

A COMPARATIVE ANALYSIS OF THE ECONOMIC DEVELOPMENT
STRATEGIES OF HONG KONG AND SINGAPORE IN THE FACE OF GLOBAL AND
POLITICAL CHANGE

by

LEE LARSON

(Under the direction of Dr. Chor Pang Lo)

ABSTRACT

Globalization theorists often claim that the rapid economic rise of the Asian Tigers is best explained by their adherence to free market principles. However, the economic growths of Singapore, Taiwan, and South Korea are usually attributed to their state managed economic development policies. Of the four, Hong Kong's path to success was the only one that was a result of a liberalized economy with little government intervention. Since their economies share the most similar colonial and geographical characteristics, Hong Kong (the apparent outlier) was compared with Singapore to ascertain whether there are two paths to success within the four Asian Tigers. This study found that their economic ideologies, their governmental development strategies, and their geo-political factors have helped to create and explain the different developmental paths to success of Singapore and Hong Kong over the past 4 decades.

INDEX WORDS: Singapore, Hong Kong, NIEs, Asian Dragons, Asian Tigers,
East Asian Development Model

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DEDICATION

This study was written in remembrance of my late maternal grandfather, Stanley Toft Stewart. When I was a young boy growing up in Bangkok, Thailand, my family would often take trips to visit my grandparents in Singapore. It was always a pleasure for me to see my jolly grandfather and I would particularly enjoy playing tennis with him and marvelling at the speed at which he consumed his meals. My family relocated to the U.S.A. in 1986, and I, at the age of eight, was not to see my grandfather again. As a child I missed his companionship, but it was as an adult that I began to develop a sense of admiration of his life, his career, and his commitment to public service. Told through members of my family, his ideals and his thoughts have always been with me, helping to guide me in my academic and my career aspirations.

My mother affectionately refers to Ompa, as Mr. Stewart was known to his grandchildren, as a man of many firsts since he was the first local (Malaysia and Singapore were primarily administered by civil servants from Britain at the time) to hold many of the governmental positions that he had throughout his 40 years of public service. Ompa began his career in Penang, Malaysia in 1933, and was promoted to District Officer of Balik Pulau, Penang, in 1946, after serving as Assistant District Officer before and during the Japanese Occupation. Ompa's first position in Singapore was as the Deputy Chairman of the Rural Board in 1952. By 1957, Ompa was Deputy Chief Secretary of the Colonial Civil Service, which was the position second only to the British governor at the time. He had declined the title of Chief Secretary as it belonged to the Colonial Civil Service and his interest was with focusing on the Singapore Civil Service. As Permanent Secretary between 1959

1963, Ompa was an instrumental figure in the People's Action Party's (PAP) negotiations for Singapore's merger and subsequent departure from Malaysia. In 1963, he simultaneously held the positions of Permanent Secretary to the Prime Minister's Office and Head of the Civil Service. Mr. Stewart retired from government service in 1973, at the age of 63, but he still served the Government from time to time on a temporary basis.

Ompa's bright and jolly nature even during the roughest of times was as remarkable as his career. He was known to leave to and come home from work happily whistling, even during times of international insecurity and domestic turmoil. At home his mind was free and focused on his family. He would leave his work at the office and even when his family would question him about his daily activities, he would refer them to the daily paper to keep up with events.

Of all I have learned about my grandfather, nothing impresses me more than his incorruptible and hard-working nature. On my latest visit to Singapore, a formerly high-ranking political colleague of my grandfather's, Mr. Howe Yoon Chong, graciously spent an afternoon with me discussing the past, present, and future of Singapore. When I asked him what type of man my grandfather was, he used three words to describe him: honest, incorruptible, and meticulous. My aunt, Olivia Stewart described his ethical ideals as thus:

Papa lived the moral code of *the* civil servant to a wonderful degree. It was as if the young man he was in the 1930's was metamorphosized forever into "civil servant" of the highest quality. He lived and breathed this code so deeply, so intensely, that he could never break the slightest iota of it. It was so much part and parcel of him that he did not need to think he had to behave as a civil servant: no, he automatically, as it were, *lived it*- the living personification of a civil servant.

It is with the same ideals and moral code with which I have tried to live my life and conduct my actions.



Stanley Stewart, at age 80.

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First and foremost I would like to extend my appreciation to Dr. C.P. Lo, who served as my major professor in this study. My time at the University of Georgia would have been much more difficult if not for his continual support and genuine interest in my academic pursuits and my personal well being throughout my program of study. When I asked him how long I should aim my thesis to be, he indirectly responded by saying that I “should just make sure that I do justice to my work.” His answer hardly surprised me since I knew that he was a man that always demanded the highest quality from himself and from those he took under his wing. Above all, Dr. Lo embodied the title of mentor. He was always willing to make time to meet with me and my inquisitive nature, even during the busiest of times. Thanks Dr. Lo, I will always remember not to be complacent and to think to myself that even when I am ahead, I can still be pushing on.

I also wish to thank my other committee members for their contributions, particularly in the theoretical realm. From Dr. Pannell I obtained the circle of logic, which provided a guideline to the structure of my thesis. From Dr. Berejikian, I learnt to make sure to say clearly what it was that I meant to say and that I cannot prove two items are different by pointing to their similarities.

I also wish to acknowledge the contributions from the larger geography family that I have been a part of during the past two years. Fellow students and friends such as George, Matt, Nate, and Torsten provided me with much needed humor and companionship. Faculty members Stan Hopkins, Dr. Vicki Berry, Dr. Al Parker, and PhD student Ron Ward served as willing mentors of my teaching duties. They helped

to transform me from a nervous TA into one that could clearly convey thoughts while maintaining an audience's interest. Special thanks also goes to the secretarial staff, who provided me with help in technical matters and put a smile on my face whenever I entered the office. Thanks Emily, Audrey, Loretta, and Susan!

I was fortunate to have travelled to Singapore and Hong Kong over the past summer, where I gained a personal dimension to my thesis. Many people gave their time and support to make my trip to Asia an academically and culturally enriching experience. In Singapore I wish to especially thank my Aunt Olivia for arranging numerous interviews for me, my grandmother who also arranged meetings for me, and my mother for giving me a personal tour of the island. I also wish to express my gratitude to Mr. Lawrence Low, Mr. Then, Mr. Phillip Tong, Mr. Howe, Mr. Francis Lee, Mr. Chan Whye Quin, Mr. Paul Tan, Dr. Lim, and Mr. Anthony Tan for their generous time and for the meals that many of them treated me to.

Dr. Lo made sure that my Hong Kong trip was equally fruitful. I benefited from his contacts there, especially from Dr. Yue-Man Yueng and his staff, who provided me with a place to stay and helped me to find my way around the city. I also found the visits I had with Mr. Francis Heng, Mr. Joseph Tsang, and Mr. Henry Lau most beneficial and thought provoking.

On the personal side of things, I must first thank my parents for their support. Without their contributions, I would not have had the means to travel to Asia, and financial matters would have distracted me during my time here. My father also proved to be a useful reference on issues concerning East Asia politics, economics, and culture. Lastly I would like to extend my gratitude to my English fiancée, Claire, who provided me with love and support, even when I needed to grumble about my

workload. After three years of dating across the “pond” and with this degree now behind me, I look forward to our upcoming marriage in June.

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CHAPTER I

INTRODUCTION

Following in the footsteps of Japan in the late 1960s, the Newly Industrialized Economies (NIEs) ¹ of Singapore, Hong Kong, South Korea, and Taiwan have experienced phenomenal gross domestic product (GDP) growth rates that often exceeded 10 percent in any given year. The four NIEs, often referred to as the Four Tigers, and Japan have provided the capital that has fueled the economic growth of the Asian Pacific. By supporting the growth of other countries within the region with massive outflows of foreign direct investment (FDI), the NIEs have not only facilitated their own growth as regional financial and commercial centers, but they have helped to catapult East Asia's percentage of the world economy from 4 percent in 1960 to 25 percent in 1990. ²

The rapid economic growth of Japan, the NIEs, and the rest of Asian Pacific Rim nations have "powerfully impressed themselves into the consciousness of people everywhere." ³ The unparalleled economic transition of this region in such a short time frame has led to many questions that ask whether the success in East Asia is a replicable phenomenon. Leaders and scholars of industrialized nations have looked to the NIEs as examples of effective economic adaptability in the face of a globalized economy.

¹ The NIEs were formerly known as the Asian Newly Industrialized Countries (NICs). The acronym change reflects the handover of Hong Kong to China. To be more specific, some authors used the abbreviation ANIEs to denote their Asian location. For simplicity, this thesis uses NIE to represent one Asian newly industrializing economy, and the abbreviation NIEs to represent Singapore, Hong Kong, Taiwan, and South Korea.

² Yeung Yue-man, *Globalization and Networked Societies* (Honolulu: University of Hawaii Press, 2000), 13.

³ Peter Burger "An East Asian Development Model?" in *In Search of an East Asian Development Model*, eds. Peter Berger and Hsiao Hsin-Huang (New Brunswick, NJ: Transaction Books, 1988), 3.

However, most industrialized nations could not duplicate the economic openness and flexibility that the much smaller NIEs exhibit.⁴

Likewise, political leaders and scholars of less developed regions such as South America, Africa, and the Caribbean have carefully studied the success in East Asia and asked whether a similar turnaround could occur in their respective countries.⁵ Given their large repositories of untapped labor, developing economies are hoping to duplicate the paths of the NIEs. Unfortunately, this is very unlikely since the NIEs “that have emerged do offer other attractions in terms of infrastructure, location, and some previous industrialization.”⁶

Given their apparent incomparability, the NIEs have often been referred to as “miracle economies.” But, in the words of Chris Patten, “It has not been a miracle. It can be explained, above all, as an example of the benefactions of free trade and technological advance.”⁷ Compiling sets of common ingredients such as those listed by Patten, a vast array of research has been written which has focused on the success of these “miracle economies” at a regional, rather than an individual scale. My contention is that by placing the NIEs into models that explain their success at a regional level, we lose sight of the complex political and economic environments in which each country developed. This study is not to say that we can not learn from these studies, since I will argue that there are many salient points that can be taken from these regional studies; but

⁴ Peter Katzenstein, *Small States in the World Markets: Industrial Policy in Europe* (New York: Cornell University Press, 1994).

⁵ They are numerous sources that document the interest in comparative research with East Asia, but for two particular cases see, Berger “East Asian Model?” 3; Lee Kuan Yew, *From Third World to First: The Singapore Story, 1965-2000* (New York: Harper Collins, 2000).

⁶ John Dickenson et. al., *Geography of the Third World*, 2nd Edition (New York: Routledge, 1996), 179.

⁷ Chris Patten, *East and West* (London: MacMillan, 1998), 4.

rather, it is to say that the best way to understand the development of the NIEs is to study how each individual country's economic development has evolved as a result of the interactions between their respective "domestic institutional factors and the world economy." ⁸

Neoclassical and neoliberal theorists claim that the rapid rise of the NIEs can be best explained by their adherences to the principles of a free market state. However, the economic growth of Singapore, Taiwan, and South Korea is usually attributed to their state managed economic development policies. Of the four, Hong Kong's path to success was the only one that was a result of a liberalized economy that had little government intervention. As Todaro astutely points out:

The export successes of recent decades, especially among the Four Asian Tigers, have provided the impetus for arguments by neoclassical counterrevolutionaries—particularly those at the World Bank and the IMF—that LDC economic growth is best served by allowing market forces, free enterprise, and open economies to prevail while minimizing government intervention. Unfortunately, the reality of the East Asian cases does not support the view of how their export success was achieved. In South Korea, Taiwan, and Singapore (as in Japan earlier), the production and composition of exports was not left to the market but resulted as much from carefully planned intervention by the government. ⁹

This leads to the question of whether there are two distinct success stories within the four Asian NIEs. In order to address this query, I will compare Hong Kong (the apparent outlier) with Singapore, since these economies share the most similar colonial and geographical characteristics.

Singapore and Hong Kong are viewed as having similar economic conditions up until the late 1960s. However, after Singapore's independence, the two city-states took diverging paths. There have been numerous articles comparing the NIEs, and Singapore

⁸ Stephen W.K. Chiu, K. C. Ho, and Tai-Lok Lui, *City States in the Global Economy: Industrial Reconstructing in Hong Kong and Singapore* (Boulder, CO: Westview Press, 1994), 8.

⁹ Michael P. Todaro, *Economic Development*, 7th ed. (Reading, MA: Addison Wesley, 2000), 503.

with Hong Kong in particular, but given the recent World Bank and International Monetary Fund economic development policy entitled “The Market Friendly Approach” (based primarily on the Asian NIE economies), which is essentially a neoliberal economic system with proactive government intervention to facilitate the creation of supporting infrastructure and the reduction of market inefficiencies; it will be interesting and relevant if it can be determined whether Singapore and Hong Kong have taken two distinct paths to success.¹⁰

What makes this comparison interesting and applicable is that we can set up a controlled comparative analysis, since these two port cities were practically indistinguishable from one another prior to World War II. In addition to the changing geo-political context of the region, the biggest difference that emerged between these two city-states began when Singapore gained full independence in 1965. Four decades later, we can now compare the historical developments of an independent republic to that of a colonial possession. Since they possess such similar geographies and a common history prior to World War II, a study that focuses primarily on their domestic institutional factors and their changing external environment is made possible.

I hypothesize that their economic ideologies, their geo-political contexts, and their government development strategies have been the primary ingredients that have created and that explain the different developmental paths to success of Singapore and Hong Kong over the past 4 decades. I further maintain these three ingredients have created two distinct paths to success within the Asian NIE Models.

¹⁰ Richard Peet and Elaine Hartwick, *Theories of Development* (New York: Guilford, 1999), 55-57.

In order to address these assertions I will be taking a primarily qualitative approach to establish that Singapore and Hong Kong have differed in their developmental paths to success. However, I plan to back up my qualitative claims with statistical indicators such as: contributions to GDP by economic sector, percent of the labor force by economic sector, governmental expenditure on development (infrastructure, public housing, social development), composition of trade, and others relevant indicators in both city-states to give a quantitative illustration to my arguments.

This study will give a better insight into the development of Hong Kong and Singapore over the past 40 years. Additionally, this study will highlight some of the complexities involved with using the East Asian NIE models. Finally, this research will contribute to development literature by looking at whether Hong Kong and Singapore are unique cases of development or whether their examples can be duplicated in other countries.

Following this introductory chapter, I will present my data and methodology in Chapter II. In this section, I will discuss the sources of my data, and the variables that will be used in this study. Providing further background and context to this study, Chapter III will review literature that explains the regional success of the NIEs. References will be made directly to Singapore and Hong Kong here, but for the most part, they will be treated as members of the four NIEs. This will be done so that this chapter can serve as an interactive literature review, which looks at the relevance of the various regional growth explanations to the success stories of East Asia. While presenting the widely cited East Asian Development Model and other related theories, I will offer clarifications, additions, critiques, and suggestions for improvements. Chapter

III will conclude by looking at the problems encountered with applying these models to the developmental histories of Singapore and Hong Kong.

The purpose of Chapter IV will be to establish that Singapore and Hong Kong pursued nearly identical developmental paths up until the late 1940s. A separate subsection for each city-state will be used to analyze their geopolitical factors and their industrial developments up until the conclusion of WWII. After a short case study for each locale, Chapter III ends with a brief discussion on the common ingredients (controlled variables) that have led to the successes of Hong Kong and Singapore.

Chapter V will pick up chronologically where chapter IV left off. This chapter also represents the transition from background and controlled variables (Chaps. I-IV) to independent variables (Chaps. V-VII). Chapters V-VII will each start with a brief introduction. Following will be individual subsections for Singapore and Hong Kong. Finally, each of these analysis chapters will conclude with a brief comparison of Hong Kong and Singapore with regard to their respective independent variables (INDVs). By looking closely at the composition of their economies over the past 40 years in Chapter V, I will analyze their differing economic ideologies. Chapter VI will follow by analyzing the geopolitical contexts of Hong Kong and Singapore by looking at their relations to their neighbors and their trading patterns. Lastly, Hong Kong and Singapore's respective government development strategies will be outlined in Chapter VII with special attention paid to their government spending patterns.

Chapter VIII will close this study by taking a look at the more significant findings from Chapters V-VII. Here I will attempt to ascertain whether I can accept my assertions

that the economic paths to success of Hong Kong and Singapore were significantly different, and whether there are at least two models of success within the four NIEs.

CHAPTER II

RESEARCH METHODOLOGY

Theoretical Framework

Primary Hypothesis

Within economic development literature, much attention is focused on the study of the NIEs as a group. My primary hypothesis is that there are at least two distinct paths to success within the Asian NIEs. Therefore, as outlined in the previous chapter, question the applicability of studies that treat these economies as a homogenous group. Of course there are recognizable differences between each of the four NIEs, but Hong Kong differs most significantly from the others since it was the only one that pursued a liberalized economic policy with limited government interventions. Therefore, to establish that there are at least two paths to success within these studies, a study that compares Hong Kong with one or more of the other Asian Dragons is necessary. A study that compared Hong Kong to Singapore, Taiwan, and South Korea could prove to have substantive weight by showing that Hong Kong differs from all the others. However, in order to address my primary hypothesis, a study that compares Hong Kong with Singapore will suffice to prove that there are multiple paths to success in the Asian NIEs. If Hong Kong is to be compared with only one other Asian NIE, then it is most logical to compare it with Singapore, since the many similarities of these two city-states provide numerous control variables.

Control Variables

The glaring similarities of Hong Kong and Singapore are what first attracted me to this topic. Little did I know it then that the main goal in this thesis would be to establish their differences. As I came to better understand their differences after two years of intensively studying them, I realized that their paths cannot be lumped into a single group, and that each unique path has a story to tell. During the course of my thesis, a few that were unfamiliar with the stories of Hong Kong and Singapore assumed that they are too alike for me to prove that there are any differences. Quite to the contrary, these apparent similarities have allowed me to focus more exclusively on their differences. Following is a quick summary of each control variable (CV). Each will be elaborated on more fully in the following two chapters (III + IV).

CV1- Culture: Both have a predominately Sinitic composition, although Singapore has two other significant ethnic groups.

CV2- Timing of Economic Growth: Gershenkron argued that the later an economy developed, the more likely it is to succeed by learning from the mistakes made by others.

¹¹ Since Hong Kong and Singapore both started their meteoric rise at about the same time, this is controlled for.

CV3- Colonial Legacies: Hong Kong was under British rule until 1997; Singapore was a British possession until 1962.

¹¹ Alexander Gershenkron, *Economic Backwardness in Historical Perspective* (Cambridge: The Belknap Press, 1962).

CV4- Trade Dependency: In line with the arguments of Katzenstein, small states in the global economy need to rely heavily on trade to succeed.¹²

CV5- Geographical similarities: Both have limited land areas devoid of significant resources. Both have deep-water ports that sit on well-trafficked waterways.

CV6- Overseas Capital: Hong Kong and Singapore have both greatly benefited from expatriate Chinese immigration and financial inflows.

Secondary Hypothesis

Due to their numerous commonalities, many have wrongly assumed that Hong Kong and Singapore are fraternal twins in developmental literature. But as Chapter III will argue, if the assertion that Singapore and Hong Kong were twins was made 40 years ago, it would not have been far off the mark. So, what changed, inspiring me to write a thesis on their differences? Singapore gained self-governorship from the British in 1959, and after an unsuccessful merger with Malaysia, full independence in 1965. Singapore's leaders, fearing for their viability as a newly independent nation, parted ways with the economic ideology by which Britain had ruled Hong Kong and Singapore. Lee Kuan Yew and other People's Action Party (PAP) leaders thought that leaving their economy to free market forces was too risky. Therefore, in a paternalistic fashion, they determined that it was necessary to tightly manage their economy and society to ensure their continued cohesiveness as a nation.

It will be my task in this thesis to prove that although they have shared many likenesses, their roads to success have been different since the independence of

¹² Katzenstein, *Small States*, 1985.

Singapore. My secondary hypothesis will use three independent variables to support the assertion of my primary hypothesis, which again, argues that there are two paths to success within the Asian NIEs. These three variables were chosen not because they would give an all encompassing comparison of the two, but rather they were chosen since they will be able to best highlight the distinctiveness of the two city-states. Following is a brief synopsis of the three independent variables that each have a separate chapter devoted to them

INDV 1: Economic Ideologies

Up until 1959, Singapore and Hong Kong both had their economic policies largely determined by their colonial administrators. Britain, in contrast to some of their own domestic policies, steered these two former colonies towards classic free market principles that emphasize decreased government intervention. When Singapore achieved full independence, they still adhered to the core elements of an open economy such as minimal trade barriers and capital movement restrictions. However, as mentioned earlier, fearing that stagnation could lead to domestic and perhaps international strife, Singapore's early leaders decided that they needed to closely manage their economy. Government Led Corporations (GLCs) such as the Central Provident Fund and the Economic Development Board are early examples of the close ties Singapore's government has to its economy.

On my visit to Singapore in 2001, I often heard Singaporean's affectionately nicknaming their country "Singapore Inc." This term reflects their impressions that Singapore is run not as a country, but rather, as one well-managed corporation. Hong

Kong, following the policies set out for them by Britain, has followed a *laissez faire* policy, which has their government playing a less visible role in their economy than Singapore.

Chapter V will look closely at the differences between Singapore's closely managed economy and the more liberal economy of Hong Kong. I will be paying particular attention to the composition of their economies by economic sectors, to determine whether their different ideologies have led to significant differences in their economic constitutions.

INDV 2: Geo-political Contexts

When comparing the geography of Hong Kong and Singapore, many researches simply mention their similarities in size and their heavy reliance on trade. Singapore and Hong Kong both share exceptional geographical locations on heavily trafficked sea-lanes. However to argue that their inherent geographies have dictated their economic paths is a bit narrow, since there is much more to tell of how Singapore and Hong Kong adapted to their landscapes and their neighbors around them.

While both Singapore and Hong Kong have served as the entrepot ports to their respective hinterlands, they both have had to contend with periods of international instabilities within their respective neighborhoods. Thus, Chapter VI will concentrate primarily on the changing relations of Hong Kong and Singapore to their neighbors, and how these changes helped to dictate the course that their economies have taken. The quantitative aspect of this chapter will add to the qualitative data by displaying any changes within the major trading partners of Hong Kong and Singapore over the past 40

years. In addition to examining how their relations shaped their trade, I will show how the composition of the goods into and out of both locales has changed as a result of their geo-political factors and their respective economic strategies.

INDV 3: Governmental Development Strategies

Taking Chapters V and VI a bit further, this section will closely analyze the government expenditures for each city-state. The task of INDV III will be to observe how the respective governments enacted policies to facilitate their developments. To compare their allocation of government funds, I will be using government spending data obtained from the Asian Development Bank. This section will also complement INDV I and II well, since I expect to find significant differences to back up the assertions made in the previous two chapters. This INDV could perhaps be the most telling of the three, since I have yet to see a piece that distinctly compares this aspect of their developments.

Data Collection

Secondary Resources

This thesis was primarily conducted through secondary research of published journals, books, and some of the Singapore and Hong Kong governments' Internet sites. With Hong Kong and Singapore as two members of the Four Asian Dragons, I had no trouble finding mountains of material on their economic developments or any other topic I desired. To study this expansive topic on the economic development strategies of Hong Kong and Singapore, I amassed a wide array of sources from disciplines such as education, political science, history, geography, economics, and sociology to help me

understand how their governments have reacted and adapted to various economic, domestic, and external pressures.

Thanks to their many apparent similarities, a wide breadth of literary comparisons was also available that compared Hong Kong and Singapore on a multitude of areas. Chiu, Ho, and Lui have perhaps made the most ambitious attempt in recent years to compare and elaborate on the differing economic paths that Hong Kong and Singapore have taken over the past 4 decades. My early studies into this topic benefited greatly from their book: *City-States in the Global Economy*, which primarily focused on the industrial restructuring of Hong Kong and Singapore.¹³ Not only did this book provide me with invaluable insights into setting up my comparative study, but its references also led me to many other valuable resources that I have incorporated into this work.

I hope to be able to build upon the work of Chiu, Ho, and Lui, which was primarily descriptive, by adding a geographic dimension to the argument. Additionally, since Chiu, Ho, and Lui's book was written in 1994, it did not cover the more up to date developments such as the Asian Financial Crisis in 1998. I plan to compare how each economy responded to this crisis and how this event may have altered their respective development paths. I will also observe how the 1997 political transfer of Hong Kong to China from Britain has altered the comparability of these two city-states.

The quantitative data for all three INDVs were taken from various years of official government statistics from Hong Kong and Singapore, and from data from The Asian Development Bank (ADB). For the quantitative comparisons from the earlier years, I primarily relied on the latter source, since they compiled many years of official

¹³ Chiu, Ho, and Lui, *City-States in the Global Economy*, 1994.

government figures from each place into one easily used reference. This was especially valuable to me since it saved me from digging up older statistical yearbooks that I did not readily have access to. Since I will be relying heavily on ADB data, the following subsection will discuss how I will make use of their statistical data to enhance my arguments.

Treatment of the Quantitative Data for Each INDV

INDV 1: Economic Ideologies

I will be using various years of Asian Development Bank data to determine any significant differences in Hong Kong and Singapore's contribution to GDP by economic function. So that I can directly compare the statistics that are given in both countries' respective currencies, I will calculate the percent each economic function contributed to their GDPs. To ensure an adequate timescale, I have included data since 1970 in five-year intervals. After calculating the percent contributions, I created more visually appealing graphs and charts of specific categories of comparison from the data.

The only problem encountered with the data from the ADB was in this chapter. Hong Kong has a category titled public administration, which accounted for 21.6 percent of their GDP in 1999. Unfortunately, the data for Singapore does not incorporate this category, weakening the significance of these economic comparisons. Since the Government of Singapore is more pervasive in its economy, the public administration category is most likely spread throughout the other categories. This inconsistency is further addressed in Chapter V.

INDV 2: Geo-Political Contexts

In this chapter I argue that the domestic and international environments of Hong Kong and Singapore have molded their economic and political structures. Again I turned to data from the ADB to quantitatively and graphically augment my assertions. To do this, I used the ADB trade statistics for each country. I tabulated the total value of imports and exports by their major trading partners to give the reader an idea of the magnitude of change in both locales. To provide ease of comparison, I also indexed the two economies by using the percent of total imports and exports by major trading partner. Additionally, I made use of the exports by standard international trade classifications for the two city-states. By choosing specific categories for Hong Kong and Singapore, I was able to show how the composition of their goods changed in relation to their major trading partners, their economic progressions, and how these changes represented differences in their paths to success.

INDV 3: Government Development Strategies

Once more I relied on ADB data to fill the gaps that my available government yearbooks for Hong Kong and Singapore did not cover. In this subsection, I used the like ADB category of government expenditure by function to compare the two locales. Again for ease of comparison, I indexed the data by the percent of the total spent on each government function. Since the *Economic Services* function comprised many significant subcomponents that were essential to economic development, I created additional charts that also compared Hong Kong and Singapore's expenditure by like function.

Primary Research

Primary research was conducted by personal interviews of those knowledgeable about Hong Kong, Singapore, their surrounding countries, and their colonial ruler, Britain. In the summer of 2001, I spent three weeks in Singapore and a little over a week in Hong Kong meeting with people, sightseeing, and gaining an impression for the fascinating culture of each locale.

