

Tales of two city-states: The development progress of Hong Kong and Singapore

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Veröffentlichungsversion / Published Version

Monographie / monograph

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Universitäts- und Stadtbibliothek Köln

Empfohlene Zitierung / Suggested Citation:

Geiger, T., & Geiger, F. M. (1973). *Tales of two city-states: The development progress of Hong Kong and Singapore*. (Studies in development progress, 3). Washington: National Planning Association. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-90288-9>

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**TALES OF TWO CITY-STATES:
The Development Progress of
HONG KONG AND SINGAPORE**

Theodore Geiger 3v

assisted by

Frances M. Geiger H N

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National Planning Association

(Studies in Development Progress, No. 3) 147



TALES OF TWO CITY-STATES:
THE DEVELOPMENT PROGRESS OF
HONG KONG AND SINGAPORE
Studies in Development Progress, No. 3
Price: \$3.50

Library of Congress
Catalog Card Number: 73-86119

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1606 New Hampshire Avenue, N.W.
Washington, D.C. 20009

1974 JG 4828

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Statement by the Committee on Overseas Development

The Committee on Overseas Development has been sponsoring a series of studies of significant and lasting progress by developing countries. The previous studies in our series dealt with Latin American nations. In the current effort, we turn for the first time to East Asia to survey the progress, policies and prospects of Hong Kong and Singapore.

These two city-states have been achieving high rates of economic growth, with full employment and rising living standards, by one of the most difficult means: the development of manufacturing industry based on exporting to competitive world markets. This accomplishment has been difficult because such industries must from the beginning be efficient and capable of continuously improving their productivity so as simultaneously to meet competition in export markets and to raise the real incomes of the people. In Hong Kong's case, these stringent requirements have been fulfilled mainly through the efforts of indigenous business firms, the hard work and adaptability of the people, and the policies of the government in relying primarily upon freely operating market forces to provide the necessary incentives and pressures. In Singapore's case, they have been met in major part through the efforts of large U.S., European, Japanese, and other foreign companies, the hard work and adaptability of the people, and the policies of the government in constraining and guiding the operation of market forces toward certain economic and social goals without unduly impairing efficiency and competitiveness. In these different ways, Hong Kong has attained a per capita GDP of US\$1,000 and Singapore a per capita GDP of US\$1,200 in 1972. Economic growth has also provided the resources for housing 46 percent of Hong Kong's people and 40 percent of Singapore's under two of the largest low-rent public-housing programs in the world, for universal primary school education, for 4 hospital beds per 1,000 inhabitants and numerous low-cost or free clinics, for a variety of social-welfare programs, and for rapidly expanding facilities for recreation and cultural advancement.

Despite the differences in their development strategies, both Hong Kong and Singapore have depended in greater or lesser degree upon market forces to stimulate and maintain the dynamism of their private sectors and upon sound fiscal and monetary policies to assure a continuing high rate of economic growth and the steady increase of real income. Their success once again demonstrates the effectiveness of these prescriptions. We believe that there are other important lessons to be learned from the experiences of the two city-states. The economic, political and other sociocultural factors responsible for the development progress of Hong Kong and Singapore, the problems they have overcome in the past, their prospects for the future, and the relevance of their policies to other countries are analyzed in this study with unusual interdisciplinary scope, insight and balanced judgment. Accordingly, without necessarily endorsing all of the authors' analyses and conclusions, we are pleased to recommend publication of this study as the third in NPA's series on development progress.

On behalf of NPA, we also wish to thank the following foundations, whose grants helped to make the study possible: the Asia Foundation, the Faigel Leah Foundation, the Good Works Foundation, the International Foundation, the Henry Luce Foundation, and the Starr Foundation. However, these foundations are not responsible for the data, analyses and conclusions in this study, which are solely those of the authors.

Members of the NPA Committee on Overseas Development Signing the Statement

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Preface

This account of the development progress of Hong Kong and Singapore is intended for policy makers and opinion leaders in the developing countries and in the United States and other developed nations, as well as for development experts. It endeavors to explain in nontechnical language the means by which the two city-states have achieved their extraordinary economic growth and the benefits that have resulted therefrom in terms of full employment and rising living standards. One purpose of the detailed analysis is to ascertain whether each city-state's general development strategy and specific policies are relevant to the needs and capabilities of other developing nations seeking similar goals.

Although Hong Kong and Singapore are world-famous cities much visited by tourists and travelers, people who do not live there or who do not have a business or professional relationship with them generally know little about their development progress and how it has been achieved. Indeed, even many experts in the field of development pay little attention to the experiences of Hong Kong and Singapore on the assumption that their accomplishments are owed to their Chinese sociocultural characteristics or in the belief that the problems and potentialities of city-states are so different from those of nation-states as to have no relevance to them. In Chapter I, we point out the most important practical lessons to be learned from the experiences of Hong Kong and Singapore. In our judgment, they do not depend upon ethnic characteristics or size and could be applied by other developing nation-states not only in Asia but in Africa and Latin America as well.

