirectly controls the press. Although both social restrictions and economic planning have made Singapore a successful nation from an outsider perspective, some Singaporeans are not so happy with the continued undermining of human rights and freedoms. This dissent may put pressure on the political stability of Singapore, and political stability is crucial for economic performance.

Presently, there are four members of opposition in the

Parliament, against the 77 of the ruling PAP. But previously there was only one opposition member. In the eyes of Mr. Goh Chok Tong, prime minister of Singapore, this can shake the whole political system based on one man, one vote. In any other democratic country, a party that had been in power for 32 years and managed to win 61% of the votes cast, and had collected almost all of the seats in Parliament, would be very pleased. But the government in Singapore felt troubled. The role of government has been challenged, people in Singapore want more freedom. In order to meet the challenges posed by their voters, the government is trying to narrow its role in the economy. Government is now selling some of its companies, and gives more room for private sector decisions. However, after such a long period of overexposure to an expansive and paternal government, is the private sector still effective?<sup>8</sup>

Although the 'World Competitiveness Report' ranked Singapore as a most competitive nation, a new study by an American academic, Alwyn Young<sup>9</sup>, says that Hong Kong has a better future than Singapore. This is because Singapore's past success has been built on injecting capital into the economy, and this process cannot continue for much longer. In the future, Singapore should use its capital and labour more efficiently, rather than simply injecting more capital. Singapore's total factor productivity fell by 6% over this

---

<sup>8</sup>Krause, L.B., *The Singapore Economy Reconsidered*.

<sup>9</sup>See *The Economist*, Aug 22, 1992.

past decade. The study concluded that efficient use of capital and labour is the key to sustained growth. Therefore, if Singapore does not change from its dependency of injecting capital, in the long run its economy will be hurt by the decreasing factor productivity, and consequently, the economy's growth will slow.

## CHAPTER VI

### Conclusions

This thesis has sought to compare and contrast the economic development of Hong Kong and Singapore. Although there are many similarities between the two economies, they have utilized two different kinds of development models. They have different export patterns, with Hong Kong emphasising relatively labour-intensive manufacturing production, while Singapore exports and produces relatively capital-intensive products.

Behind the export-oriented strategies of the two states, they have exercised different economic ideologies. Hong Kong has been defined as a laissez-faire economy, in which government respects the market decision. Government claims its policy is 'positive non-interventionism'. Singapore, on the other hand, is the opposite. Its government believes that only its policies can direct Singapore towards excellence. The experience of Singapore's development seems to support the PAP's ideology. Senior Minister, Lee Kuan Yew, believes that Western-style liberal democracy, with its emphasis on individual rights, won't work for most developing countries. "When you are hungry, when you lack basic services," he told an audience in the Philippines, "freedom, human rights and democracy do not add

up to much."<sup>1</sup> Instead, poor countries should promote savings, discipline, hard work and education and open the economy to foreign competition and investment.

It is not necessary to justify which approach is best for development. In fact, there is no absolute answer to be found. The sensitivity and flexibility of the government's role is one of the lessons that we can learn from the experiences of Hong Kong and of Singapore. Take the case of Singapore, although PAP has long been a dictator in the state, it has nevertheless narrowed its role in the economy as the public demanded it. Development is a dynamic process, the environment and the needs of the country change as development progresses. We can observe that the governments in both Hong Kong and Singapore are adjusting their roles. Hong Kong because of its unstable political future, has seen government increasing its participation in the economy. According to Mr. Chris Patten, Hong Kong's governor, by 1997, the year China takes back the British colony, Hong Kong's government will be spending 26% more in real terms than it does now on welfare, 22% more on health care, 16% more on education. Over the next five years HK\$7.3 billion will go for solid - waste disposal and the same amount for starting to clean up Hong Kong's filthy harbour<sup>2</sup>. On the other hand, in order to sustain growth and

---

<sup>1</sup>*The Strait Times*, Nov 1990.

<sup>2</sup>*The Economist* (Oct, 10, 1992).

to promote political stability in Singapore, its government has had to reduce its involvement in the economy.

The future prospects of the economies of both states are also different. Hong Kong's prospects are somewhat uncertain with reunification troubling investor confidence, both domestic and foreign. The postponement of the construction of the new airport<sup>3</sup> is clear evidence of this.

Compared to Hong Kong, Singapore's future seems much more positive. Nevertheless, changes in the role of government are very crucial to its future development. Many citizens in the state resent the government for repressing their freedom and rights.

Despite their differences, the two states will surely concentrate on the development of high value-added manufacturing products, and they will increasingly rely on their respective hinterlands for cheap labour and land. In this way, the two city-states, Hong Kong and Singapore are likely to become major junctions for international economic activities.

---

<sup>3</sup>Patten has quarrel with the Chinese government on the matter of direct elections after 1997, therefore, for political reasons the Chinese government has held up the construction of a new Hong Kong airport.