My mother is Singaporean, and I greatly benefited from my family contacts still residing there. I was able to interview executives of small and large enterprises, numerous professors, and former colleagues of my grandfather. Of most prominence, I spent an afternoon with Mr. Howe Yoon Chong, who held the post of head of civil service two terms after my grandfather. He was extremely helpful in expressing the hardships that Singapore faced during their early years and why they chose the economic and political pathways that they did. Again, thanks to family contacts, I was able to gain access to university libraries, from which I found numerous references and even a few videos of former speeches by prominent officials.

Through the generosity of Dr. Yue Man-Yeung and his staff at the Chinese University of Hong Kong, I was freed from having to worry about paying for expensive lodging and having to learn how to get around in Hong Kong for myself. Only being there for a week, this was extremely advantageous, since this allowed me to focus more of my time on collecting data for my thesis. Through family contacts and those of Dr. Lo's, I was able to interview many people relevant to this study, such as a trade officer and the group treasurer for Jardine Matheson. Alas, my time was shorter than I would

have hoped in Hong Kong, but after all, I was a poor graduate student that was grateful for the wonderful opportunity to extend my study abroad at all.

To observe the locations that I am writing about firsthand gave me an invaluable personal dimension to my thesis. It is this personal touch with which I will try to convey the stories of these two unique city-states, one of which has been very influential in my own history of life. The thoughts and ideas of those that I met with in Hong Kong, Singapore, Britain, and the United States will always be with me while I write this comparison, even if for politically sensitive reasons, I may not always attribute their ideas and influences on me directly to them. A complete list of all those interviewed can be seen in Appendix A.

Data Interpretation

In line with the scientific method and the typical format for qualitative research designs, I will analyze my results by means of inductive reasoning. Building from the bottom up, I will first use qualitative and quantitative data to determine the extent of the differences between Hong Kong and Singapore in each INDV. Once that has been done for each of the three INDVs, I will then attempt to generalize conclusions from the three separate parts of the puzzle. This generalized conclusion will then be used to test my secondary hypothesis, which asserts that the economic ideologies, geo-political factors, and government development strategies of Hong Kong and Singapore show significant differences over the past 40 years, leading to the logical deduction that their paths to success have been different.

Accepting or rejecting my primary hypothesis will be conditional upon whether the secondary hypothesis is rejected or not. If Hypothesis II is accepted with the belief that there have been significant differences in the economic development paths of Hong Kong and Singapore, then I can reasonably accept my primary hypothesis that there are at least two distinct paths to success within the Asian NIEs.

CHAPTER III
REVIEW OF RELATED LITERATURE
Development Theories

Rostow's Stages of Growth Model

After the conclusion of WWII, the United States and its allies set out to rebuild many of the war-torn nations through financial and technical assistance. Economic aid packages such as the Marshall Plan were resounding successes, transforming Western European nations from agrarian societies to modernized economies in just a few years. The rapid transformation of these post-war economies led development theorists to the belief that mass infusions of external capital was a necessary components for a rapid economic transition.¹⁴

Following this train of thought, W.W. Rostow developed a model entitled: *The Stages of Economic Growth*. The premise of this model is that all the nations of the world fall into five distinct categories of economic and social development. The first stage of this model is the “traditional society,” which incorporates the nations that are primarily dependent upon subsistence agriculture for their development. These nations exhibit mass inequalities between the peasant farmers and the aristocratic class that still persists.

Societies that are in the process of transition are encompassed within the “preconditions to take-off” category. Rostow argues that the “preconditions arise not endogenously [except for the Industrial Age of Britain] but from some external infusion

¹⁴ Todaro, *Economic Development*, 79.

by more advanced societies.”¹⁵ When constructing this second category, he clearly had many of the newly independent nations of the 1950s and the 1960s in mind. Through the examples set by their former mother countries, the societies of these new countries were convinced that economic progress was necessary to bring improvement in areas such as health care and education. More importantly than societal preparation, many of these former colonies were given the necessary injection of external capital to begin the process of rapid economic development.

After obtaining the necessary preconditions, societies are able to move on to the “take-off stage.” According to Rostow, technological advances in a country’s agricultural and industrial sectors are what enable a country to move to this category. With agricultural improvements, a country exhibits the start of a mass rural to urban migration, setting the stage for a more industrialized economy. This argument closely mirrors the structural change model developed by W. Arthur Lewis. Lewis believed that for an economy to expand, the industrial sector must absorb the excess labor in the agricultural sector. According to this model, the rural to urban migration of the workforce should stop only when the average rural sector and industrial sector wages evened out.¹⁶

Rostow labels his fourth category as “the drive to maturity.” During this stage, “10-20 percent of national income is steadily invested, permitting output to regularly outstrip the increase in population.”¹⁷ During this stage, countries shift to export led economies, focusing on the goods in which they enjoy a comparative advantage.

¹⁵ W.W. Rostow, *The Stages of Economic Growth: a non-communist manifesto* (Cambridge: Cambridge University Press, 1990), 6.

¹⁶ Todaro, *Economic Development*, 84-89.

¹⁷ Rostow, *Stages of Growth*, 9.

Additionally, an increasing shift from primary and secondary sectors to tertiary and quaternary sectors is exhibited by this category.

The ingredients of “the drive to maturity” stage parallel the work of Keynesian economists who predate Rostow's work. Of principal interest here is Roy Harrod and Eversy Domar, who constructed a circular model that represents the relationship between savings, new investments, and capital. To succinctly word their theory, they argued that a high savings rate and a high proportion of reinvested GNP were necessary for economic growth. Their primary point was that economies should strive to achieve a high capital to output ratio. This ratio was dependent on many factors, but one obstacle for developing nations is that their savings and investment rates must be high enough to outstrip the population increases.

The final category of economic development is “the age of mass consumption.” Countries in this category no longer display the drive towards modern technology that characterized the third and fourth stages. Rostow notes that “Western societies have chosen to allocate increased resources to social welfare and security” in this stage. He also notes that economies within this category focus their leading sectors primarily on durable consumer goods and service industries, in order to fuel the consumptive desires of the more affluent populace.¹⁸

Criticisms of Rostow's Model and the Emergence of Asian Regional Growth Theories

Authors on economic development, such as Michael Todaro, have argued that Rostow's model has inappropriately taken Western economic theory and applied it to

¹⁸ Rostow, *Stages of Growth*, 10-11.

developing nations in other regions of the world. The main criticism of Rostow's stages is its emphasis upon external capital and the rate of national reinvestment. While the monetary factors are necessary for an economic transition, they are far from the only necessary components. According to Todaro,

The Marshall Plan worked for Europe because the European countries receiving aid possessed the necessary structural, institutional, and attitudinal conditions (e.g. well-integrated commodity and market markets, highly developed transport facilities, a well-trained and educated workforce, the motivation to succeed, an efficient government bureaucracy) to convert new capital effectively into higher levels of output.¹⁹

It is clear that some nations of the world were better suited than others to make effective use of an injection of capital. While regions such as Latin America received large amounts of United States aid, they failed to cut down on their massive inflation rates. With rampant inflation and unemployment still present, the vast majority of the countries in this region have remained fixed in lower level economies.

On the other hand, benefiting from strong colonial infrastructures and benevolent economic and political administrations, the NIEs were able to undergo the transformation from third world to first world at an unprecedented pace. Using modernization theories such as Rostow's to analyze the economic stories of Singapore and Hong Kong is at the same time, both problematic and insightful. Singapore and Hong Kong have never had significant agricultural sectors, so it would seem that the early parts of Rostow's model and Lewis' structural change theory do not apply. However, if we look at their population patterns over the past 40 years, we can see that Singapore, and especially Hong Kong, have benefited from mass immigration from surrounding areas. In the case of Hong Kong, the continual stream, and at times, flood of people from the People's

¹⁹ Todaro, *Economic Development*, 83.

Republic of China (PRC), provided the cheap labor for their light manufacturing industries.

In accordance with his arguments in his second and third stages, Rostow might have said that the massive inflows of FDI into the region has been the catalyst behind the heavy increase of Asia's percentage of the world economy. While it is true that Asian Pacific Rim received large amounts of FDI from Western nations, and from within, once Japan and the NIEs had industrialized, their economic prosperity was due largely to their ability to effectively utilize and "convert new capital effectively into higher levels of output" at an extraordinary rate.²⁰ In accordance with the ideas professed by Harrod and Domar, Singapore and Hong Kong have reinvested a high proportion of the GNP into further development. Singapore has even undertaken measures such as enforced savings under the governance of the Central Provident Fund to achieve a tight monetary policy.

Impressed by the unparalleled economic transitions of the region, developmental theorists have been attempting to explain why Asia progressed so rapidly relative to other regions. My task will be to explain how Singapore and Hong Kong were so efficient in their rapid development. The first question that the modernization theories pose is: Why has Singapore and Hong Kong exhibited such high capital to output ratios compared to other nations? Of further inquiry is to ascertain how and why Singapore and Hong Kong have tried to avoid entering Rostow's fifth category, which is characterized by welfare states and high consumption. Although they have per capita GDPs that are comparable to industrialized nations, they have been able to promote policies that are still developmentally intensive. In my analysis of their developmental spending, I will look

²⁰ Todaro, *Economic Development*, 83.

for any discernable differences in their welfare expenses, and I will explore the question of how long they resist the calls for increased state welfare.

Globalization and Regionalization

Singapore's Trade and Industry Minister George Yeo stated that, "the Asian economic miracle is largely a result of globalization."²¹ According to globalization advocates, the adaptations that the East Asian countries have made in attracting the rapid flow of capital, labor, and MNCs is what has produced their success. Also along the same lines of neoclassical thought, globalization supporters point to the low capital taxes, the minimal tariff rates, and the strong financial policies of these countries as essential components to their rapid growth.²²

The globalization arguments can also be associated with the theoretical roots of free market advocates and neoliberalism. These schools of thought have argued that the success of East Asia has occurred as a result of the highly liberalized economies of the region. Neoliberalists have argued that the governments of East Asia have "cleare[d] various obstacles so that markets can work to allocate resources efficiently and effectively".²³ "Strong" governments that are insulated against domestic opposition to free trade characterize the NIEs, enabling them to operate some of the most open economies in the world. According to the A.T. Kearny Globalization Index, Singapore is currently ranked as the third most globalized country in 2001, falling from a number one

²¹ Jonathan Sprague, "As the World Gets Tight," *AsiaWeek* (February 18, 2000).

²² R.D. Wolff and S.A. Resnick, *Economics: Marxian vs. Neoclassical* (Baltimore: Johns Hopkins Press, 1987).

²³ Chiu, Ho, and Lui, *City-States in the Global Economy*, 5-6.

ranking in 2000. Hong Kong, no longer its own entity, was included with China in the index.²⁴

Closely following the globalization literature, the emergence of regional trading blocks has led to advanced studies on regionalism. Regional trading blocks are created to enhance a member nations' political and economic weight in the global community. Therefore, the first question to ask is whether regionalism stands in opposition to globalization. Some scholars feel that increasing regionalism will lead to the formation of three antagonistic blocks: the EU, the United States, and a Japanese led Asia. On the other hand, others feel that increasingly liberal trade arrangements in countries' respective regions will help to foster a liberalized world economy.

The benefits or consequences that regions present to the world economy are still hotly debated, and the answer differs along theoretical lines. Neorealists maintain that regions are forming due to the decline of the United States hegemony. In other words, as the domination of world trade is shifting to a multipolar system, countries are increasingly concerned about political and economic security. Thus, according to realist theory, the growing regional blocks are synonymous with the antagonistic alliance blocks that formed prior to World War I.²⁵ Conversely, neoliberal institutionalism views regional blocks as responses to changing political and economic times. This theoretical strain states that increasing cooperation among states through supranational entities is necessary to promote neoclassical free trade principles between nations.²⁶

²⁴ "Globalization's Last Hurrah?" *Foreign Policy* (Jan/Feb 2002): 38-51.

²⁵ Edward D Mansfield and Helen V. Milner, "The New Wave of Regionalism," *International Organization* 53 (1999): 3.

²⁶ Ibid

Either way, Singapore and Hong Kong have realized that their future is closely tied to that of their neighbors. Therefore, they have both been developing "growth triangles" in their respective areas. Singapore is involved in the JSR (Johor, Singapore, Riau) triangle with Malaysia and Indonesia, while Hong Kong is part of the South China triangle with Southeastern China and Taiwan. A growth triangle is distinct from a trading block since it does not give preferential treatment to the member nations over other nations. The primary goal of these growth triangles is to reduce barriers between the member countries and to facilitate the movement of goods, labor, and capital.

Furthering a core/periphery model that will be discussed in the next section, Hong Kong and Singapore have outsourced their labor-intensive industries to adjacent areas within their growth triangles. This has helped to further their roles as financial and informational headquarters while its neighbors provide the hinterlands for their services. Dr. Yeung Yue-man paraphrases Sakia Sassen, who has identified three additional elements that a world city must possess to succeed in the global economy: 1) Control Centers for the Globalized Economy 2) Large Service Sectors 3) Markets for new products and innovations.²⁷ Considering their sizes, Singapore and Hong Kong wield disproportionate economic power at a global scale, but many are beginning to question whether they can continue to expand their influence. For example, the emergence of Shanghai as a financial center has caused great concern for the future of Hong Kong.

The Core/Periphery Model and Economic Geography

In the core/periphery model, a country's role in the world economy falls into three classifications. The first is the core countries, which are comprised of the more

²⁷ Yeung, *Globalized Societies*, 21.

developed areas of the world. Japan, the United States, and Western Europe are the most dominant core areas of the world today. However, the majority of the world falls into the periphery category, which comprises the countries that are moving towards development, yet they still have their economies linked to a nearby core area. Semi-periphery is the third category that countries such as Hong Kong and Singapore fall into. These semi-peripheries do not exert enough power on a global scale to be considered a core, but they dominate the economies of a smaller area of the world.

Core areas trading with other core areas comprise most of the world's trade. This fact has been a cause of concern for the periphery states who fear that there will be increased inequalities between the rich and the poor. Developed out of the dependency school of thought, the very name of this model implies that the periphery exists to serve the whims of the core. The developing countries whose economies are still based in the primary sector (agriculture and extraction) are afraid that the goods that they are able to export will continue to decline in value, creating a downward spiral. Critics could argue that the growth triangles which Hong Kong and Singapore are a part of are furthering their progress at the expense of their neighbors. However, while they are developing themselves, they are also raising wages and providing employment opportunities for their surrounding hinterlands.

The core/periphery model can also be applied to cities and their immediate areas at a local scale. When easier methods of transportation were developed, many people soon started a massive exodus to the quieter life of the suburbs. While suburbanization has caused some cities to actually lose population in their historic cores, the amount of people that are influenced by a city has continued to skyrocket since transportation and

communication improvements have allowed cities to expand their areas of influence.

This model could be used to explain Hong Kong and Singapore's wide areas of influence, and to explain the thousands of workers who commute across international boundaries to work or do business there. Luckily for Singapore and Hong Kong, due to their unique status as city-states and their limited space, they have not suffered the ill effects of decentralization.

Another aspect of economic geography that influences Singapore and Hong Kong is the process known as agglomeration. Corporate agglomeration is where businesses locate near one another to create small economies of scale. For example, a large industry would want to locate near large lawyer firms and banks to ensure quick transactions. New York, along with London and Tokyo, and to a lesser extent, Hong Kong and Singapore, are all areas where many industrial and financial companies have located their headquarters near one another. With the fast pace of today's world economy, it is becoming increasingly important for companies to stay on top of the latest developments and information. Therefore, locating near their partners and competitors enhances their response time to changing environments.

Recognizing the importance of agglomeration and their drive to be world cities, Hong Kong and Singapore have both promoted MNC friendly policies, offering incentives and land grants for companies willing to establish a regional headquarters there. Of large MNC corporations with headquarters outside Asia, 51 percent of them chose Hong Kong for the Asian regional offices in 1990. Thus, the lure of Mainland

China has allowed Hong Kong to outstrip Tokyo's 29 percent and Singapore's 21 percent for the same year.²⁸

The Flying Geese Model

Falling somewhere in the middle of the globalization and the free market theories, is the flying geese model. This more practical model has been used to show how the development of Asia has progressed in stages through FDI reallocation and industrial relocation to areas of comparative advantage. This theory argues that Japan had to relocate many of its industries to the NIEs in the 1960s due to rising labor costs. Once the massive inflows of FDI and MNCs from Japan and the Western nations had facilitated the rapid growth of the NIEs, they also began to face the problem of high labor costs in the mid 1980s. With a reduced comparative advantage, the NIEs were forced to export labor-intensive industries to SE Asia, supporting the growth of ASEAN nations such as Thailand and Malaysia. A good case study of this concept is the

"shifting of the textile industry from Japan to the Asian newly industrializing countries (ANICs) of Hong Kong, Singapore, South Korea, and Taiwan; later from there to ASEAN countries such as Indonesia, Malaysia, and Thailand; then on to China; perhaps finally to India, Vietnam or other emerging lower-cost competitors."²⁹

What is also interesting and relevant from this flying geese model is its analysis of the industrial restructuring in advanced economies. According to this model, developed economies need to continually restructure their industries to higher paying jobs. Next, these countries have to be willing to accept the internationalization of their companies, so

²⁸ David Meyer, *Hong Kong as a Global Metropolis* (Cambridge: Cambridge University Press, 2000), 208.

²⁹ "Internationalization and Regionalization of Asian Firms," *via* Internet. Available: http://www.fba.nus.edu.sg/depart/bp/fbads/chapter_7.htm#Internationalisation

that they may take advantage of ripe markets. Finally, with the impending loss of labor-intensive jobs, these countries will need to liberalize their economies so that they will be able to effectively transition themselves into financial and informational headquarters.³⁰

The East Asian Development Model and Related Regional Explanations

Rationale for Creating Another NIE Model

To simplify the complexity of a broader regional analysis, development scholars have focused primarily on the countries of East Asia that had grown the most rapidly in recent years. Therefore, rather than placing all of Asia into an overly complicated model, many researchers have keyed in solely on the four NIEs, which have enjoyed astronomical growth rates over the past 4 decades. Pointing to the similarities in the timing of their rapid economic growth, and their common East Asian location, these scholars have analyzed the 4 NIEs (and implicitly, their surrounding hinterlands) as a group, rather than as individuals.³¹

Searching for the causal mechanisms behind the rapid growth of the East Asian NIEs, Berger and Hsiao developed the widely cited East Asian Development Model (EADM) in 1988. These authors came up with three interrelated reasons for the economic boom in East Asia.³² Firstly, they argue that the development of the NIEs occurred as a result of a fortuitous *global political-economic context*, which provided a perfect incubator for their economic growth. Secondly, they argue that the *cultural*

³⁰ Ibid.

³¹ With the exception of Singapore, which is treated as a bastion of East Asia in Southeast Asia

³² A note of clarification: The EADM claims to focus on East Asia, but is only explicitly inclusive of the 4 NIEs (and at times implicitly inclusive of Japan)

characteristics of the Sinitic Race cannot be overlooked in explaining the region.

Thirdly, they state that East Asia benefited from unique *state-society relationships*.³³ To illustrate the complexity behind these three factors, each will be analyzed in turn in the following sections, along with other related regional explanations that resemble arguments made by Berger and Hsiao.

Global Political-Economic Context

Being a latecomer to the imperial scene, the United States traditionally adhered to a policy of worldwide economic liberalization rather than direct colonial occupation. For example, when the other imperial powers were attempting to carve up China in the early 1900s, the United States argued for a free China that would be open for trade for all nations, rather than a China that would be broken under spheres of economic influence. America's policy of encouraging liberal markets did not end once it had achieved hegemonic status in the early 1950s. With the help of Britain, the United States established the Bretton-Woods Agreements, which were the predecessors of the GATT, which eventually led to the WTO. With this liberal framework in place and the role of the United States as a police state, world trade has increased to unprecedented levels. FDI has also reached astronomical levels as countries and MNCs continue to expand their economic influence worldwide.

During this post-war period, successful economies such as those of the four NIEs began to shift to export led economies, specializing in goods in which they had a comparative advantage, rather than trying to be entirely self-sufficient, or adhering to

³³ Hsiao Hsin-Huang, "An East Asian Development Model: Empirical Explorations," in *East Asian Development Model*, eds. Berger and Hsiao, 14.

import substitution policies. Through the changes in global politics in the post World War II era, the beginnings of a new liberalized world economy were jump-started.

What is also important to note is that its pursuit of open markets put the United States in direct opposition to the economic and social contexts of communism. In the cold war of economic ideologies, Asia was seen as a key political battleground. The United States planned to prevent the spread of communism throughout Asia by maintaining political stability in the region. With a strong United States presence in the region, the four NIEs, which were seen as bastions of anti-communism, pursued export led economies in a relatively stable environment.

Cultural Characteristics

While a fortuitous global-political economic context helped the NIEs to rapidly industrialize, these conditions were not unique to Asia alone. Other regions, such as Latin America, benefited from the umbrella of United States protection and also stood to gain from the liberalized world economy. Yet these regions did not rise as rapidly as East Asia. To explain the uniqueness of the East Asian success, Berger and Hsiao state that the cultural characteristics of the Sinitic (Chinese/Japanese/Korean) civilization must not be overlooked when discussing the economic growth of East Asia.³⁴

Bound by a common set of Confucian values, the populace of East Asia is characterized as talented, hard working, and efficient. Asians also have a strong desire to save their income, helping to facilitate strong macro-economic policies in their respective countries. In Singapore, high personal savings is augmented by enforced savings of the

³⁴ Hsiao, "East Asian Development Model,"19.

Central Provident Fund (CPF), which requires an investment of around 40 percent of each paycheck. The Singapore Government uses the CPF to help finance reinvestment into its own industry, workforce, and infrastructure.

Recent publications, by authors such as David Meyer, have focused on the Chinese *guanxi* (social networks of business and family) to help explain how the cultural factors of Asia have played a role in its rapid rise. Meyer shows how the Chinese have historically been used as compradors (intermediaries of exchange). Since working the Asian domestic markets was historically unprofitable, compradors have served as liaisons between the Western trading nations and the local markets. Although the role of the Western nations has been reduced, the tradition of the compradors has continued, facilitating the rapid exchange of goods, information, and capital between the countries of East Asia.³⁵

Another sociological aspect of the social networking theories is the literature that focuses on the Overseas Chinese. Fleeing the civil wars and the subsequent Communist takeover in 1949, many wealthy Chinese emigrated abroad. These wealthy Chinese were extremely entrepreneurial, and they quickly established themselves in family owned businesses, banks, and industries in the NIEs, the rest of Asia, and in the west coast of North America. The influx of capital and business knowledge from Chinese emigrants rekindling their ties to home helped to fuel the rapid industrialization of the Asian Pacific Rim, and Hong Kong and Taiwan in particular. Now, worth an estimated 200-300 billion

³⁵ David Meyer, *Global Metropolis*, 2000.

of the world's assets, the Overseas Chinese are continuing to invest heavily in the NIEs and into the rapidly rising market of China.³⁶

What is also relevant within the cultural component of the EADM, is the idea that Asia has developed a form of capitalism that is distinctive from the West. Berger and Hsiao argue that the success story of East Asia is "sufficiently distinct, as compared with the West, that one is entitled to speak of them as a 'second case' of capitalist modernity."³⁷ Asian elders and politicians have often viewed the cultural associations with Western capitalism as decadent, immoral, and disrespectful of Asian ideals. While recognizing that export led capitalism is the path to economic development, leaders have aimed to achieve a balance between their uniquely Asian cultures and a business environment that has becoming increasingly Westernized.

Asian values are the ideas "of authority, especially the deference due from the young to the old, and above all the authority of the legitimate organs of state power over the citizen."³⁸ While Asian ideals emphasize obedience and discipline, Western ideals, in the eyes of many elder Asians, favor the brazen youth that outwardly challenge cultural norms, ideas, and governmental actions. To Asians who believe in the necessity of a harmonious society, the individualistic manner of the West is seen as greedy and decadent.

Singapore, where English is widely spoken and understood, provides a good example of an Asian country that is faced with the clash of Eastern and Western cultures. Hill and Fee point out that "Singapore's political leaders have maintained that collective

³⁶ "China: Network Capitalism," *Far Eastern Economic Review* 156, no. 48 (12/2/1993): 17.

³⁷ Berger, "East Asian Development Model?" 4.

³⁸ Greg Sheridan, *Asian Values Western Dreams* (St. Leonards, Australia: Allen and Unwin, 1999), 64.

values, rather than those of autonomous individuals, are essential to its survival.”³⁹ In order to protect its citizens against the perceived moralistic decadence of the West, moral education classes that teach subjects such as Confucian values and cultural history have been implemented into Singaporean education.⁴⁰

State-Society Relationships

Confucian ethics stress an adherence to authority, particularly to paternalistic and governmental authority. Building on this idea, Berger and Hsiao have labeled their third and final component of the EADM: “state structure and state-society relationships.” They argue that the cultural deference to governmental authority has allowed the countries of East Asia to pursue macroeconomic policies that would have been implausible in other regions of the world.⁴¹

In the words of Berger and Hsiao, the NIEs are able to “mobilize resources more autonomously, without being confronted with too much opposition from various sectors of the society.”⁴² Since they have been relatively insulated from domestic opposition or international coercion, the NIEs are characterized as strong and autonomous states. This has allowed the NIEs to utilize minimal trade barriers despite the criticisms of local industries that are disadvantageously faced with foreign competition. Additionally, the NIEs were able to reinvest a high percentage of their economic output, resisting the call for increased spending on social welfare programs.

³⁹ Michael Hill and Lian Kwen Fee, eds. *The Politics of Nation Building and Citizenship in Singapore* (London: Routledge, 1995).

⁴⁰ Huat Tan Chwee, “Confucianism and Nation Building in Singapore,” *International journal of social sciences* 16, no. 8 (1989): 5.

⁴¹ Hsiao, “An East Asian Development Model,” 16.

⁴² Ibid

Following a comparable strand, statist theoreticians explain the success of East Asia as a result of the guiding role that the states have played in their respective economic transformations. In essence, by developing in recent decades, the NIEs were able to learn from the trials and tribulations of countries that had industrialized before them. Therefore, by taking measures to avoid the same pitfalls that had befallen other industrialized nations, Asian economies have been able to exhibit impressive foresight and adaptability in light of changing political and economic environments.⁴³

Discussion of East Asian Development Literature

The first drawback to regional growth models of East Asia is the discrepancies between the selected countries of the research. We turn to the common problem that regional geographers face: Where does a region begin and where does a region end? What is clear, however, is that after defining what type of region we are constructing, (i.e. cultural, economic, political, etc.) the selected area of inclusion should spatially represent a fairly homogenous composition.

What is problematic is that many of the East Asian models and theories claim to focus on the growth of the entire Asian Pacific Rim, but only explicitly focus upon Japan and the NIEs. Further complicating the compatibility of these regional studies is that much of the research has focused only on the NIEs, while treating Japan as an outlier, while other research focuses on Japan and the NIEs as a group.

Even the authors of the East Asian Development Model are guilty of inconsistencies in their collaborative research. To illustrate, Berger stated in the first

⁴³ Chiu, Ho, and Lui, *City-States in the Global Economy*, 6.

chapter that he had the four NIEs and Japan in mind when developing this model.

However, in the next chapter Hsiao discusses the common characteristics for success just for the NIEs. Either way, these regional studies are still limiting themselves to just the success stories of Asia.