For those readers lacking time for the full analysis, we have begun Part One with a chapter summarizing the historical backgrounds and current development progress of the two city-states and the lessons to be learned from their experiences that have wider applicability. Because Hong Kong and Singapore are inhabited predominantly by people of Chinese descent, Part One also includes a chapter sketching the main social-institutional and cultural elements in traditional Chinese civilization that help to account for the economic capabilities and sociopolitical characteristics of the existing transitional societies and cultures of the two city-states. Part Two on Hong Kong and Part Three on Singapore each contain four chapters that analyze, respectively, the transformation of each city-state since World War II, the present structure and functioning of its economy and the economic difficulties and opportunities likely to confront it in the foreseeable future; the specific improvements in living standards and socioeconomic well-being that it has enjoyed in recent years, and the nature of its governmental system and of its sociopolitical problems and prospects.

Our analysis is based mainly upon three types of primary sources. The first consists of numerous interviews with political leaders and civil servants; officials and staff members of chambers of commerce, trade associations, labor unions, business firms, and other private institutions; and university scholars, journalists, students and other individuals. The second are the personal visits we made to industrial estates and factories, housing estates, schools and universities, health and recreational facilities, markets and shops, and infrastructure projects. The third are official statistics; annual reports and other publications of government departments and ministries, banks and business firms, chambers of commerce and

trade associations; publications of political parties, labor unions and other organizations and speeches of their leaders; local newspapers and magazines; and other written materials. As to secondary sources, a brief selected bibliography of recent books and current periodicals relevant to the two city-states is given at the end.

Because of the broad readership for which the study is intended, we have not burdened the text with footnote references to confirming or conflicting opinions in the social-science literature, with which development experts will in any case be familiar. However, a special bibliography is appended to Chapter II to indicate the main authorities on whose work we have based our analysis of the Chinese sociocultural background.

We wish to express our deepest thanks to the many helpful people we met in Hong Kong and Singapore for their interest in our work, the time they so generously afforded us, and their gracious hospitality. We are especially grateful to those who read and commented on the drafts of Parts Two and Three. We also greatly appreciate the interest in and assistance to our research of the members of NPA's Committee on Overseas Development and their useful comments on the study. A very special debt is owed to John Exter, who originally suggested that the Committee sponsor this series on development progress, explained the importance of including Hong Kong and Singapore in it, helped to obtain much of the financing for this study, and made significant contributions to our understanding of the economic dynamics of the two city-states. We wish particularly to thank John H. Adler, Alphonse de Rosso, Robert M. Dunn, Jr., Edward S. Mason, John Miller, Ernest H. Preeg, Lucien W. Pye, and Lauren K. Soth for their careful reading of all or portions of the text and for their valuable suggestions. We are also most grateful to the foundations whose generous grants to the National Planning Association helped to make this study possible. Naturally, we take full and sole responsibility for the data, analyses and interpretations presented herein.

National Planning Association
June 1973

Theodore Geiger
Frances M. Geiger

About the Authors

Theodore Geiger is NPA's Director of International Studies and is also Professorial Lecturer in International Affairs at the School of Foreign Service, Georgetown University. In the recently published *The Fortunes of the West: The Future of the Atlantic Nations* (Bloomington and London: Indiana University Press, 1973) and earlier studies, he has written extensively on North American-West European economic and political relationships, international economic problems, U.S. foreign economic policies, and related subjects. His previous books on economic and social development include *The Conflicted Relationship: The West and the Transformation of Asia, Africa and Latin America* (New York and London: McGraw-Hill for the Council on Foreign Relations, 1967) and *The Development of African Private Enterprise* (Washington, D.C.: National Planning Association, 1964, reprinted 1969).

Frances M. Geiger is an economist in NPA's International Division. She was the founder and first editor of the *Development Digest*, a quarterly journal of excerpts and summaries of current materials on economic and social development that continues to be prepared by the National Planning Association for distribution in the developing countries through U.S. embassies and aid missions.

Note on Dollar Values

In most cases, value figures are expressed in Hong Kong dollars and Singapore dollars, respectively, and not in U.S. dollars as is usually done in development studies. There are two reasons for this choice. First, the exchange rate of the U.S. dollar has changed so frequently and substantially since August 15, 1971 that the resulting equivalent figures for the original statistics in Hong Kong and Singapore dollars would be misleading, especially at present writing when the U.S. dollar is probably undervalued. Second, analysis of development progress involves comparison of the current measures of the two city-states' economic-growth indicators and welfare benefits with their magnitudes in the past; it does not require that they be compared with one another or with other developing countries. Nevertheless, in a few cases where it would be significant for readers to have the U.S. dollar equivalents, we have converted the figures into U.S. dollars at the exchange rates prevailing at the times to which they refer. For those who may wish to make additional conversions, here are the U.S. dollar exchange rates of the two currencies and the periods when they were valid:

Hong Kong Dollar (HK\$)