## BIBLIOGRAPHY

- Amawi Abla, Crane George T, (1991) *The Theoretical Evolution of International Political Economy* (USA Oxford University Press).
- Brownsey K. Lorne, Langford John W., (1990) *Economic Policy-Marking: in the Asia-Pacific Region*, The Institute for Research on Public Policy (Canada).
- Buchanan B. A. Iain, (1972) *Singapore in Southeast Asia: An Economic and Political Appraisal*, (London: G. Bell and Sons LTD)
- Chan Chan-Leong, Nyaw Mee-Kau, (1982) "Structure and Development strategies of the manufacturing Industries in Singapore and Hong Kong: A comparative Study", *Asian Survey*
- Corbo Vitorrio, Kugeger Anne O., and Ossa Fernando, (1985) *Export-Oriented Development Strategies: The Success of Five Newly Industrializing Counties*, (USA:Westview Press).
- Dixon Chris, (1991) *South East Asia in the World-Economy: A regional Geography*, (UK: Cambridge University Press).
- Emmerij Louis, (1987) *Development Policies and the Crisis of the 1980s*, (OECD).
- Endacott G. B. (1964) *A History of Hong Kong*, (London: Oxford University Press)
- Fong Pang Eng and Lim Linda, (1985) "Rapid Growth and Relative Price Stability in a Small open Economy: The Experience of Singapore", *Export-Oriented Development Strategies: The Success of Five Newly Industrializing Countries*, (London: Westview Press).
- Geiger, Theodore (1973) *Tales of Two City-States: The Development Progress of Hong Kong and Singapore*, (Washington: National Oanning Association).
- Hewison Kevin, Higgott Richard, and Robison Richard, (1987) *South East Asia in the 1980s: The Politics of Economics Crsis*, (Australia: Allen & Unwin).
- Hewitt Tom, Johnson Hazel, Wield Dave, (1992) *Industrialization and Development*, (London: Oxford Universtiy Press)



- Higgott Richard, Robison Richard, (1985) *Southeast Asia: Essays in the Political Economy of Structural change*, (Australia: Routledge & Kegan Paul).
- Hong Kong, Government Printing Department (1992) *Hong Kong 1992*, (Hong Kong).
- Huges, Helen, (1988) *Achieving Industrialization in East Asia*, (Great Britian: Cambridge University Press).
- Krause, Lawrence B., (1988) "Hong Kong and Singapore: Twins or Kissing Cousins?", *Economic Development and Cultureal Change*, vol 36, num3, (Chicago: The University of Chicago Press).
- Langford, John W. and Brownsey, K. Lorne, (1990) *Economic Policy-Making n the Asia-Pacific Region*, (Canada: the institute for research on Public Policy).
- Learmer, Edward E. (1984), *Sources of International Comparative Advantage: Theory and Evidence*, (London: The MIT Press).
- Lieberthal Kenneth, (1992) "The Future of Hong Kong", *Asian Survey*, vol. 32, no.7
- Lim Linda Y. C., (1983) "Singapore's Success: The Myth of the Free Market Economy", *Asian Survey*.
- Lodge Georage C. and Ezra F. Vogel, (1987) *Ideology and National Cometitiveness: An Analysis of Nine Countries*, (Boston: Harvard Bussiness School Press).
- Matthews Roy A., (1983) *Canada and the "Little Dragons": An Analysis of Economic Development in Hong Kong, Tawian, and South Korea and the Challenge/Opportunity They Present for Canadian Interests in the 1980s*, (Canada: the institution for Research on Public Policy).
- Nyaw Mee-Kau, (1982) "Structure and Development Strategies of the manufacturing Industries in Singapore and Hong Kong: A comparative Study", *Asian Survey*, vol xxii, no.5
- OECE, (1988) *The Newly Industrializing Counties: Challenge and Opportunity for OECD Industries*.
- Rabushka Alvin, *The New China: comparative Economic Development in Mainland China, Taiwan and Hong Kong*, Westview Press, US(1987).

- Regier Philippe, (1987) *Singapore: City-State in South-East Asia*, (Honolulu: University of Hawaii).
- Rigg Jonathan, (1988) "Singapore and The Recession of 1985", *Asian Survey*.
- Robinson David, (1986) "Singapore Takes Decisive Policy Actions To Foster recovery and Sustained Groth", (*IMF Survey*, (August 11, 1986)).
- Robinson David, (1989) "Singapore Regains Competitiveness; Economy Shifts Back into High Gear", *IMF Survey*.
- Rodan Garry, (1987) "The rise and fall of Singapore's Second Industrail Revolution", *South East Asia in the 1980s: The Politics of Economic Crisis*, (London: Allen & Unwin).
- Singapore 1992*, Singapore National Printers Ltd (1992 Singapore).
- Sung Yun wing, (1985) *Economic Growth and Sturctural Change in the Small Open Economy of Hong Kong, Export-Oriented Development Strategies: The Success of Five Newly Industrializing Countries*, (London: Westview Press).
- The Economist, (Oct 19, 1992) "Patten sets the Path".
- The Economist, (Aug 22, 1992) "Singapore and the problems of success".
- The Economist, (Nov 28, 1992) "Teaching old values".
- The Economist, (Sep 7, 1992). "The eduction of Singapore".
- Singapore, (June 27, 1992) *The Straits Times*, the Straits Times Press Ltd.
- Wong Siu-lun, (1992) "Emigration and Stability in Hong Kong", *Asian Survey*, vol 32, no.10.
- You Pon Seng and Lim Chong Yah, (1971) *The Singapore economy*, (Singapore: Eastern Universities Press)