Furthermore, the title of the EADM and the related theories raises questions. If they claim to be a model that represents East Asia, then why is there no discussion of China or Macao? Granted, Macao is a special lawlessness problem of its own, but to exclude the 1.25 billion people of China is questionable indeed. True, there are two provinces in China, Guangdong and Fujian, that have posted astronomical growth rates in the last two decades in particular; but what about the part of China, particularly in the interior, that lives in poverty? Perhaps it would be more appropriate for these models and theories to state the specific scope of their analysis, rather than claiming regional analyses in which certain parts of the geographical region known as East Asia are excluded.

Perhaps the biggest criticism that could be made of the EADM is that there are three other Sinitic economies that did not grow at the same rates as the NIEs. Why did Macao, China, and North Korea not succeed although they could arguably represent all three of the components of the EADM? Clearly the model is still a work in progress, and many other important variables such as political/economic ideologies and geo-political contexts need to be taken into account.

In addition to the variables mentioned in the previous paragraph, I would suggest that a component entitled *favorable geographical locations* should be incorporated. For Taiwan and South Korea, their proximity to the economic giant of Japan garnered massive amounts of Japanese foreign investment and numerous branch plants of Japanese

MNCs. The geographical locations and features of Hong Kong and Singapore are even more impressive. They both sit on historically high trafficked waterways, and are both gateways to their respective regions (Map 3.1). Simple geography cannot be overlooked when a landlocked country, for example, attempts to learn from their successes.

Learning from the Regional Growth Models

Geographical critiques aside, the EADM, and the other related theories provide us with a good starting point for understanding the common ingredients to success that the NIEs shared. Let us once again turn to the question of whether the regional success of East Asia is replicable elsewhere by reviewing and analyzing each of the three components of the EADM. The first component stated that a stable Asia and favorable global economic conditions have led to the success of East Asia.

So if the East Asian success stems from a fortuitous global political and economic environment, why didn't regions such as Latin America and the Caribbean, which were also secured against external threats by the Monroe Doctrine, and were recipients of massive amounts of United States aid, develop at the same rate? The same economic conditions exist for any region to take advantage of, but the long-term domestic (in the case of Africa and Latin America) and/or foreign stability (Middle East and Africa) that Asia benefited from (particularly Japan and the NIEs) is hard to find in many other parts of the world.

One clear reason that East Asia progressed as compared to other regions was that their leaders were determined to avoid the "dependency school of economists", which held much sway in the 1960s. Dependency theorists "argued that MNCs continued the

Map 3.1
Singapore and Hong Kong in East Asia



colonial pattern of exploitation that left the developing countries selling raw materials to and buying consumer goods from the advanced economies.” Lee Kuan Yu, Singapore’s prime minister from 1959-1991, did not believe in “this theory on neocolonialist exploitation.” Therefore, when Britain offered Singapore financial aid after its withdrawal from the island, Lee Kuan Yew refused, stating that he would not let his country fall into a begging bowl approach.⁴⁴

The second factor of the EADM, the characteristics of the Sinitic race, is clearly not reproducible elsewhere. Other nations may try to learn from the culture of the region, but the distinctiveness of the East Asia culture is unique to its own locale. The strong presence of Confucian ethics is also an integral part of the EADM’s third component, which points to the relative autonomy and strength of the NIEs. Again, lacking cultures that are so strongly rooted in the deference to authority, other regions of the world would have a tough time administering their nations in much the same way.

So where does this leave us? Only the first component of the EADM is reproducible in other areas, since the second and third components are unique to the cultural characteristics of that region. The EADM and its related theories provide a good overview of the regional success of East Asia, but clearly, this model alone cannot serve as a guide for other nations and regions to follow.

Along the same lines as the third component of the EADM, statist theories provide the most applicable lessons that other countries can take from East Asia. To reiterate, this model contends that the success of the region is due to the East Asian NIE countries closely managing their respective economies. Statist theory also maintains that

⁴⁴ Lee, *Third World to First*, 57-58; for further reading on the dependencia model, see Robert Gilpin, “Three Models of the Future,” *International Organization* 38, no. 1 (1975): 32.

East Asia was able to develop by observing the successes and faults of countries that had industrialized at a much earlier time. Since this theory is not culturally specific, the same steps that the NIEs have taken in managing their economy could be comparably duplicated elsewhere.

It is not my intention to fall into the same deterministic arguments that the other regional studies fall into, since I recognize that among other factors, the NIEs were unique in their ability to closely manage their economies because of their relative autonomy and insulation from domestic opposition. However, given the incomparability of the other components of the EADM and the other regional explanations to other regions of the world, the role that the states have played in their respective economies is the most malleable explanation for the growth of East Asia as compared to other regions.

As I will discuss in my case studies of Singapore and Hong Kong, I view the statist theories as an explanation for the adaptability and foresight that these countries possessed in light of the changing political and economic environments. Once again, taking a theory, such as statist thought, and applying it to a regional setting sacrifices the complexity and depth of each individual country's economic development, especially since the level of state intervention was different for each NIE. Therefore, in order to truly understand the role that the four tigers have played in their respective economies, and their differing paths to success, we need to study how their economies have evolved as a result of the interactions between their respective domestic institutional factors, geopolitical situations, and the changing world economy. In the words of Chiu, Ho, and Lui:

To subsume such diversity under a single, homogeneous model of development will not only generate spurious explanations, but will also fail to explain how these NIEs come to the current state of economic development through very different courses of industrialization.⁴⁵

Thus, I will compare Singapore and Hong Kong, which are the two most similar of the four little dragons, to show that although all the NIEs have succeeded in gaining rapid economic growth, they have done so by pursuing sufficiently differing paths of development.

⁴⁵ Chiu, Ho, and Lui, *City-States in the Global Economy*, 4.

CHAPTER IV
THE HISTORIC ENTREPOT PORT ROLES OF HONG KONG AND SINGAPORE
UP UNTIL THE END OF WORLD WAR II

Introduction

G.B. Endacott is cited by Lo as saying “Hong Kong is the product of its harbor.”

⁴⁶ Victoria Harbor, which is a deep-water port that lies at the entrance to Southern China, is in an ideal geographic location to utilize shipping trade. Similarly, when Sir Stamford Raffles decided to locate his settlement in Singapore, he intended to make use of the deep-water port that was situated on the major seafaring lanes. The British colonial administration made effective use of both harbors by ensuring that adequate and efficient port facilities were available. In addition to building port facilities, the British also laid the foundation for a liberalized financial system to complement the merchants that frequented these two ports.

In his simplified explanation, Endacott astutely points out the importance of Victoria Harbor, but he fails to take into account the role that Hong Kong has played as an entrepot port. Perhaps he could have better worded his analysis by stating something similar to the following: “Hong Kong is a product of its harbor,” which has served as an international doorway to the vast domestic market of China.

Although Singapore’s role as an entrepot port has been smaller in comparison with Hong Kong’s, it has been significant in its function as the gateway to Southeast

⁴⁶ G.B. Endacott, *A History of Hong Kong* (London: Oxford University Press, 1964), quoted in C.P. Lo, *Hong Kong* (London: Belhaven Press, 1992), 1.

Asia. Due to the limited economies of its immediate neighbors, Singapore has supplemented its limited entrepot port role by using its efficient harbor as a transshipment port. A good example of a transshipment commodity that Singapore currently excels in is oil. Once crude oil comes into the port, Singapore's extensive oil refineries turn the oil into a finished product that is ready for shipment elsewhere. Although it is limited in size, Singapore is currently the third largest oil refining country.

The economic trajectories of Hong Kong and Singapore were similar up until World War II, thanks to their common colonial administrators. This chapter was written to reinforce the many resemblances that early Singapore and Hong Kong shared. By understanding their parallel histories, one can better understand why so many variables can be controlled for when comparing their economic development strategies since Singapore's independence.

Hong Kong: Gateway to China

Afterwards I saw the outside world, and I began to wonder how it was that foreigners, that Englishmen could do such things as they had done, for example with the barren rock of Hong Kong.

--Sun Yat Sen ⁴⁷

In the early part of the 19th century, the great trading companies of Britain that traded with China were constrained to the vicinity of Canton. Once China started to limit trade access by putting restrictions on the opium trade, the trade companies asked the British Government for help. Interested in keeping a large market open for the opium grown in and around India, Britain dispatched a fleet to secure open trade with China.

⁴⁷ Caroline Courtauld and May Holdsworth, *The Hong Kong Story* (Hong Kong: Oxford University Press, 1997), 48.

After a brief struggle, China was forced to sign the treaty of Nanking in 1843.

Through this treaty, the British secured the island of Hong Kong as a colony and a trading base (Map 4.1).

The lucrative opium trade and the silting of Canton harbor led to the rapid growth of Hong Kong as a trading and financial center in the middle to latter part of the 19th century. This expansion was a result of the role Hong Kong served as an intermediary of exchange. Compradors (resident intermediary merchants) facilitated exchange between foreign companies and Chinese domestic distributors. By using these compradors, overseas merchants were themselves able to avoid the costly process of distribution. Therefore, foreign merchants simply had to focus on bringing their goods to Hong Kong. Once in Hong Kong, local merchants who profited by selling them local silk and tea, and by buying their cotton and opium would meet them.⁴⁸

China's isolationist policies in the middle and late 1800s also contributed to the growth of Hong Kong as a gathering place. China restricted trade to only a few major ports, and Hong Kong was the top choice of foreign merchants thanks in large part to the stability and credibility of the British Government. Thus, Hong Kong became an intermediary of exchange for goods, finances, services, and people.⁴⁹ With foreign access to ports still limited by the Chinese Government, Hong Kong was able to continue its role as the gateway to China, and its role as a congregating place between East and West up until the outbreak of World War II. Many citizens fled Hong Kong once Japan invaded China in 1937, and even more people fled in terror during the Japanese occupation.

⁴⁸ Meyer, *Global Metropolis*, 2000.

⁴⁹ Ibid

Map 4.1
Hong Kong



Source: Adapted from Information Services Department (English edition), ed., *Hong Kong 1999* (Hong Kong: Information Services Department, 1999), back cover.

In fact, during World War II Britain deemed that defending the island was not feasible or worthwhile. Winston Churchill wrote: “If Japan goes to war with us there is not the slightest chance of holding Hong Kong or relieving it.”⁵⁰ Therefore, Hong Kong was left with a minimal contingent, and on December 8th 1941 (it was December 7th on the other side of the International Date Line) the Japanese invasion had begun. After a brief but futile five-day struggle, Hong Kong was overrun by Japanese invading through the New Territories (Map 4.1). No attempt was made to recapture the island and it was to remain under occupation until the surrender of the Japanese in August 1945.

The Establishment of Singapore

Here I am in Singapore...and in the enjoyment of all the pleasures which a footing on such classic ground may inspire. The British Union Jack waves unmolested. Most certainly the Dutch never had a factory in the island of Singapore and it does not appear to me that their recent arrangements at Rhio [Riau Islands] can, or ought to, interfere with our permanent establishment here. This place possesses an excellent harbor and ...we have commanded an intercourse with all the ships passing through the Straits of Singapore. We are within a week's sail of China, close to Siam and in the very seat of the Malayan empire.

*Sir Stamford Raffles, Feb. 1819*⁵¹

As the opium and spice trade between India and China increased in the early 1800's, the British saw a need to establish a strategic community at the tip of the Malay Peninsula. A settlement at this location would serve as the halfway point for merchant fleets traveling between the busy ports of Calcutta and Canton (Map 4.2). Thus, Sir Stamford Raffles, an employee of the British East India Company, was sent out by the

⁵⁰ Courtauld and Holdsworth, *The Hong Kong Story*, 53.

⁵¹ Noel Barber, *The Singapore Story* (Glasgow: Fontana, 1978), 31-32.

Map 4.2
Calcutta-Canton Trade Route



British Empire to scout out several islands in the area. As John Bower stated it:

*Raffles search brought him to Singapore in 1819, and there he found the site he wanted. It had a deep harbor, dry land along the coast, plentiful drinking water, and a commanding hill from which passing ships could be observed and the British Settlement defended.*⁵²

With control of Singapore, the British were able to effectively observe and regulate all the ocean faring traffic between the Indian and Pacific Oceans. Additionally, by establishing a naval presence in Singapore, the British were able to check both the Dutch activities in the Indonesian Islands and the pirate activity in the Strait of Malacca. Recognizing its geographical advantage, the British focused on building Singapore into the leading commercial center of Southeast Asia. In order to do this, the colonial administration focused on maintaining good harbor facilities, as well as advocating free trade policies for the island.

Singapore initially served as a transshipment port for the trade routes between China, India, and Europe. However, Singapore quickly expanded from this role by attracting seafarers and investors from all the major trading nations, thanks to the stability and credibility of the British Administration. Singapore's population also boomed, as the lure of higher paying jobs attracted immigrants from areas such as South China and Southern India in particular.

Like Hong Kong, Singapore became the gateway to SE Asia by serving as the meeting place for the domestic traders from SE Asian countries and the European trading countries. Singapore's growth as a port of call and intermediary location was facilitated by two major changes in the 19th century: "the advent of the steamship in the mid 1860's

⁵² John T. Bowen, "Singapore," in *Southeast Asia: Diversity and Development*, eds. Thomas R Leinbach and Richard Ulack (Upper Saddle River, NJ: Prentice Hall, 2000), 380.

and the opening of the Suez Canal in 1869.”⁵³ Following these two innovations, Singapore’s exports grew from \$37.4 million in 1871 to \$868.3 million in 1925.⁵⁴ Thanks to the increasing flows of people, goods, and money, Singapore’s role as a trading and financial hub under British Rule continued to grow up until World War II.

While Hong Kong was left to its own devices in early World War II, the bulk of the British Pacific forces were concentrated in Singapore. Expecting a naval invasion from the Japanese, Britain placed heavy weapons and installations on Sentosa Island (which is now a thriving theme park). When the Japanese advanced through Jurong they took the defenders by surprise (Map 4.3). Within two weeks the commander of the Singapore garrison, General A.E. Percival, was led by false intelligence to believe that the Japanese force was three times larger than it actually was. Believing the false information to be fact, and with communications between his units in disarray, he surrendered Singapore on Feb. 15th 1942, creating one of the biggest military blunders in the history of the British Empire.

After three and a half years of occupation, Singapore was returned to British rule in September 1945, shortly after the Japanese surrender.⁵⁵ However, The British Empire that had regained control of Singapore was not the same one as before the war. The considerable drain on manpower, resources, and capital from the war effort left Britain as a shadow of its former self. No longer wielding the power or resolve to maintain a large overseas empire, the British granted independence to many of their colonies, beginning with India in 1947.

⁵³ Luen Foo and Kwok Chi, eds., *Singapore 1999* (Singapore: The Ministry of Information and the Arts, 1999), 19.

⁵⁴ Meyer, *Global Metropolis*, 137.

⁵⁵ Luen and Kwok eds., *Singapore 1999*, p. 19.

Map 4.3
Singapore



Source: Foo Luen, chief ed., *Singapore: facts and pictures 2000*. (Singapore: Department of Statistics, Ministry of Trade and Industry, 2000), inside cover.

Common Ingredients for Success

I have chosen Singapore and Hong Kong as my two case studies since they possess the most similar historical and geographical features of the NIEs. I have already touched upon two of their key similarities in my literature review, so I will open with a brief recap. Firstly, Hong Kong and Singapore are both Sinitic civilizations that have benefited from common cultural characteristics, and from heavy investments from the Overseas Chinese. Secondly, in line with Gershenkron's arguments about the timing of economic growth, Singapore and Hong Kong both started their meteoric economic rise in the late 1950s to early 1960s.

While their geopolitical and geographical contexts have differed, they both share similar geographies. Including a substantial amount of reclaimed land for both city-states, Hong Kong is currently 1092 sq km, while Singapore is 647.5 sq km. Not only are both of their land areas small, but the limited land that they do have is unproductive for extensive agriculture or mineral extraction.

Fortunately they both dominate their respective shipping lanes by being in key geographical locations. A key maritime location, however, is nothing without a deep-water port, and Singapore and Hong Kong are both blessed with ideal ports that are sheltered from ravaging elements. Singapore Harbor and Victoria Harbor (Hong Kong) are now so successful that they have been jockeying back and forth for the number one and two spots in the world for container tonnage processed. Taking advantage of their locales, and building extensive supporting facilities, has allowed these two city-states to wield a disproportionate weight in the international trade. Their heavy reliance on trade

has allowed Singapore and Hong Kong to make up for their limited domestic market for goods.

The British were perhaps ideal colonial administrators for these city-states. Along with the first settlers from Britain soon came their great trading companies of the time such as Jardine Matheson and the British East India Company. These early merchants helped to expand and set the stage for the entrepot trade, extensive maritime traffic, and the financial importance of Hong Kong and Singapore. The colonial administrators also invested heavily in upgrading port facilities, communications and transportation infrastructure, and enhancing supporting social developments such as medicine, housing, and education.

The British brought the ideology of free trade and limited financial controls to Singapore and Hong Kong. Governed in much the same way, both exhibited similar economic developments up until the turmoil of World War II. Hong Kong has adhered to this policy throughout its existence, creating a capitalist enclave within China's sphere of influence. Singapore on the other hand, as we will discuss further in the next chapter, followed a slightly different path of capitalism after achieving independence. Along with this ideology, Britain brought the English language to Singapore and Hong Kong, allowing them to be immersed in the global business language. Of equal importance were the democratic ideals of personal freedoms that accompanied British free market economics. In the words of the last governor of Hong Kong, Chris Patten, "Liberal

economics and liberal democracy go hand in hand. Freedom, democracy, the rule of law, stability and prosperity are found most frequently in one another's company.”⁵⁶

Often overlooked is the importance of the stability that the British brought with their colonial rule. The other major European trading nations, trusting the honesty and the stability of the British civil service, saw little risk in investing in Hong Kong and Singapore. Although Singapore broke from the crown in 1962, the legacy of Britain lived on. Singapore was left with educated civil servants who were incorruptible and competent. My grandfather, Stanley Stewart, who was a former head of civil service for Singapore, was one of these early leaders of Singapore who was trained by the British. Like his colleagues at the time, he would accept no gifts in fear that they might be considered a bribe. He used to tell my mother and her sisters that a job honorably done was its own reward. Administrators such as Mr. Stewart ensured that confidence in the stability of Singapore did not wane, and this has continued to set Singapore apart from other nations in SE Asia.

With indigenous development, it is unlikely that these two city-states would be anywhere near where they are today, since they would not have benefited from the more affluent Western nations. In an age where many former colonies despise symbols of their colonialism, it is not surprising that Singapore and Hong Kong hold Britain in high regard and that they still have statues of early leader such as Raffles in places of prominence (Plate 4.1).⁵⁷

⁵⁶ Patten, *East and West*, 4.

⁵⁷ Barber, *The Singapore Story*, 15.



Plate 4.1

Statue of Raffles by the entrance of the Singapore River, the site of his original landing. In the background is the Boat Quay and the financial district.

Photo Courtesy of June Larson

CHAPTER V

ECONOMIC IDEOLOGIES

Differing Approaches To Success

The Market Friendly Approach

As Chapter IV established, the economies of Singapore and Hong Kong were practically indistinguishable while they were both under the British Crown. Looking at the major indicators in Table 5.1, you would be led to believe that their paths did not differ even after Singapore achieved self-governance in 1959. In fact, many studying the NIE economies have taken it for granted that their paths differed at all. The World Bank, for one, has developed a formula for less developed countries (LDCs) to follow, based on many common characteristics of the NIEs. As Richard Peet and Elaine Hartwick describe the “Market Friendly Approach,”

The [World] Bank [suggests] policy reform in three main areas: trade reform, specifically the adoption of an outward-orientated trade strategy; macroeconomic policies to reduce governments’ budget deficits, lower inflation, competitive exchange rates; and a domestic competitive environment, that is, removing price controls, rationalizing investment regulations, and reforming labor market regulations.⁵⁸

LDCs can obtain loans from the International Monetary Fund (IMF) and the World Bank on a conditional basis, as long as they comply with, and implement the prescribed reforms.

The “Market Friendly Approach,” which gives the latest neoliberal solution to developmental economics, suggests liberalized reforms without addressing what types of political institutions would be necessary to complete these objectives. Without an almost

⁵⁸ Peet and Hartwick, *Theories of Development*, 56.

Table 5.1
Key Indicators of Hong Kong and Singapore in 2000.
(\$ Represents U.S. Dollars)

	Hong Kong	Singapore
Land Area	1092 sq km	647.5 sq km
Population	7,210,505	4,300,419
Annual Population Growth Rate	1.3%	3.5%
Population Density	6603 per sq km	6641 per sq km
Total GDP ^a	\$181 Billion	\$109.8 Billion
GDP Per Capita ^a	\$25,400	\$26,500
GDP Growth Rate	10%	10.10%

^a GDP statistics are adjusted for Purchasing Power Parity (PPP)

Source: *The CIA World Factbook 2000* (Central Intelligence Agency), via Internet, Available: www.odci.gov/cia/publications/factbook/geos/

complete lack of domestic opposition groups, (which is highly characteristic of the type of free democracies that the West envisions and advocates) many of these reforms would not be wholly possible. Advanced welfare states such as the United States and those found in Europe certainly could not implement the very strategies that they advise. This leads one to wonder what sort of democracy they had in mind when they created their economic plans. Perhaps since the Market Friendly Approach was based on the NIEs, the World Bank would suggest their accompanying government styles as well?

While many that have passively observed the NIEs have looked at them as examples of rapid capitalist growth in a free market incubator, Hong Kong is the only one that has been predominantly operating in that system. What is often overlooked is that the other NIEs, including Singapore, have had very close relationships between their governments and their economies. While all four operate close to the principles of the Market Friendly Approach, it is clear that two different types of government ideologies are at work. Singapore and Hong Kong are the best choices to highlight this difference since they both had the same ideology under British rule. This creates a controlled baseline from which we can analyze the state supportive role of Singapore after 1965, with the continued liberalized governance of the British in Hong Kong.

Minimum Interference with Maximum Support

Hong Kong's economic philosophy under British rule has been one of positive non-interventionism. This approach is defined as one of "minimum interference and

maximum support for the economy.”⁵⁹ As a free market proponent would argue, “minimum interference” is best accomplished by keeping out harmful government interventions that create market inefficiencies. To ensure as close to a truly neoclassical and neoliberal economic climate as possible, Hong Kong has kept taxes low, tariffs small, eliminated capital movement restrictions, and even left utilities in private hands. “Maximum support for the economy” has been done by ensuring that complementary public services such as public housing, transportation networks, and good communications infrastructure are accessible and efficient.

Singapore, like Hong Kong, is regarded as one of the most open economies in the world. The A.T. Kearny/Foreign Policy Globalization Index ranks Singapore as the third most global economy in 2001, dropping from a first place rating in 2000.⁶⁰ There are of course, many different indexes, and others such as the Heritage Foundation and the Cato Institute, ranked Hong Kong as the freest economy in the world in 1999.⁶¹ On the surface, Singapore’s Government seems to follow an economic ideology very similar to Hong Kong’s, and it is not surprising that they are usually considered mirror images at first glance. Singapore also has low taxes, minimal tariffs, and relatively free capital flows. Furthermore, Singapore has also facilitated its economy through efficient public support services such as public housing, education, and transportation.

If we look deeper into the economic philosophy of Singapore, we see that the mirrors begin to show different images. Singapore believes in keeping away the same

⁵⁹ Bob Howlett ed., *Hong Kong 1997* (Hong Kong: Information Services Department, 1997), 64.

⁶⁰ “Measuring Globalization,” *Foreign Policy* 122 (Jan/Feb 2001): 56-66.

⁶¹ Doug Beureuter, presenter. “Eighth Annual Report on the Hong Kong Transition,” via Internet. Available: www.usconsulate.org.hk/ushk/htf/2000/0801.htm

negative interferences that Hong Kong does, however, Singapore gives new meaning to supportive government policies. “Singapore Incorporated” accurately describes the approach that Singapore takes to its economy. Metaphorically speaking, Singapore’s Government acts much like a CEO of large corporation. A CEO that makes calculated decisions based on cost-benefit studies, risk analyses, and profit potential.

The Central Provident Fund, which requires Singaporeans to save a fixed percentage of their income to support its government’s sound macroeconomic policies, is but one example of the strongly intertwined political economy of Singapore. Like Taiwan and South Korea, Singapore also has many successful Government Led Corporations (GLCs), which are governmentally owned enterprises that function like separate companies. Also unlike Hong Kong’s liberal structure, Singapore’s Government has also dictated which economic areas will be deemed “key sectors.” Domestic and multinational corporations (MNCs) in these key sectors are given special incentives such as free land and subsidized research support to locate and remain in Singapore.

Now that I have briefly established how their philosophies differ, my goal in this chapter will be to show evidence of how their economic ideologies created two distinct paths to economic success. I will start by presenting subsections for both Hong Kong and Singapore that give a chronological history of their economic developments over the past 40 years. The following subsections will allow the reader to better understand the forces that influenced and shaped the economies of these city-states.

Hong Kong: Flexibility and Government Support within a Neoclassical Context

If you want to see capitalism at work, go to Hong Kong.
Milton Friedman⁶²

1945-1979: Entrepreneurs and Labor-Intensive Manufacturing

After the Japanese surrender, the Kuomintang (Nationalist) forces and the Communist forces, which had joined forces to oust the invaders, resumed their hostilities. During the Chinese civil war, Hong Kong experienced a massive influx of immigrants that were seeking a safe haven from the chaos in the mainland. Fearing Communist persecution and economic changes, thousands continued to arrive in Hong Kong daily after the conclusion of the civil war (Table 5.2). With such a rapid influx of immigrants, Hong Kong's Government was hard pressed to find ways to provide these immigrants with jobs and basic amenities such as food and shelter.

To further complicate matters, the economic role that Hong Kong served as an entrepot port was greatly reduced with the downfall of the Nationalist regime. Much to the dismay of Hong Kong, the Communist Government returned China to its isolationist days. A U.N. strategic arms embargo and a complete embargo by the United States against China during the Korean War caused their trade and communications with the West to be brought to a practical standstill. With China's doors now closed to the West, Hong Kong's traditional industries suffered heavily as a result. To further complicate matters, Britain, undergoing economic restructuring at home, told Hong Kong that it was to be a self-sufficient colony. With no help from Britain, refugees flooding in, and with its traditional economic role diminished, Hong Kong had to find other ways to survive.

⁶² Courtauld and Holdsworth, *The Hong Kong Story*, 89.

Table 5.2
Hong Kong Population, 1936-1966

Year	Population	Increase/ Decrease	Annual Growth Rate	<u>Remarks</u>
1936	988,190	147,717	3.5%	
1941	1,639,337	651,147	13.2%	Unofficial Census by Air Raid Wardens
1945	650,000	-989,337	-12.1%	Japanese Occupation 1941-1945
1946 ^a	1,550,000	900,000	138.5%	
1951 ^a	2,015,300	465,300	6.0%	
1956 ^a	2,614,600	599,300	5.0%	
1961 ^a	3,129,648	515,048	3.9%	Census
1966 ^a	3,708,920	579,272	3.7%	Bi-Census

^a Mid-year population

Source: Lo, C.P. *Hong Kong* (London: Belhaven Press, 1992), 23.

Luckily for Hong Kong, many of their new immigrants were wealthy businessmen and tradesmen who brought their money, expertise, and entrepreneurship with them. With these pioneering individuals, combined with a diligent work force, Hong Kong was able to quickly transform itself into an export-led manufacturing center that focused on trade with the West. The first locally owned industry to take flight was textiles, transforming raw cotton from South Asia, the United States, and East Africa into yarn. The textile industry was of paramount importance at the time, accounting for 31 percent of the labor force in 1950.⁶³ Bringing their manufacturing expertise and social networks (to secure investment finances and markets outside Hong Kong) with them, the immigrants from Shanghai paved the way in this industry. The Shanghainese, who represented five percent of the population at the time, controlled 80 percent of the cotton spinning industry.⁶⁴

As labor skills improved, yarn making transformed into clothes manufacturing. Clothes were made with such efficiency, and in such massive quantities that other nations had to impose strict quotas on the amount of apparel taken in. This appeared to present a massive problem to the industry, but the adaptiveness of Hong Kong was to shine through again. After facing these import quotas in the late 1950s, Hong Kong's clothing industry focused on producing higher quality labels and shifting production to higher value items such as suits and jeans.

The flexibility of the manufacturing industry also was apparent in other arenas after World War II. Hong Kong adapted to short term crazes in the West with

⁶³ Meyer, *Global Metropolis*, 153.

⁶⁴ Courtauld and Holdsworth, *Hong Kong Story*, 65-67; Also see Meyer, "Industrial Metropolis," in *Global Metropolis*, 143-178; for an explanation of social networking and why the Shanghainese chose to flee to Hong Kong rather than more stable locations such as Singapore.

remarkable speed and efficiency. Li Ka-Shing, perhaps the most wealthy and influential person in Hong Kong today, is a good example of the entrepreneurial spirit of Hong Kong at the time. After his father's untimely death, he opened his own plastics company at the age of 22, and his foresight in predicting a market for artificial flowers earned him the nickname of "The King of Plastic Flowers."⁶⁵ Artificial flowers is but one of the many items that were made by light manufactories for the West. Other items that enjoyed success at the time were wigs, shoes, toys, watches, clocks, and firecrackers.

Since labor was so inexpensive as a result of the high unemployment rate and the large workforce, companies in Hong Kong did not have to rely on developing machinery or upgrading technology, since massive quantities of cheap human labor were more economical. Small "sweat shops" that employed less than 20 were the norm at the time. These small sweat shops not only managed to absorb the excess labor, but the flexibility they exhibited in quickly adapting to the latest consumption crazes in the West, catapulted Hong Kong's economy to NIE status. In the words of C.P. Lo, "This type of sweat shop could only operate under the Hong Kong government's non-interventionist policy."⁶⁶

Before the wave of entrepreneurial immigrants, Hong Kong was little more than a trading enterprise with some efficient financial institutions. Its GDP was not even considered worth calculating until 1961, when it was \$0.897 billion U.S. dollars.⁶⁷ From there on, Hong Kong's GDP, primarily fueled by its strong manufacturing sector (which accounted for 30.9 percent of GDP in 1970), grew at an astounding rate (Table 5.3). The

⁶⁵ Courtauld and Holdsworth, *Hong Kong Story*, 63.

⁶⁶ Lo, *Hong Kong*, 55.

⁶⁷ Courtauld and Holdsworth, *Hong Kong Story*, 118.

Table 5.3
Composite GDP Growths for Selected Timeframes

Timeframe	Current Market Prices (%)	Constant Market Prices (%)
1961-1965	14.8	12.1
1965-1970	12.2	7.8
1970-1975	14.5	5.8

Source: Joyce Savage, ed., *Hong Kong 1977* (Hong Kong: Information Services Department, 1977), 11.

1970s were to be the high point of manufacturing in Hong Kong, since a new wave of development was about to take place that favored the financial and trading enterprises.

China's Doors Come Open

Ever since Deng Xiaoping opened up China to the outside world in 1979, Hong Kong has undergone a rapid shift away from a manufacturing based economy to a tertiary one. Hong Kong had already possessed one of Asia's leading economies, but the importance of the China market catapulted Hong Kong to the forefront of important global cities of the world. Countries and corporations have all been scrambling to gain a share of the domestic market of China, which boasts a consumer base of 1.3 billion citizens. Hong Kong resumed its old role as the intermediary of exchange between China and the outside world. Goods and capital coming into and out of China flowed through Hong Kong banks and trading companies once again. Since 1979, Hong Kong has experienced rapid growth in trade, finance, FDI, and in MNC regional and world headquarter locations.

As China became increasingly connected with the world economy, Hong Kong continued to grow because of its entrepot location. Hong Kong's administration has facilitated their rapid economic growth by providing efficient transportation services, good communications networks, and by providing a solid infrastructure for the harbor and airport resources. Hong Kong now boasts the world's largest container port (Plate 5.1) and the largest international air cargo center.⁶⁸ With facilities such as these, and

⁶⁸ Meyer, *Global Metropolis*, 226.



Plate 5.1
Ships Anchored in Hong Kong Harbor, with the financial district in the foreground.

with its ideal locale, it is easy to see why Hong Kong has had great success in attracting multinational corporations to locate in Hong Kong. A good example of the attractiveness of Hong Kong is laid out by Meyer, “As of the early 1990s multinationals with global headquarters outside Asia made Hong Kong their preferred choice for an Asian regional headquarters; it accounted for 51 percent of them.”⁶⁹

Lo lists four reasons why companies choose to locate in Hong Kong: Hong Kong’s efficient and well-educated work force, stability of government (British at the time of publication), free trade and low taxation policies, and geographic location.⁷⁰ Another contributing factor that Lo pointed out in a personal discussion was Hong Kong’s civic freedoms. In the words of Michael Klosson, the United States Consul General to the Asia Society, “Hong Kong built its success on being a free society with free markets, adherence to the rule of law, freedom of speech and of the press, and a clean, efficient civil service.”⁷¹

In addition to attracting MNCs, Hong Kong has also been able to lure a considerable sum of FDI. Foreign companies and countries, along with the overseas Chinese, have all been investing heavily in Hong Kong, hoping take advantage of China’s expanding economy. Massive FDI flowing into, out of, and through Hong Kong has made this location a particularly successful global banking center (Plate 5.2). According to David Meyer, “Virtually all the top fifty and almost three-fourths of the top hundred world banks operate from Hong Kong.”⁷²

⁶⁹ Ibid., 208.

⁷⁰ Lo, *Hong Kong*, 58.

⁷¹ Michael Klosson, presenter. “A Tale of Two Cities: The Image and Reality of Hong Kong Today,” via Internet. Available: www.usconsulate.org.hk/cg/2001/021501.htm

⁷² Meyer, *Global Metropolis*, 199-200.



Plate 5.2
Hong Kong's Financial District as seen from the Star Ferry

Lo lists five reasons why Hong Kong is particularly attractive to investors:

freedom to move capital assets, freedom to repatriate earnings, low taxes, efficient labor availability, and stability of government.⁷³ These attractive features have allowed Hong Kong to take advantage of the growing wealth of Asia by both attracting FDI and by sending out FDI into China and other rapidly developing Asian economies. Some authors such as David Meyer have speculated that Hong Kong will take over Tokyo in financial importance, since Japan is hindered by tariffs and a lack of English, the international business language.⁷⁴

While Hong Kong's role as a banking, information, and service center has continued to expand, its industry has been declining. Hong Kong's light industries that are dependent on cheap labor have had to contend with rising wage levels. Since these industries have been reliant on waves of immigrants and foreign workers to supply their cheap labor in the past, they never placed an emphasis on upgrading their technologies or factories. Therefore, rather than spending the money to modernize their production facilities, these industries are relocating to Southern China, where cheap labor and land are easily accessible. As a result of the employment shift towards differing sectors and the relocation of industrial plants, Hong Kong's manufacturing share of employment fell from 47 percent in 1980 to 10.6 percent in 1999.

What is important to note is that while these industries relocate to Mainland China, they are still leaving their headquarters in Hong Kong. Thanks to its well-established communications infrastructure, in addition to its close ties to established commercial networks and market intelligence, Hong Kong is "an irreplaceable location

⁷³ Lo, *Hong Kong*, 195.

⁷⁴ Meyer, *Global Metropolis*, 229.

for arranging trade financing and documentation.”⁷⁵ In essence, Hong Kong is serving as the brains of the company (decisions, finances, and networking), while Mainland China serves as the body of industrial corporations (cheap labor and lower taxes).

The 1998 Asian Financial Crisis

The spectacular rate of growth that Hong Kong exhibited since the middle 1950s was brought to an abrupt halt in 1998. Surprisingly, it was not a result of the reason many suspected. Many critics believed that Hong Kong's economy would suffer tremendously as the 1997 handover date to Chinese rule neared. However, despite a large emigration of citizens before the transition, Hong Kong still posted a GDP Growth of 4.5 percent in 1996 and 5 percent in 1997 (Table 5.4). Unemployment even reduced from 2.8 percent to 2.2 percent from 1996 to 1997 (Table 5.4). Finally, the transition to Chinese rule also seemed to have a negligible effect on trade, since total exports increased 1.3 percent and total imports grew by 2.9 percent from 1996-1997 (Table 5.4).

After successfully managing the transition of power, the next big obstacle that Hong Kong encountered was the Asian Financial Crisis. The breakdown of Asian currencies and economies had a devastating effect on Hong Kong and its predominately tertiary economy. Hong Kong's overvalued real estate market, numerous attacks from currency speculators, rising interest rates, and plunging stock prices, all contributed to Hong Kong's sharp economic decline in 1998. After posting a gain of 5 percent in 1997, real GDP growth plummeted to negative 5.3 percent in 1998 (Table 5.4). The Unemployment rate more than doubled from a low 2.2 percent in 1997 to 4.7 percent in

⁷⁵ Chiu, Ho, and Lui, *City-States in the Global Economy*, 76.

Table 5.4
Hong Kong Before and During the Asian Financial Crisis

Year	% Change in Real GDP	Unemployment Rate (%)	% Real Change in Exports	% Real Change in Imports
1996	4.5	2.8	4.8	4.3
1997	5	2.2	6.1	7.2
1998	-5.3	4.7	-4.3	-7.1

Source: "The Economy of Hong Kong," (Hong Kong Government, 2001), via Internet. Available: www.info.gov.hk/hkecon

1998 (Table 5.4). The crisis also had a marked impact on trade in Hong Kong, where total exports were reduced by 4.3 percent and total imports fell 7.1 percent (Table 5.4).

Recovering from the Crisis

Although the Asian Financial Crisis hit Hong Kong hard, its resilience and adaptiveness has allowed for a quick recovery in most areas. Hong Kong used its sizable foreign exchange reserves to prop up its financial markets. Additionally, the People's Republic of China (PRC) even stepped in to financially support and give confidence to Hong Kong's currency peg to the United States dollar. After posting a modest 3.1 percent GDP growth in 1999, Hong Kong's GDP growth came back strong with a remarkable 10.5 percent growth in 2000 (Table 5.5). However, the unemployment rate is still nowhere near the pre-crisis 2.2 percent rate in 1997, increasing to 6.3 percent in 1999, before falling back down to 5 percent in 2000 (Table 5.5). Trade is perhaps the most promising statistic for Hong Kong, where a 17.1 percent resurgent growth in total exports occurred in 2000, along with an 18.1 percent growth in imports (Table 5.5).

Hong Kong Under China and Thoughts on the Future

The near future of Hong Kong looks as promising as ever, but tinges of doubt creep in when you ask a Hong Kong citizen his thoughts on the viability of Hong Kong 50 years down the road. For the moment, China has been adhering to its commitment to maintain the economic viability of Hong Kong by leaving the Special Administrative Region to govern itself. Freedom of speech and of the press is still prevalent in Hong Kong despite a recent uproar over a Communist official warning the Hong Kong media to

Table 5.5
Hong Kong After the Asian Financial Crisis

Year	% Change in Real GDP	Unemployment Rate (%)	% Real Change in Exports	% Real Change in Imports
1999	3.1	6.3	3.7	0.2
2000	10.5	5	17.1	18.1

Source: “The Economy of Hong Kong,”(Hong Kong Government, 2001), via Internet.
Available: www.info.gov.hk/hkecon

view the Communist Government in a more positive light and to refrain from discussing the Taiwan issue. However, fears of civil liberty infringements by the PRC are often overplayed since the Chinese Government would gain little from undermining Hong Kong's special status. As Klossen points out, "...a vibrant Hong Kong help's China's prosperity and pride by being a world-class, international city that provides talent, capital, and experience to the mainland." ⁷⁶

Confidence in the stability of Hong Kong remains high. As Doug Beureuter stated in the *Eighth Report on the Hong Kong Transition*,

Perhaps the most telling indication of the success of the transition has been its lack of impact in the way of life of the vast majority of Hong Kong citizens. Emigration dropped to its lowest level in 20 years in 1999, with only 12,900 people emigrating, down 33 percent from the previous year. According to Channel News Asia, some 200,000 people who had emigrated before the handover have returned to live in Hong Kong. These people have voted with their feet: a vote of confidence in the territory's future.

Tourists have also expressed their vote of confidence, with an increase in tourist traffic of 13 percent in 2000. ⁷⁷

China's continued adherence to its agreements regarding Hong Kong's Special Administrative Region (SAR) status will allow Hong Kong to take advantage of the economic growth of Asia by continuing its services as a neoclassical banking haven situated at the gateway to China. Meyer believes that Hong Kong will someday grow in financial importance to become the third New York or London. Meyer also affirms his belief that communications improvements such as the Internet will not reduce the importance of Hong Kong as a social intermediary. He argues that Hong Kong will still

⁷⁶ Klossen, "A Tale of Two Cities," 3.

⁷⁷ Beureuter, *Eighth Annual Report*, 2000.

be able to serve as an information hotbed, and as a place where social interactions are a necessity (Plate 5.3).⁷⁸

While authors such as Meyer are vehemently optimistic on Hong Kong, one must still wonder whether Hong Kong will face increased competition from Singapore and Shanghai, and perhaps be eclipsed by them in the future. Without their special status as a British enclave, Hong Kong will become one Chinese city among many once their SAR status expires.⁷⁹ This could pave the way for Singapore, which is widely regarded as a stable and corruption free business environment. Many also fear that Shanghai will take away from Hong Kong's banking role, as investors simply bypass the middlemen in Hong Kong and go straight to Shanghai or Beijing. Of course, many of the early entrepreneurial immigrants were from Shanghai, and there is the possibility that many will return there with their social networks, capital, and expertise.

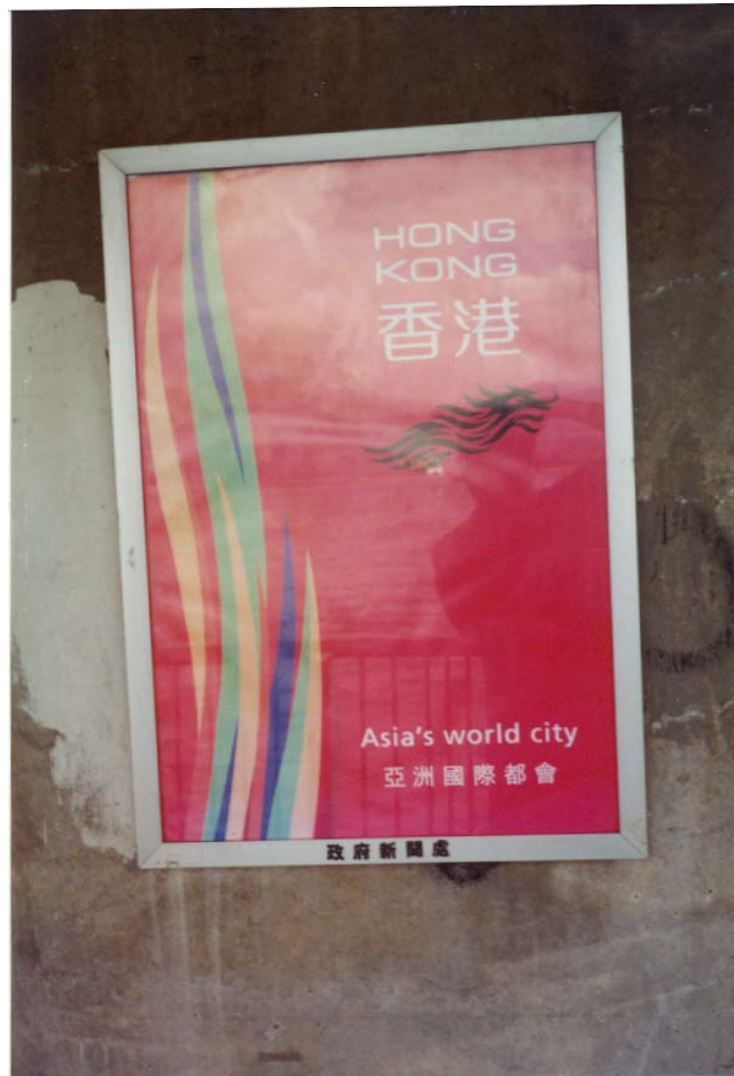
With China's recent entry into the WTO, and the opening up of their economy, Hong Kong is also likely to see a decline in its entrepot port role. Just one decade ago, most of China was still closed off to the West, or the port locations that were open were hindered by inefficient regulations and tariffs. At that time, the only place where efficient trade with the Mainland could be operated was through Hong Kong. Now, numerous coastal free economic zones have emerged in accordance with the latest Chinese national development strategy. Cities such as Shanghai and Dalian represent future gateways to the north and central Mainland, which would translate into a reduced trade volume going through Hong Kong.

⁷⁸ Meyer, *Global Metropolis*, 235.

⁷⁹ As C.P. Lo pointed out to me, if China continues to develop and open up at its current pace, a special SAR status would not make much of a difference 50 years from now. The question then, would be whether Hong Kong would inherit the corruption of the Mainland.

Plate 5.3

Hong Kong's new logo unveiled in 2001 that emphasizes its role as an international city



Having a multilingual workforce and populace is currently an increasing concern in Hong Kong. Being a British colony, you would be led to believe that the majority of Hong Kong citizens would be able to speak English. However, as of 1997 only 38.1 percent were fluent. After spending time in Singapore, where the large majority speaks English without a trace of inability, and then traveling to Hong Kong, the difference is striking indeed. Even the percentage of Hong Kong citizens that can speak effective Mandarin is appalling (25.3 percent in 1997).⁸⁰ Many of the Cantonese view Mandarin as a second class language of the less polished citizens of the Mainland. The linguistic stubbornness of Hong Kong could hurt economic ties with the West and the PRC in the long run, especially with other more multilingual cities waiting on the doorstep.⁸¹

Hong Kong has undergone a long transformation from a barren island to one of the leading global metropolises of the world. Its prime geographic location, its human resources, its infrastructure, its political stability, and its liberal trade policies have been important ingredients to the success of Hong Kong. But one must not overlook the fact that Hong Kong's foresight and adaptability to changing political and economic environments has been what has allowed for the economic miracle that is Hong Kong.

⁸⁰ Howlett ed., *Hong Kong 1997*, opening fact sheet.

⁸¹ Francis Heng, Interview by author. Hong Kong, June 2001.

Singapore and the Twin Pillars Approach

I wrote this book [From Third World to First] for a younger generation of Singaporeans who took stability, growth, and prosperity for granted. I wanted them to know how difficult it was for a small country of 640s sq. km with no natural resources to survive in the midst of larger, newly independent nations all pursuing nationalistic policies.

--Lee Kuan Yew ⁸²

An Independent Singapore: Laying the framework for a Global City: 1965-1979

With the final withdrawal of British military bases in 1970, Singapore lost the local base spending that had accounted for 20 percent of Singapore's GDP. ⁸³ With the loss of the service jobs that helped to support the bases, Singapore's unemployment rate rose to around 10 percent in 1971. ⁸⁴ Additionally, economic relations with their immediate neighbors of Indonesia and Malaysia were sour, leaving Singapore with a limited hinterland. The U.K. had offered aid to Singapore after it had pulled out, but Lee Kuan Yew was determined not to have his nation become a beggar state. Therefore, Lee Kuan Yew, along with the People's Action Party (PAP) made it a matter of national security to closely manage the industrial transformation of Singapore.

On an island that is only 647 square kilometers ⁸⁵, with limited natural resources, a diverse population, and faced with all of the problems associated with the British withdrawal, the Singaporean Government set out to establish its economic viability. Singapore was forced to trade with the more industrialized nations of the West, due to the underdevelopment of their neighbors and their tense relations with them. In order to

⁸² Lee, preface to *Third World to First*, xiii.

⁸³ Lee, *Third World to First*, 52.

⁸⁴ "Economic Development-From 1960-1964," (Ministry of Trade and Industry), via Internet. Available: www.mti.gov.sg/public/econdev/body3.cfm

⁸⁵ The size of Singapore is ever changing, since reclaimed land is continually being added.

produce export goods that would fetch high profits in the west, Singapore had to rapidly industrialize to survive.

Lacking the entrepreneurial expertise and the massive inflows of capital that Hong Kong benefited from after the Chinese Civil War, Singapore's Government took steps to remedy this problem. They started by strongly supporting specialized agencies such as the Economic Development Board in its quest to recruit the expertise and foreign investment that would reformat their economy. To make a more favorable investment and commercial climate, the Singapore Government began by pursuing liberalized trading and banking laws that kept tariffs to a bare minimum, keeping low corporate taxes, and offering choice real estate to technologically advanced foreign companies for peanuts.

After independence, the PAP took special effort to modify the power of existing labor unions. The trade unions that adhered to British labor philosophies were dismantled in favor of powerless organizations that would produce a favorable labor climate for MNCs. Treated as matter of national security, labor relations were strictly controlled by the PAP. Leaders that led strikes were jailed, and labor organizations were broken up into smaller groups with an iron hand.⁸⁶ Again treated as a matter of national security, Singapore nationalized key companies such as Singapore Airlines, Sembawang Shipyard, and the Development Bank of Singapore.⁸⁷

Following the path of their colonial rulers, Singapore also invested heavily in the island's infrastructure. Singapore expanded its harbor facilities, which is currently the

⁸⁶ Lee, "Winning Over the Unions," in *Third World to First*, 83-93.

⁸⁷ "1965-1979: Export-Oriented Industrialization," (Ministry of Trade and Industry), via Internet. Available: www.mti.gov.sg/public/econodev/body3.cfm

world's busiest (Plate 5.4), the world's second largest container port (Plate 5.5), and the world's third largest oil refinement center. At any one time, Singapore boasts 700 ships in port, "representing 600 shipping lines with links to more than 800 international ports."⁸⁸ In addition to upgrading its port, Singapore built Changi International Airport (which currently ranks as the 7th busiest hub in the world⁸⁹) out of a former British air base, laid the groundwork for an efficient communications network, and set aside large industrial parks.

The business friendly policies and Singapore's solid infrastructure allowed governmental organizations such as the Economic Development Board to successfully seek out foreign companies to invest in the island. Singapore was so successful in its FDI attracting policies that they accounted for 48.6 percent of all FDI in Asia in 1975.⁹⁰ The growth of FDI and MNCs in Singapore increased the manufacturing share of GDP from 11.4 percent in 1961 to 20.4 percent in 1970. More importantly, the manufacturing sector was able to absorb the excess labor from immigrants and those displaced from the removal of Britain military installations, reducing the unemployment rate to 3.3 percent by 1979.

The radical transformation from 1965-1979 was a result of a government that successfully pursued a grand macroeconomic scheme. Singapore's closely run economic policies required mandatory personal savings of 20 percent of income.⁹¹ The mandatory

⁸⁸ The British Club, "Singapore Economy and Currency," (1997), via Internet. Available: www.expatsingapore.com/general/economy.htm.

⁸⁹ Meyer, *Global Metropolis*, 211.

⁹⁰ Chiu, Ho, and Lui, *City-States in the Global Economy*, 80.

⁹¹ In a e-mail from Francis Lee on April 7th, he explained that employees contribute percent of their income to the CPF and employers contribute an additional percent of their income to the CPF. The employer rate used to be 20 percent, but was dropped to 10 percent during the 1998 Asian Financial Crisis. The employer share has since raised 4 percent to its current 14 percent.



Plate 5.4

Ships anchored near the petrochemical industries of Jurong Island, Singapore.

Photo taken by Claire Watson from Sentosa Island



Plate 5.5

Singapore Harbor's Immense Container Facilities. The financial district can be seen in the distance.

Photo taken by Claire Watson on top of the Merlion on Sentosa Island

savings are placed into a Central Provident Fund, which Singapore uses to provide incentives to companies, to invest heavily in public services such as education and healthcare, and to provide a pension scheme. Close management and sound macroeconomic policies of the Singaporean Government facilitated an astounding average annual growth rate of 10 percent between 1965 and 1979.⁹²

Industrial Transformation: 1979-1985

Up until this point, Singapore had been pursuing a manufacturing path that was very similar to Hong Kong's. However, recognizing the transient nature of its textile and garment industries, Singapore recognized the need to restructure its manufacturing sector in the late 1970s. Singapore foresaw that these industries would relocate to lower cost labor areas in neighboring countries as real wages continued to rise. Thus, Singapore focused on eliminating the low technology companies within their domain by giving tax and property incentives to corporations with higher value added goods.

Simply attracting these technological companies was not enough. Singapore also needed to ensure that these companies would continue to upgrade their facilities in order to avoid reverting to labor-intensive organizations. Therefore, the Singaporean Government "encouraged automation, mechanization, and computerization."⁹³ It provided large incentives for these cutting edge companies to upgrade their technology, facilities, and their research and development.

⁹² Ibid.

⁹³ "1979-1985: Industrial Restructuring," (Ministry of Trade and Industry), via Internet. Available: www.mti.gov.sg/public/econodev/body4.cfm

Thanks to superb industrial management, Singapore was able to avoid the fate that befell Hong Kong, which was trapped into low wage, labor-intensive industries that fluctuated with global demand. By focusing on more lucrative industries such as electronics and chemicals, Singapore's manufacturing sector was able to upgrade itself to higher paying jobs. Therefore, skilled labor positions have grown with a "renewed emphasis on manpower development through education and training."⁹⁴ The continued emphasis on high wage jobs has been the reason that Singapore currently possesses the 5th highest GNP per capita income in the world at \$27,800.⁹⁵

The Trade Boom: 1986-1999

Facing a mature economy with a slower GDP growth during this time, the Singaporean Government focused on its role as the commercial hub in the region. Despite having a population of only 3.5 million, Singapore was the 13th largest trading nation in 1997, accounting for 2.3 percent of global trade, up from 1.1 percent in 1986. Total trade in Singapore was 105.7 billion Singapore dollars in 1983, and this increased dramatically to 382 billion Singapore dollars in 1997. In 1997, Singapore's external trade was three times its GDP and "four-fifths the size of China's total foreign trade."⁹⁶

One of Singapore's development strategies is to "promote manufacturing and services as twin pillars in the economy."⁹⁷ Therefore, while trade was increasing dramatically, Singapore took steps to maintain the strength of its manufacturing base. As

⁹⁴ Ibid.

⁹⁵ "Singapore," *The CIA World Factbook 2000*, via Internet. Available: www.odci.gov/cia/publications/factbook/geos/sn.html

⁹⁶ "A Hub for International Trade," (Trade Development Board, 1997), via Internet. Available: www.tdb.gov.sg/

⁹⁷ "1986-1998: Capability Building and Economic Diversification," (Ministry of Trade and Industry), via Internet. Available: www.mti.gov.sg/public/econodev/body5.cfm

Singapore's economic planners had predicted, Hong Kong's manufacturing share of employment had reduced from 46 percent in 1980 to 21.4 percent in 1991, since its industries that were dependent on cheap labor relocated to Mainland China.⁹⁸ On the other hand, Singapore was able to maintain a solid manufacturing base, with its manufacturing employment share only marginally changing from 30.4 percent in 1980 to 28.2 percent in 1991.⁹⁹ Singapore's strong manufacturing sector exported an amount of finished goods that was equivalent to the value of manufacturing exports for all of China in 1990.¹⁰⁰

The Asian Financial Crisis and Recovery: 1997-2000

From the period between 1986-1998, Singapore experienced rapid growth in its trade flows, a steady increase in the value of manufactured products, and a modest increase in the financial services sector. Unfortunately, this steady growth came to an abrupt halt as a result of the Asian Financial Crisis. After averaging a growth rate of 8.5 percent between 1986-1997,¹⁰¹ GDP growth was reduced to 0.1 percent for the 1998 year, although this represented one of few positive growth rates in the region for the given year (Table 5.6) Total trade was also hit hard in 1998, decreasing 7.5 percent after posting a 5.7 percent increase in 1997 (Table 5.6).

Thanks to more rigid governmental controls, the Singaporean economy was able to weather the financial storm better than Hong Kong. This is all the more impressive when you consider that Singapore is situated in SE Asia, where the worst effects of the

⁹⁸ Chiu, Ho, and Lui, *City-States in the Global Economy*, 113.

⁹⁹ Ibid., 82.

¹⁰⁰ Chiu, Ho, and Lui, *City-States in the Global Economy*, 4.

¹⁰¹ "1986-1998: Capability Building and Economic Diversification,"

Table 5.6
Singapore Before and After the Asian Financial Crisis

Year	% Change in Real GDP	% Real Change in Total Trade
1997	8.5	5.7
1998	0.1	-7.5
1999	5.9	8.1
2000	9.9	23.4

Source: "Main Indicators of the Singapore Economy," (Singapore: Economic Development Board, 2001), via Internet. Available: www.sedb.com

Asian Financial Crisis were felt in Thailand, Malaysia, and Indonesia. The first reason that Singapore fared better was that Singapore is not as dependent on its financial sector as Hong Kong is, thanks to its twin pillar approach. Secondly, Singapore was willing to let its currency float while Hong Kong pumped heaps of money into maintaining its currency peg to the United States dollar. Thirdly, Singapore has a closely managed exchange rate system and more strict controls on capital lending. Finally, Singapore's more authoritarian style of governance was able to take steps such as decreasing wages to help the passing of the storm.¹⁰²

Thanks to their strong financial fundamentals such as low debt, huge foreign exchange reserves, high savings rate, large inflows of FDI, low inflation rates, and effective monetary policies, Singapore was able to quickly attract foreign capital and rebuild after the Asian Financial Crisis (Plate 5.6).¹⁰³ Their economic recovery was sluggish in 1999, but returned to full swing in 2000. GDP growth expanded 5.9 percent in 1999 and GDP further grew 9.9 percent in 2000 (Table 5.6). Total trade showed an increase of 8.1 percent in 1999, before exploding by 22.9 percent in 2000 (Table 5.6).

Future Outlook: 2001 and Beyond

Faced with rising labor costs and skyrocketing land values, Singapore's concern is whether they can continue to attract and retain the high levels of FDI and MNCs that have fueled its economic success in the new era of globalization. In response to the labor costs and high land prices, Singapore is working on furthering a regional growth triangle

¹⁰² Jin Ngiam Kee, *Coping With the Asian Financial Crisis: The Singapore Experience* (Singapore: Institute of Southeast Asian Studies, 2000), 8.

¹⁰³ Ibid., 17.



Plate 5.6

Raffles Plaza, in the background is part of the financial district that was hard hit during the Asian Financial Crisis

between itself, the Riau Islands (Indonesia), and Johor (Malaysia), in addition to its continuing policy of industrial upgrading. Singaporean economists hope to use these neighboring territories as repositories for low-wage industries. Thus, low cost labor would be exported abroad, keeping GDP per capita high in Singapore. While at the same time, the headquarters of these corporations that relocate within the growth triangle would still reside in Singapore where they would be within easy access to information and financial services.

Singapore's future ability to attract and retain FDI and MNCs will be helped by the positive example set by its technologically advanced sector. However, the future of Singapore also rests heavily on the success of the other Southeast Asian countries, particularly the Four Tiger Cubs:

- 1) Thailand, which is hamstrung by high corruption levels and inefficiency.
- 2) Vietnam, which is growing rapidly but is still far behind.
- 3) Malaysia, whose expanding electronics and computer component industries provide another future bright spot in Southeast Asia.
- 4) Indonesia, which is often ridden with political strife.

Singapore serves as the gateway to the entire SE Asian region, with many TNC corporations setting up regional or world headquarters on the island. The real or perceived opportunities within SE Asia is what will largely determine the levels of further investment. With the setback of the Thai economy and the political instability in Indonesia, the rapid growth of a nearby hinterland that could purchase the high value goods produced in Singapore is unlikely in the near future.

The ministry of trade and industry believes that, “the basis for wealth creation in the post-crisis era will shift from traditional factors of production (land, labor, and capital) to the ability to access, harness, and apply knowledge.”¹⁰⁴ With a highly educated workforce fluent in the business languages of English and Mandarin, Singapore appears ready to adapt to the new wave of economic restructuring that is around the corner. Singapore’s success has been a result of forward looking economic planners who have been able to turn a small, barren island into a leading global metropolis by following solid macroeconomic policies that were conducive to the changing global market.

Comparisons by Economic Function

Contributions to GDP by Industrial Activity

The preceding subsections on Hong Kong and Singapore have established that their economic ideologies differed. Singapore has closely managed their economy much like a CEO would maneuver a large corporation, while Hong Kong has taken a more laid back approach to their economic governance. To better portray what differences their ideologies produced, I will analyze and compare the contributions to GDP by industrial origin, the shifts between the primary, secondary, and tertiary sectors, and the percent employed by each industry for both Hong Kong and Singapore.

While originally optimistic that I would find significant differences, it is clear that in the majority of the industries, the percent of GDP was similar in both city-states (Tables 5.7 and 5.8). For example, the financial sector was one specific arena where I thought I would see a difference, but as you can see from Figure 5.1, the percent

¹⁰⁴ “Economic Development: 1998 onwards/transforming into KBE,” (Ministry of Trade and Industry), via Internet. Available: www.mti.gov.sg/public/econodev/body6.cfm

Table 5.7
Percent Contribution to GDP by Industrial Activity in Hong Kong for Various Years

Industrial Activity	1970 (%)	1975 (%)	1980 (%)	1985 (%)	1990 (%)	1995 (%)	1999 (%)
Agriculture and Mining	2.1	1.4	1.0	0.6	0.3	0.2	0.1
Manufacturing	30.9	27.0	23.9	22.1	17.6	8.3	5.8
Electricity, Gas, Water	2.0	1.8	1.3	2.6	2.3	2.3	3.0
Construction	4.2	5.7	6.7	5.0	5.4	5.4	5.8
Trade	19.6	20.7	20.4	22.8	25.2	26.6	24.8
Transport and Communications	7.6	7.2	7.5	8.1	9.5	10.1	9.6
Finance	14.9	17.0	22.9	16.0	20.2	24.4	23.4
Public Administration	18.0	18.7	12.3	16.7	14.5	17.3	21.6
Others	0.6	0.5	4.0	5.9	5.0	5.4	6.0

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

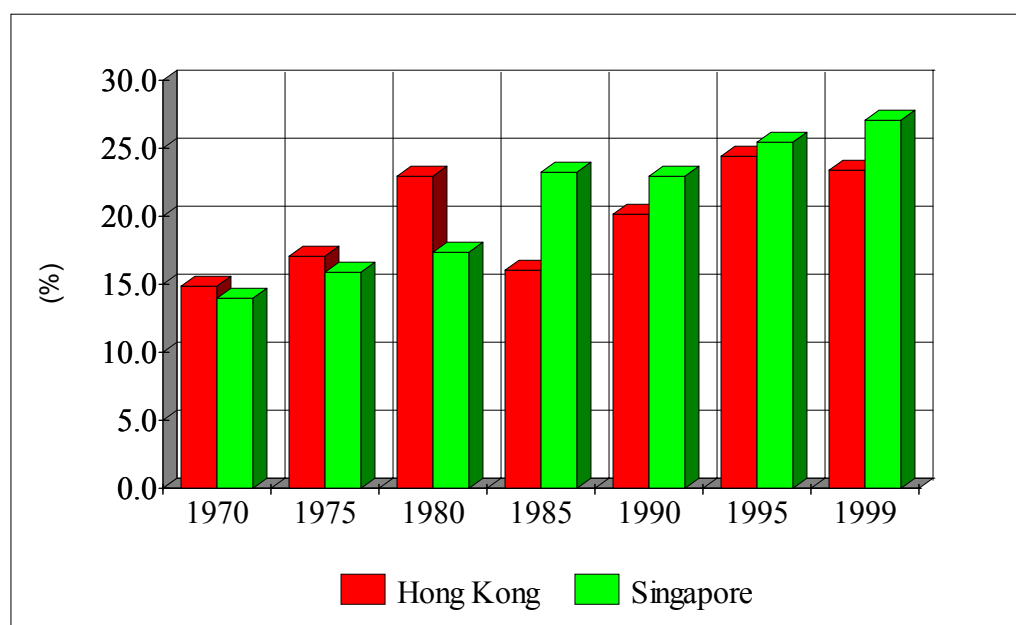
Table 5.8
Percent Contribution to GDP by Industrial Activity in Singapore for Various Years

Industrial Activity	1970 (%)	1975 (%)	1980 (%)	1985 (%)	1990 (%)	1995 (%)	1999 (%)
Agriculture and Mining	2.7	2.3	1.7	0.1	0.4	0.2	0.2
Manufacturing	20.4	24.1	28.6	23.3	27.1	24.8	25.9
Electricity, Gas, Water	2.6	1.9	2.3	2.0	1.9	1.6	2.0
Construction	6.8	8.1	6.4	10.7	5.4	7.1	8.0
Trade	28.2	27.0	23.7	13.4	15.0	16.8	15.0
Transport and Communications	10.8	11.3	14.2	13.4	13.2	12.1	11.4
Finance	14.0	15.9	17.3	23.3	23.0	25.4	27.0
Others ^a	14.4	9.4	5.8	19.8	19.2	17.3	17.4

^a Data for 1985 onwards had the amounts of GDP generated by other service industries, owner-occupied dwellings, and hotels and restaurants placed in the *Others* category. These industries had previously shown up with the trade industry, explaining what appears to be a sharp decrease in trade % from 1980-1985.

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Figure 5.1
Finance/Business Services Share of GDP, by Percent



Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

contribution to GDP has not been significantly different between Hong Kong (23.4 percent in 1995) and Singapore (24.4 percent in 1995). Like finance, agriculture/mining, utilities, construction (slightly higher in Singapore), and transport/communications (again, slightly higher in Singapore), also exhibited insignificant differences in their GDP input between the two city-states.

It is important to clear up one seemingly big shift in the Singapore economy between 1980 and 1985. The data shows that trade's contribution to GDP dipped from 23.7 percent in 1980 to 13.4 percent in 1985. Correspondingly, the *others* category shows a dramatic spike from 5.8 percent in 1980 to 19.8 percent in 1985. This apparently large shift occurred because data for 1985 onwards had the amounts of GDP generated by other service industries, owner-occupied dwellings, and hotels and restaurants placed in the others category. These industries had previously shown up with the trade industry, explaining what appears to be a sharp decrease in trade percent from 1980-1985.

In 1980, Singapore and Hong Kong had very similar contributions to their GDP from trade, and after calculating trade percent by the former method, I have found that Singapore would portray an input of 32.4 percent to GDP from trade for 1999. This is much higher than the displayed 15 percent by the newer method in Table 5.8. Interestingly, calculating trade by the older method for 1999 accounted for all of Singapore's others category (Table 5.9). Using like measures Singapore's trade accounted for 32.4% in 1999, which is higher than Hong Kong's 24.8 percent for the same year. Statistically speaking this is a large 7.6 percent difference for 1999, and if calculated by the method prior to 1985, the years of 1990 and 1995 would show like differences for trade. However, this category is not sufficient to prove that their paths

Table 5.9

Trade and Others economic activities as a percentage of GDP, based on the methods prior to 1985 for Singapore.

Industrial Activity	1997	1998	1999
Trade	32.5	32.0	32.4
Others	0.0	0.0	0.0

Note: *Others* calculated by subtracting amounts from owner-occupied dwellings, other service industries, and hotels and restaurants. In all three cases, these three subcategories accounted for all of the *Others* function. *Trade* calculated by adding amounts from the three afore mentioned subcategories in *Others* to the existing trade amounts.

Source: Singapore Department of Statistics, *Yearbook of Statistics 2000* (Singapore: Department of Statistics, Ministry of Trade and Industry, 2000).

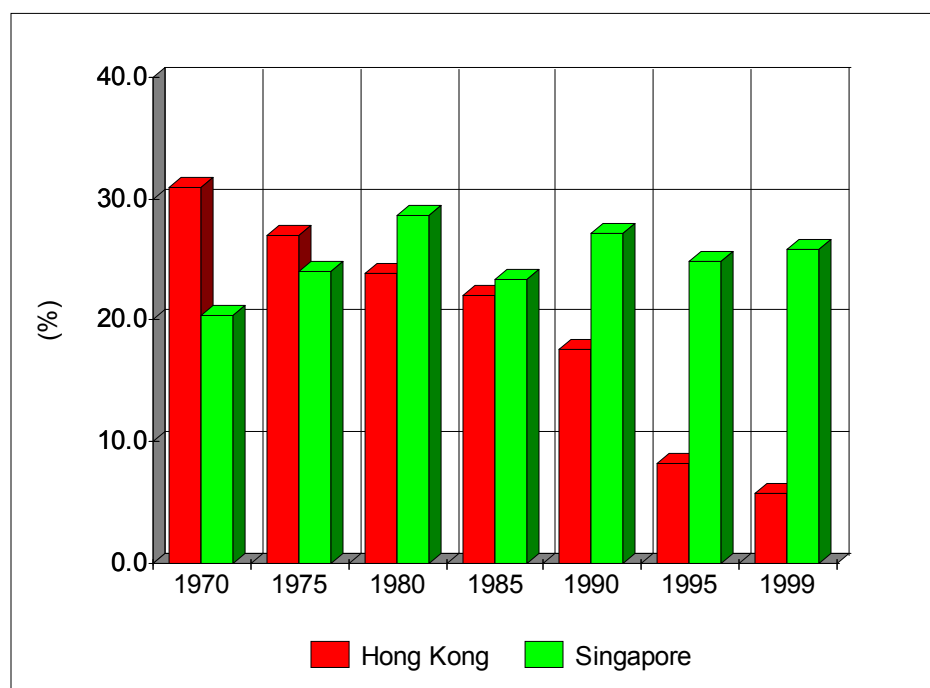
were different, since after all, they share the similarity that their trade percent of GDP is exceptionally high as far as national economies go, giving support to Katzenstein's arguments that small states must trade heavily to survive in the global economy.¹⁰⁵

Another glaring difference between Table 5.7 and Table 5.8 is the fact that Hong Kong has a category entitled public administration, which represents 21.6 percent of GDP in 1999, and in the referenced sources, the data for Singapore in this category was not available. This might lead one to speculate that this data was included in the others category. However, after calculating the percent of trade by the old method, I subtracted the new figures from the original ones for 1997, 1998, and 1999. After doing this for the three years, I found that the differences matched the others category exactly, thereby giving account for this entire category for each of these years (Table 5.9). This still does not resolve where the public administration category is included in the Singapore's GDP, and I surmise that government led corporations and other public services are included within the categories of their respective economic functions. Based on limited information, I will have to treat this category as an outlier, since I cannot make a comparison between Singapore and Hong Kong in this industry.

The most noticeable difference between Table 5.7 and Table 5.8 is in the manufacturing sectors. As evidenced by Figure 5.2, we see that Hong Kong's percent of GDP from Manufacturing was 30.9 percent in 1970, and this has drastically decreased to only 8.3 percent in 1995. Conversely, Singapore's percent of Manufacturing GDP has varied little over the past 30 years, with 20.4 percent in 1970 and 24.8 percent in 1995. Looking at Figure 5.3, we can see that the differences in the percent employed by

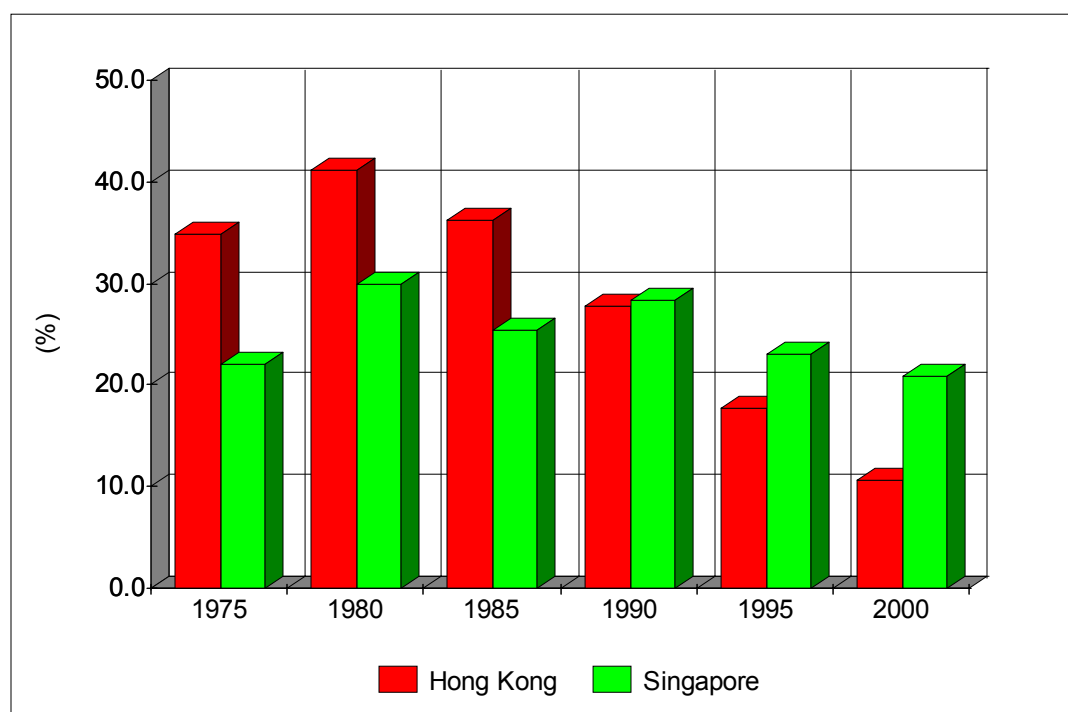
¹⁰⁵ Katzenstein, *Small States in the World Markets*, 1985.

Figure 5.2
Manufacturing Share of GDP, by Percent



Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Figure 5.3
Employment Share of Manufacturing, by Percent ^a



^a Percent employed refers to the percent of the total active labor force

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

manufacturing are even more apparent. Hong Kong had 41 percent of its active workforce employed in this sector in 1970, and this number has steadily decreased to 10.6 percent in 2000. Singapore on the other hand, had 14.2 percent employed by this industry in 1970. After peaking at 30.4 percent in 1975, the numbers employed have decreased to 20.8 percent in 2000. For Singapore these Figures 5.2 and 5.3 show the trend of industrial upgrading. While manufacturing's contribution to GDP has remained relatively stable, the percent employed by this function has declined as the corporations in Singapore have switched to higher value added goods.

A Comparison of the Manufacturing Industries of Singapore and Hong Kong

The manufacturing sector shows a marked difference in the development paths of these two city-states and it is worth taking a closer look at how Hong Kong and Singapore's economic ideologies affected this outcome. The flying geese model (See Ch. III) provides an explanation for the continual outsourcing of manufacturing industries to areas of lower wages and land prices. Both Singapore and Hong Kong have seen their labor-intensive industries exported to neighboring countries, supporting the premise of this model. However, as seen in Table 5.7, Singapore still gets a large percentage of its GDP (25.9 percent in 1999) from its manufacturing sector.

As the Flying Geese (FG) model suggests, when the PRC was opened up, Hong Kong's labor-intensive industries had to relocate to the mainland to remain cost-competitive. Also as the FG model suggests, Hong Kong has managed to effectively transition itself into a tertiary economy that retains many of the HQ's of the companies that have relocated their production facilities to the mainland.

Although Hong Kong follows many of the arguments made by the FG model, Singapore has more effectively adapted to the FG principles. Not benefiting from a hinterland as advantageous as Hong Kong's, Singapore has not been able to outsource its low technology companies as easily. Through its direct state intervention, Singapore has managed to ensure that its manufacturing sector has remained a large part of its GDP and employment force. By taking steps that could not be implemented in a free market states such as Hong Kong (Large GLC's and the dissolution of unfriendly labor practices) Singapore has continually upgraded its products to higher wage industries such as petrochemicals and pharmaceuticals (Plates 5.7 and 5.8).

Singapore has pursued a twin pillars approach to its economy, so that it is not totally dependent on its trade and finance industries. However, the question remains as to whether Singapore is simply delaying the inevitable transition to a predominately tertiary economy such as Hong Kong's. While Singapore's percent of GDP from manufacturing (Table 5.7) has remained relatively stable over the past 30 years (besides the 1985 recession in Singapore and the financial crisis of 1998), the percent employed by the manufacturing sector has shown a steady decline since 1981 (Figure 5.3). Singapore's own strategy of creating a growth triangle with its neighbors seems to suggest that this trend might continue in the future.

Conclusion on Economic Ideologies

From the statistical comparisons by economic sector, it is clear that Singapore and Hong Kong's economic ideologies have produced two very different manufacturing paths



Plate 5.7+ 5.8 A Key Sector of Singapore: the Petrochemical Industries of Jurong Island. Jurong Island, comprised of much reclaimed land, is the site of the massive petrochemical industries in Singapore. Fearing for the volatile nature of the products, Singapore wanted these companies to develop in an area detached from Singapore Island. Jurong even has its own fire brigade in case the need arises.



to development. However, the other economic sectors did not show as much distinct variation as I hoped, so I will have to turn to the INDVs in Chapter VI and VII to further display their differences quantitatively. The qualitative aspect of this chapter was more definitive on why their strategies differed. Again, their different manufacturing sectors provided the best contrast here. A few of the other differences include Singapore's mandatory savings rates, Singapore's strong reliance on GLCs, and Singapore's key sectors approach.

Entrepreneurism was a big difference in the early trajectories of Hong Kong and Singapore. Local entrepreneurs helped to drive Hong Kong's early industrialism; employing far more in their local sweat shops than MNCs did at the time. The atmosphere in Singapore was far different. The PAP based much of their political advertising on their efficient housing reforms that gave the majority of Singaporeans a spacious, utility equipped flat for their families. Singapore's early leaders managed their economy in the same paternalistic fashion. Rather than letting the citizens care for themselves, Singapore set out to recruit and retain MNCs that would provide employment for their citizens. Hence, although Singapore, like Hong Kong, did not invest heavily into a welfare state system, they were more supportive in guiding their economy by making the state the entrepreneur for capital and jobs, rather than the individual.

The Asian Financial Crisis was another event that exemplifies their ideological differences. Singapore's more prohibitive capital lending controls were the first line of defense, leaving them with fewer organizations that made questionable loans. Singapore cutting its wages in the midst of the storm was perhaps the most glaring difference. In Hong Kong's more liberalized system, this would be much more difficult to mimic. But

thanks to a higher level of direct intervention, and its relative autonomy from domestic opposition from citizens or corporations, Singapore cut salaries by 15 percent to help themselves overcome the crisis.

What we have now is one piece of the overall puzzle. This chapter has shown that their successful economies have been achieved by following two different ideologies. There are many more developmental differences that could be pointed to, but in showing the distinct differences in their ideologies towards the industrialization of their manufacturing sectors and how each city-state fared within a severe financial crisis, there is significant evidence to state that their economic policies and philosophies are not as similar as they would seem at first glance. While Hong Kong's Government will intervene when necessary, it has for the most part stayed clear of its economy, letting what will happen, happen. Led by entrepreneurs, Hong Kong's hands off approach fostered a light-manufacturing surge that took a trading colony to NIE status. Singapore on the other hand, not trusting fate to deal the cards, took a vested role in shaping the makeup of its economy by promoting some sectors over others, and relying on technologically advanced MNCs to provide the high wage employment for its citizens

CHAPTER VI

GEO-POLITICAL CONTEXTS

Introduction

The deep-water harbors of Hong Kong and Singapore along major ocean routes provided ideal locations for the British to establish trading and financial centers at each. But while their geographical locations have unquestionably been critical for economic growth, both countries are also the products of their foresight and adaptability. Hong Kong has had to be able to adjust rapidly to changing political environments in China and the world in order to survive. For example, when Hong Kong's role as an entrepot port was all but nullified after Communist China's involvement in the Korean War in 1950, Hong Kong was able to reorient its economy to survive. On the other hand, Singapore has had to adapt to the instability and the meager economies of the Southeast Asian region by relying on trade with other industrialized nations. Hong Kong and Singapore's foresight and adaptability have allowed them to continually adjust their economies to changing regional and global trends, ensuring their continued eminence as leading world cities.

The first component of the EADM, which states that a fortuitous global-political context has led to the success of East Asia, leads one to believe that Asia was a secure region to develop in. However, as we will see for Singapore and Hong Kong this was far from the case, since they have both had to adapt to periods of marked political tension from their neighbors. Being small port cities with negligible domestic markets, their attractiveness has hinged on their role as doorways to their respective hinterlands.

The authors of the EADM equate political stability with success. However, while Hong Kong and Singapore benefited from the stability of the United States hegemony and the periods under British Administration, they both faced hostile external environments. But despite the chaotic political climate around them, these city-states were able to economically dominate their respective regions by overcoming their security issues. While it is impossible to wholly separate international relations and economic growth, the following subsections on Hong Kong and Singapore will differ from Chapter V by focusing on providing a more detailed look at how their neighbors shaped their developments.

Hong Kong and the Swinging Door of China

Post World War II: Immigrants and Reconstruction

The Hong Kong that first emerged from Japanese occupation was one that was “depopulated, deforested, and depleted of food.”¹⁰⁶ With Hong Kong in such bad shape, and with pressure from the anti-colonial United States, Britain had considered giving Hong Kong to Chiang Kai-Shek. Fortunately for the British Empire, recently freed government officials from Stanley Prison quickly raised the Union Jack over Hong Kong, quieting any debate over returning Hong Kong to China.¹⁰⁷

Hong Kong was able to quickly recover after the war, and many of those that had fled before the war returned. However, while Hong Kong was rebuilding, the Chinese Civil War that was put on hold during World War II was resumed. With the fall of the Nationalist forces and their subsequent relocation to Taiwan, Hong Kong had much cause

¹⁰⁶ Courtauld and Holdsworth, *Hong Kong Story*, 58.

¹⁰⁷ Ibid.

for consternation. Without the intervention of the United States and their Pacific Fleet, the Communist forces would likely have continued the war by following and destroying the remaining opposition on Taiwan. As it was, many asylum seeking Nationalistic supporters were among the thousands who immigrated to Hong Kong daily during the Chinese Civil War. Hong Kong was worried that the Communist forces would simply cross over the border in the New Territories to claim the political refugees and to remove the stain from the Unequal Treaties, which were forced upon China in the 19th century.

Although China never attacked Hong Kong as a result of their internal (Civil War and Cultural Revolution) or international conflicts (Korean War), their actions have irreversibly altered the face of Hong Kong. Hoping to stem the tide of skilled workers and capital flight, China closed off its border with Hong Kong in November of 1949. The worries that China would attack Hong Kong at the conclusion of their Civil War were soon to be replaced by similar worries of a Communist attack during the Korean War. To protect themselves from perceived capitalist expansion in their neighborhood, China joined the Korean War alongside North Korea in the December of 1950. As a result, the U.N. placed a strategic arms embargo on China, while the United States went one step further by enforcing a complete embargo.

With access to the Chinese domestic market greatly diminished, and the other Asian nations still in poverty, Hong Kong had to reorient its exports to the West. As shown by Table 6.1, exports to China took a massive hit because of the changing political climate. The percent of total exports to China fell quickly from 33.9 percent in 1950 to

Table 6.1

Hong Kong's Percentage of Exports, ^a by Selected Destinations 1950-1965

Country	1950 (%)	1955 (%)	1960 (%)	1965 (%)
China	33.9	7.2	0.5	1.1
United States	8.3	3.5	26.0	27.6
United Kingdom	4.5	9.9	20.4	13.9

^a Domestic Exports combined with re-exports. These statistics were not differentiated in HK until 1959.

Sources: Hong Kong Census and Statistics Department *Hong Kong Statistics 1947-1967* (Hong Kong Census and Statistics Department, 1969); C.P Lo, *Hong Kong* (London: Belhaven Press, 1992), 60.

an almost negligible 1.1 percent in 1965. As Chapter V discusses, Hong Kong's was able to maintain its economic vitality thanks to the numerous manufacturing entrepreneurs who produced everything from plastic flowers to firecrackers. These innovative individuals, along with their "sweat shops" greatly increased the percent of total exports to Britain and the United States. By 1965, the United States accounted for 27.6 percent of Hong Kong's exports, while Britain comprised 13.9 percent (Table 6.1).

Without the closing of China doors and the mass infusions of experienced workers and capital brought in by the industrialists who fled the Mainland, it is highly unlikely that Hong Kong would have developed into the same economic dragon that it is today. The manufacturing sector, in addition to the growing financial center, provided Hong Kong with a firm base from which to rapidly expand. The financial and industrial infrastructure that was already in place set the stage for the enormous growth and resurgent entrepot trade that was yet to come.

1979 Onwards: The Renewed Entrepot Port Role

Seen largely as a geo-strategic move to isolate the Soviet Union, China and the United States began normal relations in 1979. The opening of China to the West completely changed the complexion of Hong Kong. With its entrepot port role now restored, Hong Kong was quick to make use of its ideal location on the footstep of China. Table 6.2 shows how the relative importance of China as an export destination climbed rapidly from 2.4 percent in 1980 to 36.2 percent in 2000. This of course was at the expense of the percent of exports towards the United States and European destinations such as Britain.

As shown by Table 6.2, China's percent of total exports has grown markedly in the past 20 years, but it is Table 6.3 that provides an idea of the magnitude of the growth

Table 6.2
 Hong Kong's Percentage of Exports, ^a by Selected Destinations 1980-2000

Country	1980 (%)	1990 (%)	2000 (%)
China	2.4	21.0	36.2
United States	33.2	29.4	21.4
United Kingdom	10.0	6.0	4.3

^a Domestic Exports combined with re-exports.

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Table 6.3
 Direction of Hong Kong Exports, by Major Destinations
 (In Millions of U.S. Dollars)

Country	1975	1980	1985	1990	1995	2000
China	34	1249	7857	20332	57861	69785
United States	1597	5157	9301	19817	37851	41209
Japan	389	909	1279	4680	10596	10275
United Kingdom	585	1527	1255	3287	7491	8236
Germany	603	1615	1226	5315	5584	7204

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

of Hong Kong's renewed entrepot role. The value of exports towards China increased from a paltry 34 million US\$ in 1975 to an astounding 69,875 million US\$ in 2000. The total import amounts in Table 6.4 tell a similar story, with imports from China climbing from 1,380 million US\$ in 1975 to 92,515 million US\$ in 2000.

The result of China opening up its doors benefited Hong Kong in many more ways than simply its trade with the Mainland. Anxious to gain access to the monstrous domestic market in China, other nations have established Hong Kong as their base of operations for East Asian trading and financial matters. The Overseas Chinese in particular, from locations such as Taiwan, Singapore, Western Canada and the Western United States, have poured FDI into China through the medium of Hong Kong.

But while the opening up of China has caused a surge in Hong Kong's tertiary sector, its manufacturing sector has rapidly declined over the past twenty years. With cheap land and labor across the border, the majority of Hong Kong's labor-intensive industries have relocated their production facilities to China. However, most of these same industries have decided to leave their headquarters and information gathering resources in Hong Kong, exemplifying Hong Kong's continued importance for financial, social, and informational networks.

In a personal interview with Mr. Joseph Tsang, Assistant Chief Economist of the Hong Kong Trade Development Council, he pointed out that, "While the amount of manufacturing base in Hong Kong may be small, the contribution to GDP is still large." The percent contribution to GDP by the manufacturing sector was only 5.8 percent in 1999, but this does not give an accurate portrayal of the overall contribution by manufacturing. For example, the percent contribution to GDP by the trade sector was 24.8 percent in 1999, much of which was accounted for by the manufacturing industry (Table 5.7). Mr. Tsang went on to point out that it is estimated that Hong Kong firms

Table 6.4
Imports to Hong Kong, From Selected Countries
(In Millions of U.S. Dollars)

Country	1975	1980	1985	1990	1995	2000
China	1380	4401	7568	30313	69738	92515
Japan	1415	5142	6848	13269	28602	25963
U.S.A.	802	2653	2815	6653	14882	14991
S. Korea	188	775	1065	3614	9472	10474
Singapore	388	1481	1448	3353	10089	10153

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

employed 5 million in China in 2000, while only 300,000 are employed in the manufacturing sector in Hong Kong.¹⁰⁸

As shown by Table 6.4, exports have grown rapidly since 1980 to all countries, not just China. For example, since 1980, exports to the United States have risen 8 folds, exports to Japan increased more than 11 folds, and exports to Britain have grown more than five folds. Total exports in Hong Kong skyrocketed between 1980-2000, rising from 4,401 million US\$ in 1980 to 192,948 million US\$ in 2000.

The rapid increase in Hong Kong's total trade value over the past decade is due in part to exports of higher values goods. Table 6.5 shows the relative shifts of two SITC (Standard International Trade Classification) sections and their percent of the total domestic exports for given years. The percent of exports from *Misc. Manufactured Goods* showed a decline between 1970-1990, and a slight resurgence between 1990-2000. The predominance of this sector is an a testament to the upgrading of Hong Kong clothes manufactures to more high tech operations such as a cutting edge fashion design and suit making. Again, many of the goods in this category may have been manufactured in China, transported to the headquarters in Hong Kong, and then shipped out as Hong Kong products.

Since it comprises higher value added products than *Misc. Manufactured Goods*, the *Machines and Transport Equipment* sector was chosen as the other representative classification. From 1970-2000, the percent of exports from this category more than doubled, representing the gradual shift to higher value products. Interestingly, the percent of exports from this category was the same in 2000 (24.8percent) as it was in 1990. This possibly represents the overall decline of the manufacturing sector, as Hong Kong continues its shift towards tertiary services.

¹⁰⁸ Joseph Tsang, Interview by author. Hong Kong, June 2001.

Table 6.5

Percentage of Hong Kong's Total Domestic Exports, ^a by Selected SITC Categories

SITC section	1970 (%)	1980 (%)	1990 (%)	2000 (%)
Misc. Manufactured Goods ^b	68.3	65.7	55.3	60.0
Machines and Transport Equip. ^c	11.8	18.2	24.8	24.8

^a Exports Calculated by Free on Board

^b Includes Clothing, Footwear, Watches, etc.

^c Includes Office Machines, Telecommunications Devices, Electrical Machinery, etc.

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Hong Kong and the South China Growth Region

Leaders and citizens of Hong Kong had originally feared that China might simply cross the border to retake Hong Kong forcefully. But as the economy of Hong Kong grew, the country became more confident that it was in China's best interests to maintain a gateway to the outside world through Hong Kong. Before 1979, Hong Kong was the medium through which China gained information and necessary finances transactions such as hard cash ¹⁰⁹ with the West. Therefore, it is no surprise that when China decided to experiment with its own Special Economic Zones after 1979, that they were located in Fujian and Guangdong Provinces, which are the closest provinces to the capitalist enclaves of Hong Kong, Macao, and Taiwan.

Dr. Yue-Man Yeung has defined the growing interactions between Southeast China (Fujian and Guangdong), Taiwan, and Hong Kong as the Southern China Growth Triangle. Again to reiterate, Dr. Yeung defines a growth triangle as one that strives to limit impediments to capital, labor, and trade flows within the triangle, while not excluding non-members from the same benefits shared by the members. ¹¹⁰ China benefits from this arrangement by gaining needed capital, skilled workers, and expertise from Hong Kong and Taiwan corporations. On the flip side, Hong Kong and Taiwan benefit from this relationship by gaining access to the massive reserves of untapped labor and cheap land on the Mainland. ¹¹¹

¹⁰⁹ China's currency had little value, and converting it was very difficult. With access to Hong Kong, China could obtain stable currencies such as the Hong Kong dollar, the American dollar, and the British pound.

¹¹⁰ Yeung, *Globalized Societies*, 45.

¹¹¹ Ibid., 46-54.

The industrial restructuring of Hong Kong to the cheaper production costs of the Mainland, follows the arguments laid out by the flying geese model. By exporting its production facilities abroad, Hong Kong will be able to maintain its high per capita GDP as its economy shifts to the tertiary and quaternary sectors (financial and informational services). The Southern China Growth Triangle has benefited all involved. With the majority of its corporate headquarters still remaining, Hong Kong has been able to expand its area of economic influence while not suffering a GDP loss from the relocation of the manufacturing components of their industries. China on the other hand has experienced phenomenal growth, as its economy is being transformed into an open market system, culminating in its entry to the WTO in 2002.

Discussion of the International Climate of Hong Kong

Since Hong Kong has never been an independent nation, it has not faced the same trying circumstances as Singapore. However, this is not to say that it hasn't had its own share of international insecurity. Although it has enjoyed the protection and stability of British Rule for the majority of its existence, changing relations with China have dictated its economy and politics. Leaders and citizens of Hong Kong had long feared that China might simply cross the narrow channel to retake Hong Kong forcefully, especially during the Chinese Civil War and the Korean War. The next big wave of insecurity emerged while China was undergoing the Cultural Revolution in the 1960s. Fanatic Red Guard factions supported by the PRC spread fear in Hong Kong by planting bombs and inciting political upheavals. Despite their turbulent relationship with China between 1949-1979, Hong Kong fears slowly subsided as its economy grew, and the colony became more

confident that it was in China's best interests "not to kill the goose that lays the golden egg."

Looking at the PRC, it is clear that they have always been willing to experiment with different economic policies. The disastrous results of the Great Leap Forward are but one example. Attempting to increase steel production to support its heavy industries, the countryside was stripped bare of trees to fuel the furnaces that were to melt down any metals items (railings, nails, etc) that could be found. However, China's environment suffered dearly for naught, since the steel that was produced was of low quality and of little economic value.

While China was tinkering with the Great Leap Forward and the Cultural Revolution, the PRC was also eyeing Hong Kong closely to see Western capitalism would fare in an Asian setting. If it could be said that Hong Kong was looked at as an experiment by China, the same could be said of Britain and the United States, who saw Hong Kong as an opportunity to inject capitalism and the ideals of democracy peacefully into China. For many of the same reasons, the United States has guaranteed the independence of Taiwan since 1949, when the United States 7th fleet arrived to prevent the Chinese Communist forces from following the Nationalists forces across the Strait of Taiwan. Recognizing that a land war on Chinese soil would be impossible, and that defending Hong Kong or Taiwan would be impractical for an extended period, the United States has supported a policy of peaceful ideological conflict with China.

In accordance with their strategy, the United States has taken a large number of Chinese scholars and students into their country. By bringing in future Chinese leaders and prominent businessmen into their country, the United States hopes that these students

will return to China instilled with the ideals of political and economic freedoms.

Additionally, before China entered the WTO, the United States made MFN (most favored nation) status for China conditional on good behavior, providing an economic incentive for them to address controversial human rights issues. Although being accused by Lee Kuan Yew of being little more than a pawn in the United States plan, Chris Patten and Britain decided to construct the enormous engineering project of Chek Lap Kok Airport, to keep the embers of capitalism burning long after the departure of Britain.¹¹² It would seem that he was effective in his objective, since Chek Lap Kok is now the world's busiest international air cargo facility with 2.24 million tones of cargo yearly.¹¹³

Present Hong Kong can be seen as another of China's experiments, since they are governed under the one country, two systems policy and with Special Administrative Region (SAR) status for the next 50 years. There is little reason that China would have to interfere in the governing of Hong Kong. It is a matter of face that Hong Kong should be able to succeed under their rule, and China only stands to gain from this truly global city as it attempts to further develop and open more of its economy to the world. Furthermore, China always has Taiwan on the back of its mind. If Hong Kong cannot succeed within the one country, two systems approach, then there would be no chance for the peaceful incorporation of Taiwan. So for the remaining 45 years of its SAR status at least, it should be business as usual for Hong Kong.

¹¹² Patten, *East and West*, 148.

¹¹³ "Airport Acts to Consolidate Hub Role," *Hong Kong Trader* 175 (Feb. 2001): 1.

The Lion City and Independence

External Security Dilemmas

Due to its small size, Singaporean politicians have rightly feared any instability or chaos in the Southeast Asia region. Singapore achieved self-governance in 1959, but a British military and advisory presence was maintained to guide the fledgling nation. Being a tiny island with few resources, political leaders such as Lee Kuan Yew believed that Singapore needed to merge with Malaysia in order to survive.¹¹⁴ Indonesia vehemently opposed this merger, calling it a “neo-colonialist plot” orchestrated by the British.¹¹⁵ After numerous bomb scares and threats against Malaya, the Borneo States, and Singapore, the British Army was called in to quiet the situation, especially along the borders of the Borneo States and Indonesia.

Unfortunately, the merger with Malaysia was to be short lived. Disputes over trade and ethnic dominance culminated into race riots that drove a wedge between Singapore and Malaysia. By 1965, “Lee Kuan Yew, who had seen Malaysia as the indispensable instrument of Singapore’s freedom and viability,”¹¹⁶ saw this merger fall apart. It fell apart for many reasons, but the main factor was that Singapore’s People’s Action Party (PAP) was gaining a very strong following in the Malay States, especially Penang. The PAP would have dominated the Parliamentary elections if they had been held freely and openly. Because of conflicts such as these, Singapore was expelled from the Malay Federation in 1965, and was left to fend for itself amidst its ever threatening Muslim neighbor of Indonesia and the possibility of a forcible takeover by Malaysia.

¹¹⁴ Lee Kuan Yew, preface to *Third World to First*, XIV.

¹¹⁵ Ernest Chew and Edwin Lee, *A History of Singapore* (Singapore: Oxford University Press, 1991), 143.

¹¹⁶ Donald Moore and Joanna Moore, *The First 150 Years of Singapore* (Singapore: Donald Moore Press Ltd., 1969), 708.

Immediately after having the Malaysian door closed on them, Singapore entered into a foreign policy crisis. Events in Indonesia in late 1964 and throughout 1965 cast a pall over Singapore that had lasting implications for the Chinese in Southeast Asia. Singapore, with its open door immigration policy for many overseas Chinese from such countries as: Burma, Vietnam, India, certain African states such as Kenya, and especially Indonesia, became a haven for Chinese refugees. This was especially true for wealthy Chinese, who because of Singapore's secret currency and banking laws, were able to avoid the confiscatory taxation and currency exchange rules of their countries of prior residence.

Indonesia was under considerable political strife at the time, after watching its currency collapse drastically since they gained independence from the Dutch in 1945. This currency crisis, along with the attempted overthrow of the Indonesian Government by the PKI (Indonesian Communist Party), saw Indonesia's independence leader, Sukarno, forced to step down, and the Indonesian army step in to stabilize the country. Amid this chaos, there was rampant lawlessness in Indonesia and the entrepreneurial Chinese were often targeted due to their financial wealth compared to the native Indonesians. Over a million Chinese were killed in Indonesia during the 1965 revolution, due to racial and economic disparities. Those Chinese who were lucky enough to escape to Singapore often arrived penniless, homeless, and friendless. Singapore feared that the ethnic violence against Chinese in Indonesia would extend into an invasion of their

territory to reclaim the refugees that had escaped the bloodbath with some of their holdings.¹¹⁷

Despite these external concerns, Singapore still felt confident that no transgressions would occur against them as long as the British were present. However, as their empire continued to wane, British politicians became more inwardly focused. They advocated for the removal of all excess personnel abroad, so that they could devote more resources to solving the domestic crises at home. In 1968, the British Government announced the impending withdrawal of all forces East of the Suez. In accordance with this proclamation, the British removed all of their personnel from Singapore by the end of 1971.

Without the security blanket of the British, and in close proximity to unstable nations such as Indonesia, Singapore was very concerned with maintaining its international security. While they have always had a well-equipped military, Singapore realized that they could not withstand an assault from a larger nation for an extended period. Many small nations such as Singapore have found it advantageous to associate themselves with a larger power to provide national security. However, since its separation from Malaysia, Singapore has been more interested in pursuing its own destiny. This policy that kept Singapore disassociated from China while it underwent The Great Leap Forward, The Cultural Revolution and other similar humanistic tragedies

¹¹⁷ The paragraphs concerning relations with Indonesia were discussed extensively with my father, Robert Larson, who resided in Singapore during the 1960s. A note of interest: Mr. Larson was attending a Singapore employers federation meeting on March 10th, 1965 in Singapore, when at 3:15 p.m., the Hong Kong and Shanghai Bank building was bombed across the street from his meeting, killing four and wounding 120 people. This attack was conducted by Indonesian terrorists who were attempting to blow up the Australian consulate located on the second floor of the building. During that time, daily bombings and threats of bombings were commonplace.

during its turbulent years in the 1950s and 1960s. This policy also kept Singapore neutral during the cold war between the United States and the Soviet Union.

Government officials have found that Singapore's best defense is to play the delicate game of balanced power politics. According to Yuan-li Wu, Singapore's survival depends on the large powers being convinced that:

- 1) Singapore is of considerable strategic and/or economic value to each of them;
- 2) The direct interests of each big power can be adequately served without bringing Singapore under its sole domination to the exclusion of other big powers; and
- 3) The interest of each can be served only by preventing the sole domination of Singapore by others.¹¹⁸

Luckily for Singapore, they were successful in achieving these goals. Singapore has aligned itself in such a way that every major trading power has a vested interest in keeping Singapore as a neutral trading and financial center. Therefore, if one country attempted to dominate Singapore, they would meet staunch resistance from all of the other powers.

As time passed, Singapore became more confident that its role as an international trading center would maintain its boundaries. However, a financial crisis in Indonesia emerged once again in 1998 and 1999, stirring up renewed racial tensions. The Chinese who had gone back to Indonesia, or who had stayed in the 1960s, had all changed their names to Indonesian ones to mitigate any negative feelings towards them. Simply changing their names was not enough to protect them from the hatred that was fueled by the growing economic disparity between Chinese and Indonesians. Luckily for

¹¹⁸ Wu Yuan-Li, *Strategic Significance of Singapore* (Washington D.C.: American Enterprise for Public Policy Research, 1972), 3-4.

Singapore and the ethnic Chinese of the region, China itself solved this predicament by issuing a stern warning to Indonesia not to harm any Chinese descendents residing there.

Internal Security Concerns: Managing A Heterogeneous Society

An advantage of Hong Kong is that it is culturally homogenous, with 95 percent of its populace of Chinese origin. Thus, Hong Kong's security concerns were primarily external. Singapore had to deal with similar international uncertainties, but they also had to ensure political cohesiveness among three distinct ethnic groups on the domestic front. Since its very inception, Singapore has made an effort to promote multiracial harmony and a national identity in its population. As Ien Ang and Jon Stratton observed, "While most nations are unified by external threats, Singapore's biggest fear is that it is not a cohesive nation-state."¹¹⁹ Building a nation-state has been no easy task for this young and ethnically diverse nation. According to data from 1999, Singapore has a total population of 3,217,500. The ethnic breakdown of the population is as follows: 76.9 percent Chinese, 14 percent Malay, 7.7 percent Indian, and 1.4 percent other races.¹²⁰

Although Singapore is predominantly Chinese, the government has taken steps to avoid the "melting pot" approach to social integration. Often associated with the United States, the melting pot approach is where "a dominant group attempts to impose its norms, values, beliefs, attitudes, and even its folkways on all other cultural groups in the

¹¹⁹ Ien Ang and Jon Stratton, "The Singapore Way of Multiculturalism," *Sojourn*, 10 (1995): 65-73.

¹²⁰ Foo Siang Luen, chief ed., *Singapore 2000* (Singapore: The Ministry of Information and the Arts, 1998), 9.

society.”¹²¹ Instead, Singapore has pursued a policy of multiculturalism, where the preservation of each major ethnic group’s cultural heritage is strongly encouraged. Unique parts of any ethnic heritage include the folklore, dances, festivals, art, religion, and music that are associated with their ancestry.¹²² While these are all important components for the preservation of a culture, Singaporean leaders equate the preservation of a racial group’s language of paramount importance. Being able to understand their ancestors’ language encourages an ethnic group to learn and understand their culture and heritage.

In order to build the multiracial nation that Lee Kuan Yu and his advisors envisioned, Singapore has used its educational system as their primary tool in achieving their societal goals and aspirations. In order to promote interethnic harmony, Singapore has established an educational system where students became fluent in at least two of the four official languages: English (Due in part to its colonial ties to Britain), Tamil, Mandarin, and Malay.

Singapore has recognized that the English language “has been firmly accepted as the convenient language in commerce, administration and social interaction.”¹²³ Therefore, English is a requirement for all Singaporean students regardless of ethnicity. However, in accordance with their multicultural nation-building policies, Singapore also requires all students to learn the official language most closely related to their family’s mother tongues.

¹²¹ Kazim M. Bacchus, “The role of education in achieving equity, cultural diversity, and national unity in multi-ethnic societies,” *Singapore Journal of Education*, 10, no. 2 (1989): pgs. 2-4.

¹²² Ibid.

¹²³ Huat Tan Chwee, “Confucianism and Nation Building in Singapore,” *International Journal of Social Sciences*, 16, no. 8 (1989): 14.

The Singapore Government justifies the predominance of English by pointing to several key factors. English is the international language of business, technology, and investment, so its use benefits Singapore's trading economy. The Government also decided "its continued use meant continuity in the records, administration, and law."¹²⁴ Finally, author Koo Tsai Kee points out that, "English has plugged us into the Western civilization, allowing us to study our own civilization in perspective and with equanimity. The adoption of English has also steered us away from a clash of cultures."¹²⁵ Koo points out that Singaporeans benefit by having English as a neutral medium to reflect back upon their own cultures, as well as various other cultures of the world without a sense of ethnocentrism.

The importance that Singapore places on students' language education is reflected by the amount of time devoted to languages at a very early age. During the first four years of primary school, 60 percent of the total curriculum time (33 percent on English and 27 percent on the mother tongue) focuses on language training.¹²⁶ As students continue to progress through the educational system in their two respective language streams, they continue to take progressively more advanced language courses until a strong command of both languages is achieved. Students are required to be proficient in both languages before admission will be granted to pre-university schools.

The rationale behind this bilingual approach is to take the best of two worlds. On one hand, Singapore citizens gain an understanding of the world's most commonly used

¹²⁴ Eddie C.Y. Kuo, "A Sociolinguistic Profile," in *Singapore: Society in Transition*, ed. Riaz Hassan (Kuala Lumpur: Oxford University Press, 1976), 76.

¹²⁵ Koo Tsai Kee, "Unity in Diversity," *Petir*, (1 July 1993): 59.

¹²⁶ "Primary Education: An information guide for parents," (Ministry of Defense, 1998), via Internet. Available: www.moe.edu.sg/edusm/primary.htm

language of business, while on the other hand; they retain their linguistic and cultural roots of their ethnic backgrounds. Hill and Fee state that a bilingual approach to education “enhances national integration through interethnic communication, it is vital to multiculturalism, it gives the individual and ethnic group a sense of identity and community and it improves employment and economic opportunities for Singaporeans.”

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While Singapore encourages the continued use of all four of its official languages, it has recognized the need for a common language that transcends ethnic boundaries. However, the language chosen as the *lingua franca* has changed over time. For example, before Singapore became part of Malaysia in 1963, Malay was the language that was widely promoted by the government to foster unity with the Malayan States. Although the merger with Malaysia was short lived, Malay became the common medium for verbal exchange in Singapore at the time. Even though English has replaced Malay as the primary language, evidence of this campaign still lingers on in the form of Bazaar (market) Malay, which many Singaporeans continue to use at local markets.¹²⁸

Not only has Singapore faced a language disparity between ethnic groups, but communication has been an intraethnic group problem as well, specifically within the Chinese ethnic majority. In the case of Chinese students, Mandarin is considered the mother tongue of their language stream in school. However, Singapore has a Chinese community that speaks many different vernacular languages. Ang and Stratton explain:

The ethnic Chinese are a linguistically heterogeneous group; Clammer cites a survey from 1980 according to which as much as 30 per cent of the total population were Hokkien speakers, 17

¹²⁷ Michael Hill and Lian Kwen Fee, *Nation Building in Singapore*, 86.

¹²⁸ S. Gopinathan, “Towards A National Education System,” in *Singapore Society*, ed. Riaz Hassan 145.

per cent Teochew, 15 per cent Cantonese, 5 per cent Hainanese, and also 5 per cent Hakka. Less than 1 per cent were native Mandarin speakers.¹²⁹

The different Chinese dialects within Singapore all originated and developed from different regions in China which were historically separated from each other by great distances.

Since these different Chinese dialects are so distinct from one another, Malay, as stated, was used as the common language in the 1950s and 1960s. When the use of Malay started to decline in relative importance, the government saw a need to unite its ethnic majority with a new common language bond. Although English was gaining in importance as the new *lingua franca*, Singapore still felt it was necessary to meet the goal of a common Chinese dialect. The Government of Singapore launched The Speak Mandarin Campaign in 1979, urging the Chinese populace to discontinue the exclusive use of their first learned dialects and focus on learning Mandarin instead. This campaign has been largely successful in eliminating the use of dialects in public, facilitating communication within the Chinese ethnic group, as well as helping businessmen to network with other predominantly Mandarin speaking countries such as China and Taiwan.

In the wake of political controversy from its ethnic minorities, the Singapore Government has had to defend its campaign to linguistically unite the Chinese. Singapore's political leaders have acknowledged that the Speak Mandarin Campaign focuses on its ethnic majority, but they state that by no means do they intend to promote Mandarin as the interethnic *lingua franca*. The government rightly points out that English is the current medium for cross-cultural communication in Singapore, and it is

¹²⁹ Ang and Stratton, *Singapore Multiculturalism*, 82.

likely to remain so in the future. Mandarin, like Malay and Tamil, is intended for intraethnic communication only. Lai Ah Eng summarized a speech given by Prime Minister Goh Chok Tong reminding the Chinese community:

...that while it strives to keep its language and to promote its heritage, it should bear in mind the goal of a multiracial Singapore. On the other hand, he also reminded minorities not to impose their views on the Chinese community, but to regard issues of Chinese language and culture as matters internal to the Chinese community.¹³⁰

To defray current and future conflict between its ethnic groups, the Singaporean government has worked on enhancing a national identity. A national identity that has all citizens saying that they are Singaporean, rather than a Singaporean Chinese or a Singaporean Tamil. The Government of Singapore has recognized that “something needs to be installed which can function as a centripetal unifying force.”¹³¹

To create this unifying force, a mass media campaign has been launched that places a “renewed emphasis on the common bonds or similarities among the various races in Singapore instead of focusing on their differences.”¹³² One recent example of this mass media campaign was in 1998, where Singapore spent 5.8 million US\$ on a fair that exhibits Singapore’s history. During the opening ceremonies Prime Minister Goh Chok Tong expressed that, “A strong understanding of our roots and history will bond us together as a people. The bonding is crucial to our survival.”¹³³

Analysis of Singapore’s Trade Flows from 1970-2000

During the nineteenth century and for the first half of the twentieth century, Singapore focused on exporting raw materials such as tin and rubber to the United States

¹³⁰ Lai Ah Eng, *Meanings of Multiethnicity* (Kuala Lumpur: Oxford University Press, 1995), 151.

¹³¹ Ang and Stratton, *Singapore Multiculturalism*, 79.

¹³² Fee and Hill, *Nation Building in Singapore*, 208-209.

¹³³ Dover, Ben, “Nation Building,” *Far Eastern Economic Review* 161, no. 34 (1998): p. 36.

and other more advanced economies.¹³⁴ However, after the conclusion of World War II, Singapore became aware that its reliance on entrepot trade could not be counted on to sustain economic growth and increased employment.¹³⁵ Since independence, Singapore has continued to serve its entrepot role, but it has focused on trading primarily with the more advanced countries of the world, rather than its immediate neighbors

Looking at Table 6.6, we see that Singapore's trade values have dramatically increased since 1970 to the United States (an increase of 134 folds), Malaysia (71 folds), and Japan (84 folds). It is also interesting to note that the relative share of exports from each destination have remained fairly consistent, with the United States and Malaysia vying for first place, and with Japan usually a distant third. Table 6.7 displays similar results, with the value of imports from these locations increasing dramatically in the past 30 years, but with their relative amounts to each other remaining fairly consistent. Malaysia is probably the most interesting case, since Singapore planned not to primarily rely on its entrepot status. But with continued growth leading to its classification as an Asian Tiger Cub, Malaysia has kept up its relative importance as a trading destination for Singapore.

Unlike Hong Kong, whose dramatic shifts in its trading patterns are best explained by its external relationships, Singapore's story of consistent growth is best told by looking at the composition of the goods going into and out of Singapore. After China closed its doors, Hong Kong had to reorient its trading patterns to the West. Singapore had to undergo a similar reorganization in 1965, with the languishing economies of their

¹³⁴ Meyer, *Hong Kong as a Global Metropolis*, 136-137.

¹³⁵ Chiu, Ho, and Lui, *City-States in the Global Economy*, 31.

Table 6.6
 Singapore's Total Exports, by Selected Destinations
 (In Millions of U.S. Dollars)

Country	1970	1975	1980	1985	1990	1995	2000
Malaysia	340	924	2909	3539	6873	22665	24566
U.S.A.	172	746	2421	4830	11215	21576	23326
Japan	118	466	1560	2255	4616	9219	10034

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Table 6.7
 Total Imports to Singapore, From Selected Countries
 (In Millions of U.S. Dollars)

Country	1970	1975	1980	1985	1990	1995	2000
Japan	476	1374	4311	4486	12263	26308	23248
Malaysia	458	942	3323	3736	8257	19250	22344
U.S.A.	266	1279	3389	3988	9801	18725	20266

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

hostile neighbors surrounding them. While Singapore and Hong Kong both had to focus on exporting to the West, they differed in the goods that were supplied.

Hong Kong exports over the past 40 years have been mostly comprised of labor-intensive products such as clothes, plastics, and fireworks, although a steady transition to higher value added goods has been in progress (Table 6.5). But despite recent technological upgrades, the exports of labor-intensive goods is still quite prominent, with the SITC category of *Misc. Manufactured Goods* accounting for 60 percent of Hong Kong's exports in 2000 (Table 6.5). Singapore, in accordance with its twin pillar approach discussed in Chapter V, has focused on acquiring MNCs that manufacture high value added products. Looking at Table 6.8, it is evident that they have succeeded with flying colors. Indicative of the continual upgrading of Singapore's manufacturing industry, the *Machines/Transport Equip.* sector showed a drastic rise from 11 percent of exports in 1970 to 67.4 percent of all exports in 2000. This is in stark contrast to Hong Kong, whose similar category accounted for 24.8 percent in 2000. Also in contrast to Hong Kong's continued reliance on light manufacturing, as represented by the *Misc. Manufactured Goods* sector, Singapore's reliance on like goods still remains at a relatively low 8.1percent. The category of *Mineral Fuels* was included to further represent Singapore's transition from primary production and low skilled products to higher value goods.

Thoughts on Singapore in the JSR Growth Region and the Future

With the setback of the Asian Financial Crisis and the political instability in Indonesia, the rapid growth of a nearby hinterland that could purchase the high value

Table 6.8
Percentage of Singapore's Total Domestic Exports, ^a by Selected SITC Categories

SITC Section	1970 (%)	1980 (%)	1990 (%)	2000 (%)
Mineral Fuels ^b	17.3	28.9	18.2	9.7
Misc. Manufactured Goods ^c	5.2	6.2	8.9	8.1
Machines/Transport. Equip. ^d	11.0	26.8	50.1	67.4

^a Exports Calculated by Free on Board

^b Includes Lubricants, Petroleum, Petroleum Related Products, etc.

^c Includes Clothing, Footwear, Watches, etc.

^d Includes Office Machines, Telecommunications Devices, Electrical Machinery, etc.

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

goods produced in Singapore is unlikely in the near future. While Singapore waits for the rest of the region to catch up, it is integrating itself further into the global economy. Despite being entrenched as the entrepot location to SE Asia, Singapore has conducted the majority of its trade outside of the region, with three out of five of its major partners still outside SE Asia (United States, Japan, Hong Kong).

It is in Singapore's best interests to pursue policies that will help the economic growth of its surrounding hinterland, so its trade dependence on the West can be reduced. Singapore has attempted to do just this by entering the Johor, Singapore, and Riau Islands (JSR) Growth Triangle. However the full realization of the original goals of the JSR growth region (reduction of tariffs and facilitation of the flows of capital, labor, and goods) are now in question as a result of recent tensions between Singapore and its neighbors. As Linda Lim argues, Malaysia and Singapore have seen many issues of tension of late:

...relations between Malaysia and Singapore, having reached a historic low in conflicts over transportation, water, stock market, and financial aid links, and the publication of the controversial memoirs of former Singapore prime minister Lee Kuan Yew, have hampered the recovery of both nations [From the AFC] by dampening trade and investment and increasing political risk.¹³⁶

Tension with Malaysia, in addition to the political turmoil in Indonesia provide further proof that Singapore will need to continue to rely on trade with the more advanced economies outside of SE Asia. Fortunately, recent relations between Singapore and Malaysia have not seemed to significantly lessen trade Tables, and reciprocal trade is continuing to grow. Trade with Indonesia in 2000 also seems to be promising, and

¹³⁶ Linda Y.C. Lim, "Free Market Fancies," in *The Politics of the Asian Economic Crisis*, ed. T.J. Pempel (Cornell University: Cornell Paperbacks, 1999), 115.

although total trade was only just over 10 billion US\$, the total amount has shown an increase since Indonesia political turmoil in 1998.

Despite the British withdrawal, a limited economy, and an adverse geopolitical situation at its outset, Singapore was able to take advantage of its geographical location by transforming itself into a dominant trading center. As its economy continues to grow, Singapore has become more confident that its role as an international trading center will maintain its boundaries. Despite short hiccups associated with the Asian Financial Crisis and the slowdown of the United States economy, trade has continued to flourish and grow, and thanks to Singapore's political stability, geographical location, and its well educated population, trade should continue to be the lifeblood of Singapore well into the future.

Discussion of the Geo-Political Contexts of Hong Kong and Singapore

Both Hong Kong and Singapore share the similarity that they both have had historically high proportions of their GDP from trade. To some, this might seem to cast doubts on the validity of this chapter's geo-political analysis, but that similarity does not discredit the arguments made here. In writing this chapter, my primary aim was not to argue that they had a very different reliance on trade, but rather it was to show that the composition of their trade and their trading partners were a function of their differing geo-political contexts.

Hong Kong faced considerable international tension from 1949-1979, often wondering whether the PRC would simply invade across the border. Not only did Hong Kong exist with this air of uneasiness during that period, but its entrepot trade was greatly

reduced. With China in an isolationistic role towards the West, Hong Kong became the entrepreneurial haven that produced labor-intensive goods for consumption crazes in the West. After 1979, when China under Deng Xiaoping adapted economic reforms that included an open door policy to the West, Hong Kong was able to resume its role as an entrepot, and trade has increased at a breakneck pace since then.

Singapore's relations with its neighbors have at times caused significant concerns for the small, independent nation. Singapore has also had to manage a heterogeneous society by attempting to forge a sense of nationalism. Unlike Hong Kong, Singapore's major trading partners over the past 30 years have been consistent. The most important distinction that can be drawn comes from Tables 6.5 and 6.8, which show the composition of trade. These Tables give support to my assertions in Chapter 5, as well as providing a strong argument that the policies of each respective government influenced their individual and distinctive paths to success.

It is important to point out that Singapore has tried to not heavily rely on its fragmented, and often politically troubled hinterland. Singapore only has a land connection to narrow Malaysia, which has rugged terrain through its center that forces transportation to the coast. Furthermore, the other economies of SE Asia have historically been limited; with most of their populaces unable to buy the value added goods that Singapore produces. Within such an international context, Singapore sought to make its own destiny by ensuring the continued presence of a manufacturing sector and by trading with more advanced nations. Due to its fragmented hinterland, Singapore's port supplements its entrepot role by serving as a large transshipment point, where goods come in and wait to be redistributed elsewhere.

Hong Kong on the other hand, benefits from a massive continental hinterland that it is well connected to by road, sea, and rail. The importance of the China market has been the lifeblood of Hong Kong since 1979. After 1979, the prospect of the potential benefits of the Chinese domestic market caused MNCs and investments to flood into Hong Kong. Despite the concerns over its recent return to China, Hong Kong is still seen as an important intermediary location between Western investors and Eastern industrialists and traders. Thanks to its superb continental hinterland, Victoria Harbor's primary role is in re-exports. Goods manufactured in the Mainland are sent to Hong Kong to be exported again to another location.

My secondary aim in this chapter was to add further arguments to my contention that the EADM and other NIE regional development models lose sight of the complex histories of each individual case. Using Singapore and Hong Kong as case studies, I have shown that the political environments in which they both developed were far from stable, as the first component of the EADM would suggest. Singapore and Hong Kong have succeeded by adapting to the insecurities and instability in their respective regions. Being tiny island enclaves, both of these countries helped to ensure their existences by being important regional hubs for finance, capital, and information.

As mentioned in my literature review, the EADM and other related models could benefit from a geographical perspective. While the adaptations that Hong Kong and Singapore made to their political environments were exceptional indeed, a large factor in their successes is their geographical location. Without their exceptional geographic locations, the other components of the EADM alone would not have facilitated the growth of these two NIEs at the same pace. The EADM does not account for the

geographic locations of its success stories. Thus, when political leaders and scholars view the economic successes of NIEs such as Hong Kong and Singapore, they must remember that their growth also stemmed from prime geographical locations situated on well-trafficked waterways.

CHAPTER VII

GOVERNMENT EXPENDITURES

Introduction

Chapters V and VI have argued that Hong Kong and Singapore's paths have been significantly influenced by their economic ideologies and their geo-political situations. This chapter will serve two functions. First, it will be addressing the INDV that the government development strategies of Hong Kong and Singapore have been different since Singapore's independence. Secondly, this chapter will provide further evidence for many of the arguments and assertions made in the previous two chapters.

Singapore and Hong Kong both benefited from the commercial policies that were instilled by Britain. In contrast to their domestic strategies, Britain made Singapore and Hong Kong into free trade areas that had little restrictions on the movement of goods, labor, and capital. Following what Hong Kong refers to as a policy of "positive non-interventionism," Britain allowed the economy of Hong Kong (and Singapore's economy prior to World War II) to be primarily controlled by free market forces. This is not to say that Hong Kong's government stayed clear of their market, since their colonial administrators played a key role in providing supportive development through government expenditure.

Although their government strategies have diverged, Hong Kong and Singapore both retain many of the free market principles laid out by their colonial rulers. Equally important to the success of Hong Kong and Singapore was the stable, corruption free civil service that encouraged investor confidence in both city-states. After independence,

Singapore maintained a well-educated and talented civil service based on their colonial administrators. Many of the early leaders of Singapore, however, did not trust free market forces to rule their economy. They were under the impression that the fluctuations of a completely free market could disrupt their internal and external securities. At its outset, Singapore worked hard to eliminate the perceived problems of the laissez faire economics, and the political agendas, of Britain. Labor unions were dissolved, and high spending on welfare policies was avoided. Thus, these leaders constructed their own economic development strategy, retaining many of the attributes that made Singapore and Hong Kong successful, but changing the ingredients to suit their newly independent nation.

Many of Singapore's early leaders were educated in Britain, bringing back Western ideals into an Asian setting.¹³⁷ These early leaders were associated with the theoretical strains of the anti-colonialist socialist party in Britain. Therefore, it is not surprising that one of the first steps Singapore took as an independent nation was to nationalize key industries. However, unlike other nations with GLCs, such as Japan and South Korea, Singapore did not protect their industries behind protectionist walls, and they had no qualms about dissolving unprofitable enterprises and ventures.¹³⁸

Singapore Incorporated used its government to play the role of entrepreneur rather than relying on domestic industrialists as Hong Kong did. In accordance with their heavy reliance on MNCs, Singapore gives many tax incentives, land grants, and research subsidies to large corporations that are deemed as essential components of their economy.

¹³⁷ Howe Yoon Chong, Interview by author. Singapore, June 2001.

¹³⁸ Pang Eng Fong "The Distinctive Features of Two City-States' Development: Hong Kong and Singapore," in *East Asian Development Model*, eds. Berger and Hsiao, 228.

Borrowing money from the World Bank shortly after their full independence in 1965,

¹³⁹ Singapore further developed the infrastructure that they inherited from Britain. Using their first class infrastructure as a star attraction, agencies such as the Economic Development Board were successful in attracting and retaining foreign companies and expertise. Singapore has no monopoly laws to hinder MNCs, and they receive the lion's share of public easements. Small or medium enterprises have access to very limited support compared to like businesses in the United States. ¹⁴⁰ Pang Eng Fong describes Singapore's economy as "managerial capitalism because of the island's heavy dependence on domestic and foreign managers in the development process." She describes Hong Kong success as one of "entrepreneurial capitalism," "which is characterized by a high dependence on small and adaptable entrepreneurs to find new business opportunities." ¹⁴¹

Volumes could be written on every minute detail of the differences between Hong Kong and Singapore's economic development strategies. If we look at where their money has gone, we can rather quickly observe how different the expenditure demands of an independent Singapore was with the British colony of Hong Kong. The categories with the more telling differences between Singapore and Hong Kong in Tables 7.1-7.4 will each be compared in the following subsections (*Defense, Education, Social Services/Welfare, Economic Services, Public Housing*). The functions of *Public Services, Health*, (since they performed similar services, and/or received comparable amounts of funding from Hong Kong and Singapore) and *Others* (since this comprises categories that

¹³⁹ Singapore was independently governed within the Malaysia Federation between 1963-1965.

¹⁴⁰ Lawrence Low, Interview by author. Singapore, June 2001.

¹⁴¹ Pang "Two City-States' Development," 230.

won't be used here) have been excluded from the individual comparisons. Tables 7.1 and 7.2 are provided for reference purposes since I will be using the percent of total government expenditure to more equivocally compare the government functions of Hong Kong and Singapore in Tables 7.3 and 7.4.

Defense

This category best illustrates how the governments of Hong Kong and Singapore allocated their finances to suit their different political and economic conditions. As shown by Table 7.4 Singapore diverted 28.9 percent of government expenditure to defense in 2000. This is in marked contrast to Hong Kong, which having never been an independent nation, has not had to contribute significantly to its own defense (Table 7.3). The British, as the colonial power, were responsible for the military garrisoning of Hong Kong. Before the handover of Hong Kong to the PRC, Britain had 3,250 service personnel located in the Shek Kong district of Hong Kong. A sense of pride and security for Hong Kong was the British tradition of keeping a Gurkha contingent on Hong Kong between 1955-1997.

Under British Rule, the Hong Kong Government supplemented its own defense by funding the Royal Auxiliary Forces, which included an infantry regiment, an air force detachment, and additional emergency fire and medical services.¹⁴² As shown by Table 7.3, the auxiliary defense services accounted for a very small amount of Hong Kong's government expenditure. As a part of the PRC, Hong Kong is no longer responsible for any part of its own defense. Interestingly, the 1999 edition of the Hong Kong yearbook

¹⁴² Howlett, ed., *Hong Kong 1997*, 310-313.

Table 7.1
Hong Kong Government Expenditure, by Function
(Millions of HK Dollars; Calendar Year)

Gov. Function	1970	1975	1980	1985	1990	1995	1999 ^a
Public Services	352	670	2459	6246	12153	26555	31082
Defense	104	117	1621	1493	1657	1054	^b
Education	498	1268	3344	7240	16570	33640	50307
Health	252	562	1635	3693	9230	24285	31894
Social Security/ Welfare	45	368	944	2520	5309	14147	27616
Housing/Community Amenities	293	496	2725	9113	20697	34749	66205
Economic Services ^c	634	1796	8841	8192	17396	36098	36498
Others	239	782	302	4947	12186	20810	25882
Total	2452	6032	23593	43444	95198	191338	269484

^a Although data for 2000 was available, 1999 figures were used to be consistent with Singapore's data availability.

^b Hong Kong's Defense is now provided by the PRC

^c Includes Agriculture, Industry, Utilities, Transport and Communications, and other economic services

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Table 7.2
Singapore Government Expenditure, by Function
(Millions of SP Dollars; Fiscal Year Beginning 1 April)

Gov. Function	1970	1975	1980	1985	1990	1995	1999 ^a
Public Services	140	230	433	1491	1403	2862	3460
Defense	283	663	1267	2378	3409	5492	7595
Education	178	415	689	2284	2828	3633	5250
Health	83	157	279	684	652	1466	1752
Social Security/ Welfare	34	9	11	167	300	955	413
Housing/Community Amenities	18	860	1557	440	870	1565	3537
Economic Services ^b	72	842	2211	1871	2389	1977	3390
Others	400	909	2823	1266	2372	1283	857
Total	1542	4085	9269	10581	14223	19233	26254

^a 2000 data not yet available

^b Includes Agriculture, Industry, Utilities, Transport and Communications, and other economic services

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Table 7.3
Percent of HK Government Expenditure, by Function

<u>Gov. Function</u>	1970 (%)	1975 (%)	1980 (%)	1985 (%)	1990 (%)	1995 (%)	1999 ^a (%)
Public Services	14.4	11.1	10.4	14.4	12.8	13.9	11.5
Defense	4.2	1.9	6.9	3.4	1.7	0.6	^b
Education	20.3	21.0	14.2	16.7	17.4	17.6	18.7
Health	10.3	9.3	6.9	8.5	9.7	12.7	11.8
Social Security/ Welfare	1.8	6.1	4.0	5.8	5.6	7.4	10.2
Housing/Community Amenities	11.9	8.2	11.6	21.0	21.7	18.2	24.6
Economic Services ^c	25.9	29.8	37.5	18.9	18.3	18.9	13.5
Others	9.7	13.0	1.3	11.4	12.8	10.9	9.6

^a Although data for 2000 was available, 1999 figures were used to be consistent with Singapore's data availability.

^b Hong Kong's Defense is now provided by the PRC

^c Includes Agriculture, Industry, Utilities, Transport and Communications, and other economic services

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Table 7.4
Percent of SP Government Expenditure, by Function

Gov. Function	1970	1975	1980	1985	1990	1995	1999 ^a
Public Services	9.1	5.6	4.7	14.1	9.9	14.9	13.2
Defense	18.3	16.2	13.7	22.5	24.0	28.6	28.9
Education	11.5	10.2	7.4	21.6	19.9	18.9	20.0
Health	5.4	3.8	3.0	6.5	4.6	7.6	6.7
Social Security/ Welfare	2.2	0.2	0.1	1.6	2.1	5.0	1.6
Housing/ Community Services	1.1	21.1	16.8	4.2	6.1	8.1	13.5
Economic Services ^b	4.7	20.6	23.8	17.7	16.8	10.3	12.9
Others	26.0	22.3	30.5	12.0	16.7	6.7	3.3

^a Data for 2000 not yet available

^b Includes Agriculture, Industry, Utilities, Transport and Communications, and other economic services (Also See Table 7.6)

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

did not include a section on armed forces, which were always present before the political handover.

The sovereign nation of Singapore has spent considerable amounts on creating a well-equipped military that could deter potential aggressors. After independence, Singapore was surrounded by the potentially hostile neighbors of Malaysia and Indonesia. The race riots in Malaysia and Indonesia during the 1960's left thousands of Chinese dead, and Singapore feared that the racial conflicts could escalate to an international scale. In 1968, Britain announced the impending withdrawal of their military forces in Singapore, eliminating any sense of international security that Singapore had. Having completely depended on the British for naval and air forces, Singapore had to immediately develop a well-equipped military of their own.¹⁴³

Singapore based their armed forces on the model of Israel, which is also a nation that is isolated culturally and religiously from its neighbors. Singapore's military planners realized that the lack of strategic depth of their island would make prolonged defense impossible. Therefore, following the recommendations of their Israeli advisors, Singapore, if in a hostile conflict, would strike first to secure water supplies and land that would be more easily defended. In order to carry out this strategy, Singapore has focused on buying a military that could serve as a preemptive strike force. Table 7.4 shows the extremely high proportion of Singapore's expenditure that has gone to defense spending, accounting for 28.9 percent of its budget in 1999. As of 1999, Singapore had 149 combat aircraft that included F-5 and F-16 fighters, and technologically advanced armor and

¹⁴³ Andrew T.H. Tan, "Singapore's Defence: Capabilities, Trends, and Implications," *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 21, no. 3 (Dec. 1999): 453.

combined arms battalions. Despite its small size, the amount of funding Singapore has placed into its military has made them into a middle power in SE Asia.¹⁴⁴

Education

At first glance, this category seems to show more of a similarity than a difference, since the percent of funding received for this function by Hong Kong and Singapore has been almost parallel over the past decade (Tables 7.3 and 7.4). However, as we will see, equal percent of expenditure, does not necessarily produce the same results. Lacking significant natural resources, Singapore and Hong Kong's most important asset has been human capital. With the important tertiary services that both locales provide, Singapore and Hong Kong have taken steps to ensure a highly educated workforce by appropriating a significant portion of their budget to education compared to other advanced countries.

In an interview with Mr. Then, Director of Foreign Manpower in Singapore, I asked what made Singapore workers so attractive. He quickly pointed to their superior education system that produces workers who are creative, productive, multilingual, and who are equipped with the necessary skills for the international business climate in Singapore. To create an educated populace such as Mr. Then describes, the education system of Singapore concentrates primarily on the teaching of languages, math, and science. With such attention paid to their applied subjects, it is no surprise that Singapore ranked first in both categories in the third international math and science study, which compared 13 year olds' aptitudes in 41 nations.¹⁴⁵

¹⁴⁴ Ibid.

¹⁴⁵ "Education and the wealth of nations," *The Economist*, (March 29th, 1997), 21.

My fiancée and I were exploring the option of graduate education in Singapore, and our visits to the National University of Singapore (NUS) campus were a most telling experience. On first impression, it is clear that Singapore spares little expense in making its flagship university a pristine setting. I was considering the possibility of undertaking a PhD in Asian Studies, and I was given a brief tour of the department. The entire department consisted of a single hall, a lone lecture room, and the graduate lounge had only one antiquated computer next to a study table surrounded by four chairs. After touring that department, I proceeded to the Geography Department, which although better funded, still did not compare to the standards of a United States university. Having believed that the United States and Singapore were almost comparable in education standards, it was a bit of a shock for me to see social science departments with limited resources. At the University of Georgia, I had easy access to computers and my own carrel to study in.

However, my impression of the substantive differences between United States and Singaporean education was to last for only a short while. My fiancée, Claire, was looking into the PhD program in Pharmacy at NUS, and I accompanied her on a departmental tour. The gracious department head took us around the immense facilities of the program. The department had facilities in three separate buildings, with every sort of complicated piece of machinery imaginable. The computer resources were excellent, as were the lab facilities, which overwhelmed you with their sheer size. After that day, I recognized that Singapore's education standards are very high; they just place more importance on some areas over others. The pharmaceutical industry is considered a key

sector, and Singapore's institutes of higher education reflect the industrial preferences of their government.

What was also made very clear to us on our visits was that if we wanted to pursue graduate degrees at NUS, we would go at negligible cost, and receive substantial stipends for living allowances. Singapore has had trouble finding enough talented individuals for its workforce, due in part to a process of brain drain, and they are making efforts to attract educated individuals. In measure taken to increase their educated workforce, the PAP has passed legislation that grants tax incentives to educated women who have more babies. Funds for numerous government dating services have also been allocated, since 25 percent of women over the age of 40 who hold tertiary degrees are single.¹⁴⁶ In yet another attempt to increase their educated workforce, Singapore has set aside large sums for continuing education and worker retraining.

As mentioned numerous times throughout this study, Singapore has used its education system to achieve far more than just traditional education. Moral and civic education classes teach students values and reinforce a feeling of nationalism. To accomplish their multidimensional education, students are required to go to school five and a half days a week. Their supposed one day off is usually spent going to a tutor or revising for the upcoming week. Many have questioned the workload placed on students in Singapore, but developmental psychology arguments aside, Singapore's education system has routinely placed its students at number one in various international comparisons.

¹⁴⁶ Olivia Stewart, telephone conversation with author, 2 April 2002. Miss Stewart, my aunt, is an educational tutor, residing in Singapore.

Although not viewed as being as intensive, Hong Kong's education system shares many similarities with Singapore. First of all, Tables 7.3 and 7.4 show that both governments devote a similar percent of their expenditures on this function. Secondly, Hong Kong also strongly emphasizes language education. Thirdly, mirroring Singapore's civic education classes, Hong Kong has integrated The Guidelines on Civic Education into its primary and secondary educational curriculum. These guidelines are intended to "enhance students' understanding of the Basic Law and the concept of 'One Country, Two Systems,' and to instill in students a sense of belonging to HKSAR, identity with China, and undertaking of the global community."¹⁴⁷ Finally, Hong Kong also places a heavy emphasis on worker retraining, especially since the majority of its manufacturing sector has moved their production facilities to the mainland.

In the same international test that Singaporean students ranked first in science and math, Hong Kong did not fair as well. Hong Kong ranked 4th in Math, but only 24th in science, which overall places them high, but not in the same category as Singapore, who as the top ranked nation, even left the next leading nation in each category significantly behind.¹⁴⁸ The quality of primary and secondary education in Hong Kong has been in question over the last decade, leading to increased government expenditure and to the Education Commission releasing reform recommendations in May of 2000.¹⁴⁹ The circumspect standard of public schools is exemplified by the large amounts of private and international schools that the wealthy send their children to. Currently, private schools

¹⁴⁷ Information Services Department (English edition), ed., *Hong Kong 1999* (Hong Kong: Information Services Department, 1999).

¹⁴⁸ "Education and nations," *The Economist*, 21.

¹⁴⁹ The Economist Intelligence Unit Limited, *EIU Country Profile 2000: Hong Kong and Macao* (London: The Economist Intelligence Unit Limited, 2000), 20-22.

account for 10 percent of primary school students.¹⁵⁰ Hong Kong's government has also recognized that its language policies have been ineffectual, and that their students' abilities are poor, especially in English. To correct this matter, Hong Kong has undertaken measures to deregister schools where English instruction is inadequate.

Social Security/Welfare

Comparing the like function of Social Security/ Welfare spending in Tables 7.3 and 7.4, we see that Hong Kong devoted 10.2 percent of its budget to this category versus Singapore's 1.6 percent in 1999. Again just simply looking at the numbers provides an idea of the difference, but they cannot tell the whole story. Singapore's self-sufficient central provident fund (CPF) that requires high personal savings rates from Singaporean citizens, is responsible for administering pensions. The CPF is yet another unique advantage of Singapore, contributing to the positive account balances that the Singapore government incurs yearly. Western economists marvel at the high savings rates of the NIEs, and especially those in Singapore, especially since they have to try to fix their own social security plans that are soaking up an increasing amount of funds.

The CPF has done an effective job in providing pensions in Singapore, but those in the first generation of an independent Singapore had neither the CPF nor social welfare programs from the state to count on. Mr. Howe Yoon Chong, a former head of civil service in Singapore, explained that in order to make themselves into a formidable economic power, the early leaders of Singapore "sacrificed one generation for the next."

¹⁵⁰ Information Services, *Hong Kong 1999*, 154

¹⁵¹ Mr. Howe also pointed out that the leaders of the PAP believed that high amounts of state welfare would make their citizens lazy, which was the last thing the independent nation could afford.

These early Singaporean citizens had to rely on their own personal motivation and family ties to survive. My grandparents provide a useful illustration of the sacrifices made by this generation for the future of Singapore. Despite being in the 2nd highest position in the Singaporean Government, my grandfather elected to go with a small British pension on his retirement in 1973, since the amount of Singapore pensions at the time were limited. Upon his death, my grandmother, who has been a widow for over a decade, received no spousal pension from either Britain or her native Singapore. She has had to rely on the income of my aunt in Singapore, and upon benevolent family contributors such as my father for economic assistance. This story originated when Singapore was a new nation, borrowing from the World Bank to develop. If my grandfather had held the same position in the current generation, he would have been paid much more than he did (Singapore's civil servants are extremely well paid compared to most other countries), and he would have had an excessively large pension from the CPF upon his retirement.

Many have accused Lee Kuan Yew and the PAP as being heartless, but even with my personal connection to my grandparents; I understand the necessity of sacrificing that early generation for the future of Singapore. If Singapore had become a welfare state early on like Britain was, they would have never made it out of the economic doldrums, and their current populace would not enjoy the standard of living that they do. Even

¹⁵¹ Howe Yoon Chong, Interview by author. Singapore, June 2001.

though Singapore is a much more wealthy nation now, they still take steps to keep a very low percentage of its citizens dependent on the state. The Maintenance of Parents Act was passed in 1995, which requires children to financially support needy parents. This reflects the age-old Asian tradition, where children are expected to give back to their parents in their older age.¹⁵²

Hong Kong, as described by the 1999 Yearbook, “is not a welfare state, but the community cares deeply about its state of welfare.”¹⁵³ It is not surprising that Hong Kong spends more on this function than Singapore does, since after all, British Governance influenced them for a lengthier period. Chris Patten, reflecting on his governorship, wrote that, “One of my earliest impressions was that Hong Kong’s economic vitality and strength were not matched by adequate social-welfare and education provision.”¹⁵⁴ Hong Kong’s current Comprehensive Social Security Assistance Scheme (CSSA) allocates funds to individuals, such as the job seeking unemployed, who are experiencing financial difficulty. The companion non-contributory Social Security Allowance Scheme (SSA) provides for the disabled and the elderly who do not meet the established limits of income and assets.¹⁵⁵

Although Hong Kong is not attempting to become a welfare state, the amount of approved applicants for CSSA and SSA services has steadily increased, demanding increased funds. The percent of Hong Kong’s Government expenditure in this category has almost doubled from 5.6 percent in 1990, signifying an increasing shift towards a

¹⁵² Chris Patten, *East and West*, 136.

¹⁵³ Information Services, *Hong Kong 1999*, 154.

¹⁵⁴ Chris Patten, *East and West*, 50.

¹⁵⁵ Information Services, *Hong Kong 1999*, 154.

welfare state, which also means an increasing shift away from Singapore's philosophy on this socio-economic issue.

Public Housing

Many correctly observe that the development of public housing were essential ingredients to Hong Kong's and Singapore's economic successes. A high degree of expenditure on public housing led to successes in this function for both locales, but the timing of the development of effective public housing programs differed greatly. Singapore devoted the largest proportions of its budget to public housing (Table 7.4) in 1975 (21.1 percent) and 1980 (16.8 percent). Hong Kong was to follow shortly after, doubling its expenditure on this function between 1980 and 1985 (Table 7.4) and continuing to devote over 20 percent of its expenditure on *Housing/Community Services* since 1985.

One of the PAP's original campaign promises was that it would develop affordable public housing for the citizens of Singapore. True to its word, the PAP did just that. Creating the Housing Development Board (HDB) in 1960, the Singapore Government embarked on a massive housing development, urban renewal, and squatter clearance campaign. The emphasis placed on building new houses had 86 percent of Singaporeans in public housing estates in 1999. Of those 86 percent, nine out of ten owned their own flat.¹⁵⁶ As of 1999, a total of 896,810 flats have been constructed since the start of the HDB in 1960.¹⁵⁷

¹⁵⁶ Foo and Chi, eds., *Singapore 1999*, 181.

¹⁵⁷ Foo Luen, chief ed., *Singapore: facts and pictures 2000*. (Singapore: Department of Statistics, Ministry of Trade and Industry, 2000), 135.

Although Hong Kong was a laissez faire colony that tried to allow free market forces to run the economy, they felt that intervention was necessary in public housing. After a massive squatter fire left 50,000 homeless in December 1953, Hong Kong quickly created the Resettlement Department to provide affordable public housing to those in need. However, the limited 24 square feet per adult person ¹⁵⁸ of Mark I flats built under the Resettlement Department resembled dormitory style living in the United States, with shared bathroom and laundry facilities. Sir Murray Maclehorse, governor of Hong Kong from 1971-1982 realized the inadequacy of the current public housing program. In 1972, Governor Maclehorse unleashed his plan to provide public housing for 1.5 million people over the next ten years. In order to see his goals to fruition, he replaced the Resettlement Department with the Housing Department in 1973. ¹⁵⁹

From 1970-1985 Hong Kong devoted around 10 percent of its budget each year to this function, increasing the proportion of expenditure to over 20 percent yearly from 1985-2000 (Table 7.3). The increase represents significant refurbishment of older model housing estates and increased building for the home ownership scheme that was unleashed in 1978. In 1999, Hong Kong housed 2.2 million (33 percent) of its populace in 705,800 public rental flats and 270,300 subsidized sale flats. ¹⁶⁰ In accordance with its free market ideals, Hong Kong's public housing does not completely dominate its own market. The private sector accounted for 1,128,400 housing units in 1999. ¹⁶¹ However, the Hong Kong government has had to step in to establish quality control in the private

¹⁵⁸ Lo, *Hong Kong*, 129.

¹⁵⁹ Lo, *Hong Kong*, 129-132; Courtauld and Holdsworth, *Hong Kong Story*, 84

¹⁶⁰ Census and Statistics Department, HKSAR. *Hong Kong Annual Digest of Statistics: 2000 Edition* (Hong Kong: Gov. Printing Services, HKSAR, 2000), 148.

¹⁶¹ Ibid.

sector. Until recently, Hong Kong building codes were not adequate and the codes that did exist were leniently enforced. With such an unregulated atmosphere, a few corporations took undue advantage of the poor, creating toothpick style structures with extremely squalid living conditions.¹⁶²

Economic Services

First glancing at the percent expenditure on the function of *economic services* as a whole in Tables 7.3 and 7.4, the numbers are moderately similar for both locales. However, breaking this function into its subcomponents tells us much more about the different areas in which Singapore and Hong Kong spent their money. For Tables 7.5 and 7.6 it was very hard to pick out generalized trends. It would appear that these tables reflect large government projects that were undertaken at different times, explaining temporary spikes in the categories.

The only consistent statistic for either table that is worth a closer comparison was the *transport and communications* category. This category may have had the most consistent trend, but it has also fluctuated according to large government projects. For example, this function accounted for 31.45 percent of Hong Kong's expenditure in 1980 (Table 7.5), reflecting the near completion of the Kowloon-Canton Mass Transit Railway. Similarly, Hong Kong's higher proportion of expenditure for this category in 1999 was partly explained by its continuing expenditure on Chek Lap Kok Airport. Nevertheless, this function has been the Hong Kong's primary contributor to the *economic services* category as a whole in all the years given (Table 7.5). Although not having as high of a

¹⁶² Francis Heng, Interview by author. Hong Kong, June 2001

percentage devoted to it as in Hong Kong, *transport and communications* also has consistently factored in highly in Singapore's expenditure (Table 7.6).

Even though Hong Kong's expenditure is much higher for the four years the *transportation and communications* category is one that must be considered a similarity because of the success of these networks in both cities. In 1999, Singapore had 3122 km of roads, compared to Hong Kong's 1885 km. This disparity reflects the more rugged terrain in Hong Kong, which has the majority of its paved roads concentrated in lower lying areas. The rough terrain is also a large reason why Hong Kong devoted 347 U.S. \$ per resident to this category compared to 156 U.S. \$ per resident in Singapore for 1999.

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I have spent time in Asian roads that are overloaded with vehicles that share space with street vendors, rickshaws, and bicycles. Being stuck in traffic consistently to get from one side of a city to the other in places such as Bangkok, one leaves with the impression of chaos and inefficiency. Traveling to Hong Kong and Singapore from other Asian destinations brings a sense of relief and order. As a visitor to either location, it does not take long to be impressed by the efficiency of their infrastructure. Arriving by air, one cannot help but be awed at the cleanliness of their facilities. Leaving the airports by taxi or bus, one is immediately struck by the effectiveness of their highway infrastructure. Singapore's garden city image has many of its flyovers covered with ivy, exhuming a sense of tranquility, while the massive bridges and tunnels of Hong Kong impress you with their sheer scale. Their mass rapid transit systems are much more

¹⁶³ Calculated by first converting the total amount spent on this function in 1999 for both locales and converting it to U.S. dollars by the current exchange rates (April 2002). Next, the converted amounts were divided by the 1999 population figures for each city-states.

Table 7.5
Percent of Hong Kong Government Expenditure, by Economic Service

Economic Service	1970 (%)	1980 (%)	1990 (%)	1999 (%)
Agriculture	0.69	0.42	0.45	0.48
Industry	0.49	0.29	1.46	1.08
Electricity, Gas and Water	7.46	4.03	3.20	3.07
Transport and communications	14.68	31.45	11.49	7.01
Other economic services	2.53	1.28	1.67	1.90
Total	25.86	37.47	18.27	13.54

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

Table 7.6
Percent of Singapore Government Expenditure, by Economic Service

Economic Service	1970 (%)	1980 (%)	1990 (%)	1999 (%)
Agriculture	0.44	0.22	0.66	0.22
Industry	0.49	13.82	0.18	0.03
Electricity, Gas and Water	-	0.22	-	-
Transport and communications	2.54	6.42	4.99	4.24
Other economic services	1.19	3.17	10.96	8.43
Total Value	4.66	23.85	16.80	12.91

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (New York: Oxford University Press, Various Years).

efficient and clean than many of those found in Europe. London Underground, run by their former administrators, pales in comparison to the MRT (Mass Rapid Transit) and the Hong Kong Underground system.

No matter where you are in either city-state it is easy to go where you want by mass transit rail and subways, taxi, or bus. Their well-managed and maintained infrastructure is most commendable, but after all, Hong Kong and Singapore's success are closely linked to the effectiveness of their transportation and communications facilities. Much of their economic achievements have been due to their locations as key centers of maritime trade and efficient gateways to their hinterlands. Without good supporting infrastructure for their port facilities, neither location would have enjoyed the successes that they have had in these roles.

Discussion of Government Expenditures in Singapore and Hong Kong

The contrasts between government expenditure are most easily seen in the functions of *Defense* and *Social Security/Welfare*. Singapore devoted 28.9 percent of its funding to defense in 2000, compared to 0 percent for Hong Kong (Tables 7.3 and 7.4). As an independent nation in a hostile international setting, Singapore had to rapidly militarize to ensure internal and external security. Only ever having a minor role to play in its own defense, Hong Kong has been able to divert resources to other areas. For example, Hong Kong spends far more on social welfare programs than Singapore, and the percent of expenditure devoted to this function has been increasing over the past decade.

Although clearly integral components of both success stories, the *Education* and *Public Housing* functions differed in results in both locales. Singapore's tight state controls have made them come out for the better in both categories. Hong Kong appears to have followed Singapore's lead in both categories, with significant reforms in public housing occurring over the past 25 years, and over the last few years for education.

By avoiding common characteristics of welfare states, the NIEs have been able to pump more of their resources into the breakneck pace of development that they have become accustomed to over the past 40 years. For example, expenditure and similar successes in *Transport and Communications* (Tables 7.5 and 7.6), a subcategory of *Economic Services* (Tables 7.3. and 7.4), have helped to facilitate their role as global cities. Singapore's leaders have clearly recognized the importance of supportive government spending on economic growth. This is evidenced by the low amount devoted to the *Social Security/Welfare* function, their self supporting CPF, and the recent Maintenance of Parents Act. Despite increasing spending on this function, Hong Kong is also still trying to avoid turning into a typical welfare state. But while they are both attempting to avoid increased social spending, the unavoidable truth is in the numbers. *Education* and *Health* have increased in both locales since 1980, with *Social Security/Welfare* and *Public Housing* also increasing for Hong Kong during that time. While this could possibly represent the maturation and the subsequent reduction of annual GDP growth rates for Hong Kong and Singapore, it could also mean that the quality of life for their citizens is likely to keep on improving.

CHAPTER VIII

DISCUSSION AND CONCLUSION

The Development of the Asian NIEs

The similar economic accomplishments of the NIEs are impressive indeed. As Chris Patten observed, “No other countries have matched the sustained period of fast growth of several Asian economies since the mid-1960’s. They have moved at a sprinter’s pace for a marathon distance.”¹⁶⁴ Economists and developmental theorists often treat the four Asian NIEs as a homogenous group, pointing to their comparable growth rates over the past 40 years. Indeed at first glance, there are many striking resemblances in their paths to success. All four NIEs are primarily Sinitic based civilizations that have pursued liberalized export led economies. All four economies benefited from periods of benevolent colonialism, and all four, including Hong Kong, used supportive government expenditure to catalyze their economic growth. Additionally, all four benefited from massive FDI inflows from Japan, the West, and the Overseas Chinese. In turn, these four economies now heavily invest in developing Asian economies such as China and Malaysia.

All four NIEs profited from the liberalized world economic order established by the United States after World War II. The United States, pursuing a policy of communist containment, further helped these economies by providing stability in the region. Despite the endless list of analogies made to the likeness of the four NIEs, there must be something more to their stories than these generalizations can tell. Other parts of the

¹⁶⁴ Patten, *East and West*, 122.

world, such as Latin America benefited from many of the same characteristics that the NIEs did, but they did not experience the same level of success. Even oil rich states in the Middle East, who possess high GNPs per capita, have not been able to replicate the technological advancements, the infrastructure, and the standards of living of the Asian Dragons.

The impressive economic achievements of the NIEs are marveled at by other developing nations, who ask themselves how they could duplicate similar results. However, when generalizations are made about the common economic achievements of the Asian Dragons, the most important ingredient in their success is often omitted: geography. Mistakenly, this crucial element receives very little attention in the regional models that explain the success of the NIEs. On my visit to Singapore, I had the opportunity to interview Mr. Anthony Tan, President and Chief Executive Officer of the International Trade Institute of Singapore. When I asked him if the success of Singapore could be duplicated, he stated that it would be impossible since other nations do not have a Lee Kaun Yew or the geography that Singapore does.¹⁶⁵

Mr. Tan also noted that the best other nations can do is to see what relevant policies they can take and implement from the story of Singapore, since its success story, or any the stories of the other NIEs for that matter, cannot serve as a comparable models for other nations to follow.¹⁶⁶ What the generalized models of the NIEs also fail to disseminate is the distinctiveness of each NIE from the others. The standards of living, per capita incomes, and levels of economic growth in each Asian Dragon have varied in relation to each other over the past 40 years.

¹⁶⁵ Anthony Tan, Interview by author, June 2001.

¹⁶⁶ Ibid.

The aim of this project has been to prove that although they share many common attributes, there have been at least two paths to success within the NIEs. Therefore, I have taken Hong Kong, the apparent outlier, since it adhered to a more liberal economy than the others, and compared it with Singapore. Of the four NIEs this is the last place where researchers would expect to find any significant differences. After all, many have regarded these two city-states as twins due to their limited land areas, geographic positions, and similar population densities. While sharing similar economic ideologies under British rule, the paths of these two locales differed after Singapore's independence in 1965 (which interestingly is also used as the starting period for the common NIE success stories).

Discussion of Independent Variables

As stated in my introduction, the best way for other countries (and researchers) to understand the success of the East Asian NIEs is to study how their domestic institutional factors adapted to global and political change. In this light, my secondary hypothesis argues that Hong Kong's and Singapore's geo-political factors, economic ideologies, and governmental development strategies, have been the primary ingredients that have created and that explain their different developmental paths to success over the past four decades. Following is a brief conclusion on each variable. Lengthier discussions for each INDV can be found at the end of their respective chapters.

INDV I: (Chapter V) Economic Ideology

This chapter employed a case study method to establish that the ideologies of Hong Kong and Singapore were different over the past 40 years. The most telling indicator of this difference was in the manufacturing sector. The majority of Hong Kong's manufacturing production facilities have relocated to the mainland, and this economic category accounted for only 5.8 percent of its GDP in 1999 (Table 5.7).

Singapore's manufacturing industry, on the other hand, still accounted for 25.9 percent of its GDP in the same year (Table 5.8). Rather than letting free market forces prevail as Hong Kong did, Singapore's Government has taken steps to continue its twin pillars approach. Their twin pillars strategy posits that a strong manufacturing sector is essential to supplement the growing tertiary sector. By not putting all their eggs in one basket, Singapore believes that they will experience greater economic consistency when a crisis affects one of their pillars. This is a big reason that Singapore still had slight GDP growth during the AFC in 1998, while most of the Asian Pacific Rim, including Hong Kong, suffered negative growth.

Using data from the Asian Development Bank (ADB), I tracked the contributions to GDP by industrial origin for both countries since 1970. Again, the numbers indicated the biggest difference in the manufacturing sector. This was further exemplified by the glaring ideological difference in their levels of entrepreneurship. Singapore's government served as the conduit for economic growth by attracting and retaining large MNCs. Hong Kong, however, relied on the individual entrepreneurs to soak up the excess labor that immigrated to Hong Kong from the Mainland. Other notable ideological differences

include the numerous government led corporations in Singapore, and their respective responses to the Asian Financial Crisis.

INDV II: (Chapter VI) Geo-Political Factors

Although it was impossible to wholly separate this chapter from some of the economic discussions of the previous one, a chapter devoted to how their developments were shaped by their neighbors and the global economy was essential. Both economies had to develop in, and adapt to, very uncertain atmospheres, particularly in the 1960's. Although their initial growths were in hostile climates, both nations are the products of their adaptations to changing domestic and external factors.

Hong Kong's hinterland, much more so than Singapore's, has been responsible for shaping their economy. Hong Kong's economic pathway has been shaped and altered primarily by one country, China. When China closed its doors to the West following the Chinese Civil War in 1949, Hong Kong had to all but abandon its traditional economic role as an entrepot. Instead, Hong Kong was able to reorient its economy to serve temporary fads in the West. Plastic flowers, watches, toys, and firecrackers were some of the many items produced by the labor-intensive manufacturing base in Hong Kong up until 1979.

With the opening of China's doors in 1979, Hong Kong underwent another massive economic transformation. With the lure of the large domestic market in China, international investors poured money through the medium of Hong Kong. With the outsourcing of its manufacturing base to China, Hong Kong shifted to a predominantly

tertiary economy, which has provided the services to bridge capital and information flows coming into and out of China.

Singapore's entrepot port status to its fragmented hinterland, although economically important, has not influenced this nation as heavily as the continental hinterland of Hong Kong has. Besides its significant trade relationship with Malaysia, Singapore has traditionally relied on bilateral trade with more industrialized nations such as the other NIEs, Japan, and the United States. Also in contrast to Hong Kong, Singapore has had to worry about domestic turmoil in addition to international strife. With three major ethnic groups, the leaders of Singapore have tried to avoid a clash of cultures by ensuring continued economic success for all groups, and by developing a sense of national community.

To substantiate my arguments, I used trade data from the ADB to quantitatively display the changing trade partners of Singapore and Hong Kong. As anticipated, Hong Kong's major trading partners have varied in significance depending on its relationship to China. The data for Singapore also produced expected results that showed that its entrepot trade relative to Hong Kong's has been small, and its major trading partners have been predominately outside Southeast Asia. I also used ADB data to show how the composition of goods had changed in both locales. This served to portray how the export items have changed due to their relationships to other nations, their economic growths, and the political ideologies of Hong Kong and Singapore.

INDV III: (Chapter VII) Government Expenditure

This INDV was intended to not only make its own argument, but to also provide further evidence to the assertions of INDVs I and II. In both regards, this chapter was a success. This chapter was perhaps the most telling of the three data analysis sections, especially since I have not seen a study that expressly compares their expenditure data. Again relying on data compiled by the ADB, I compared the percent of government expenditure by function for Hong Kong and Singapore.

In line with the arguments made in INDV II, comparing Hong Kong, which was never its own nation, to a sovereign state is problematic. Surrounded by potentially hostile and chaotic neighbors such as Indonesia, Singapore has devoted a very large proportion of its budget to defense spending. Hong Kong, never being responsible for paying more than a paltry sum towards its own defense, was able to divert more of its resources towards economic development.

The other telling difference between the two was in the proportion of expenditure that they devoted to social welfare. Hong Kong spends more than six times the amount of this function that Singapore does. Singapore has tried to avoid high amounts of social spending by using its self-sufficient Central Provident Fund, and by passing the Maintenance of Parents Act. Hong Kong, more in concert with their former rulers, appropriates more direct funds to the economically disadvantaged. The categories of public housing, education, and economic services also provided useful comparisons. Even though the percent of expenditure devoted to these functions were at times similar, the results were not always the same.

Primary and Secondary Hypothesis:

Given the key points drawn from each INDV, I feel logically justified to accept my secondary hypothesis that their geo-political factors, economic ideologies, and their government expenditure patterns show significant differences over the past 40 years. The fact that Hong Kong was a colony and Singapore was an independent nation during this time frame was a key factor that helped lead me to this conclusion. As laid out by the INDVs, Hong Kong and Singapore were also products of their neighbors and their economic development strategies. Although there were many other factors at work in shaping the successful pathways of Hong Kong and Singapore, these three variables provided sufficient substantive differences to show that their economic successes have arisen from two distinct roads.

Based on the conclusion of my secondary hypothesis, I am compelled to accept my primary hypothesis, but I do so with a bit of reservation. It is clear that Singapore and Hong Kong comprise two distinct paths to success within the NIE models. With further research, I would also guess that South Korea and Taiwan would also have their own distinct stories to tell. However, after researching the subject matter for two years, I also understand why these four have been grouped together. All four do share characteristics that were essential to the success of all. Economic openness, “strong” states that were insulated from domestic opposition, supportive government expenditure, Sinitic based civilizations, favorable geographies, and the similar timing of their economic success, are but a few of the many commonalities that the four Asian Dragons share.

So what is my point in regard to my primary hypothesis? The point is that there are at least two paths to success within the Asian NIE models. But based on the differences found it is more appropriate to reaffirm my secondary hypothesis that Singapore and Hong Kong were distinct in their economic success, rather than to completely debunk the volumes of NIE research. In other words, although there may be multiple pathways to success within the NIEs, regional models still provide a useful starting point into understanding the common ingredients in their successes. However, when observing these regional studies, one must be sure to understand that they cannot tell us the whole picture. They cannot tell us why some countries that shared some of the same common ingredients failed, nor can they tell us how each NIE successfully adapted to differing political and economic climates. To truly grasp the complexities of each NIE, one needs to analyze how each country has facilitated their astonishing economic growths and how their adaptations to various domestic and international circumstances have shaped who they are today.

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APPENDIX A
PERSONAL INTERVIEWS

Singapore:

- 1) Mr. Howe Yoon Chong: Former Head of Civil Service, Current Director of Several Companies, Former Director of the Housing Board, Oversaw the building of Changi Airport, Former Chairman of the Port Authority, etc, etc. Singapore, June 2001.
- 2) Mr. Francis Lee: Asian Regional Manager of Trans-Tec, which trades oil. Singapore. June 2001.
- 3) Dr. Lim: Emeritus Prof. of Economics at Nanyang University. Singapore, June 2001.
- 4) Mr. Lawrence Low: Manager and owner of a ten-employee firm that focuses on selling commercial radars. Singapore, June 2001.
- 5) Mr. Anthony Tan: President of the International Trade Institute of Singapore, June 2001.
- 6) Mr Paul Tan: finance lecturer at Nee Ann Polytechnic and Mr. Chan Whye Quin: Mechanical Engineer. Singapore, June 2001.
- 7) Mr. Then: Director of Foreign Manpower. Singapore, June 2001.
- 8) Mr Phillip Tong: Human Resource lecturer at Nee Ann Polytechnic. Singapore, June 2001.
- 9) Ms. Olivia Stewart, educational tutor. Singapore, June 2001, telephone conversation, April 2002.

Hong Kong:

- 9) Mr. Francis Heng: Group treasurer for Jardine Matheson. Hong Kong, June 2001.
- 10) Mr. Henry Lau: Trade Officer. Hong Kong, June 2001.
- 11) Mr. Joseph Tsang: Assistant Chief Economist of Hong Kong Trade Development Council. Hong Kong, June 2001.
- 12) Dr. Yeu-Man Yeung: Head of Shaw College, Director of Asian Studies Program, Chinese University of Hong Kong. Hong Kong, June 2001.

United Kingdom:

- 13) Gerald and Jean Morely: Mr. Morely was a former investment banker for Chase Manhattan. He resided in SE Asia during the mid 1950's to early 1960's. United Kingdom, various times 2001-2002.

U.S.A.

- 14) Robert and June Larson: Mr. Larson was a former managing director of worldwide exports for Firestone Tire Co. They lived in Singapore during the 1960's. I relied on them for information countless times between 2001-2002.