From 1949 to November 1967	- 5.714	= US\$1
November 1967	- 6.06	= US\$1
December 1971	- 5.58	= US\$1
July 1972	- 5.65	= US\$1
Average 1972	- 5.638	= US\$1
February 1973	- 5.085	= US\$1

Singapore Dollar (S\$)

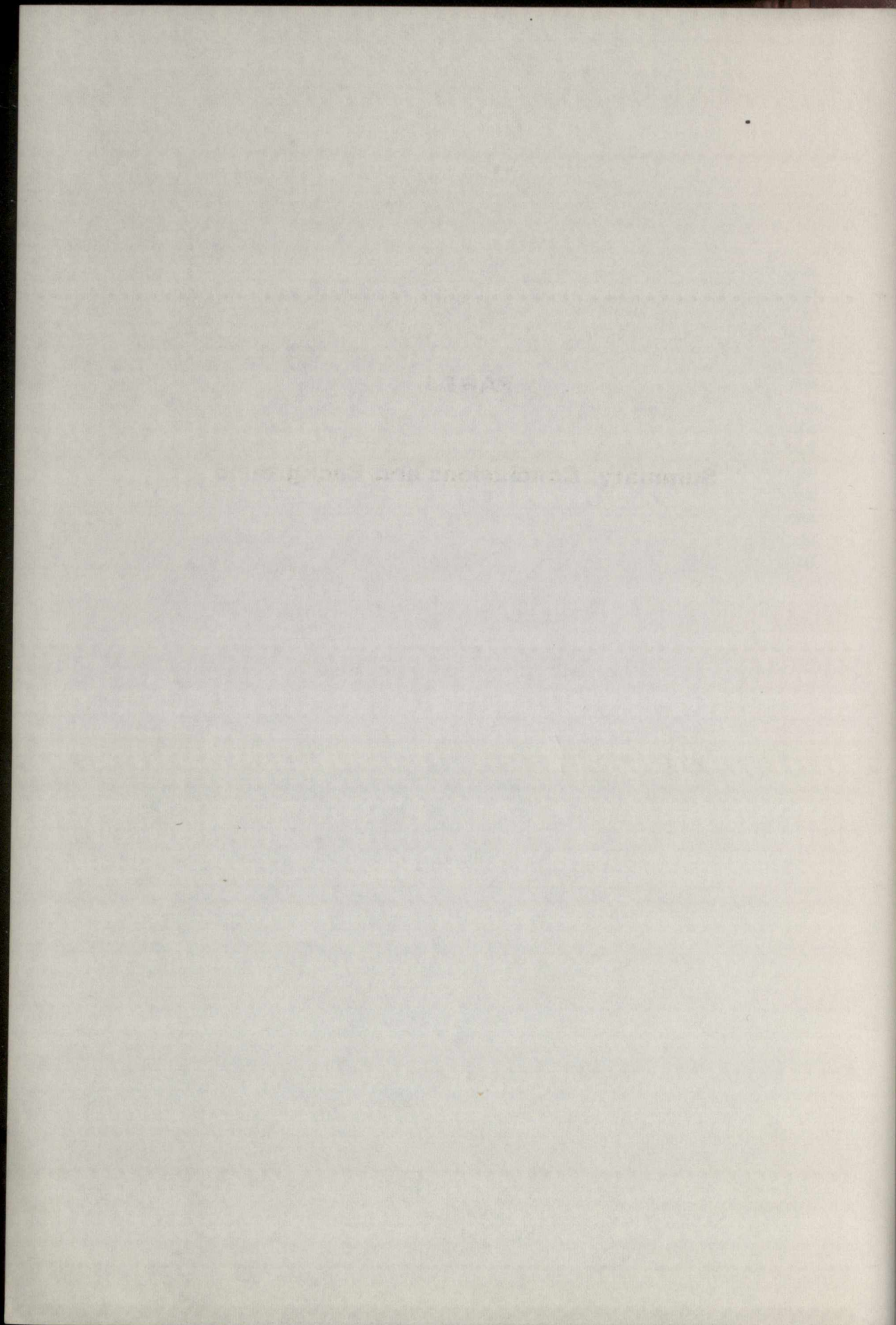
From 1949 to December 1971	- 3.03	= US\$1
December 1971	- 2.82	= US\$1
February 1973	- 2.5376	= US\$1
June 1973	- floating against US\$	

Note on Tables

Some of the columns in the statistical tables may not add to the totals given due to rounding.

PART I

Summary, Conclusions and Background



I.

Hong Kong and Singapore: An Overview of Their Development Progress and Policies

The city-state is an old form of macro social organization that is rare in the modern world. It may be defined as a politically independent or autonomous society with a small territory that is dominated by, and largely dependent on the commercial and manufacturing activities of, a single city containing most of the inhabitants and from which all derive their sense of a distinctive sociocultural identity and common destiny *vis-à-vis* the surrounding states.¹ The great periods of the city-state lie in the past. They were common in the ancient world; and we tend to think of the Greek city-states of the classical era as representing the quintessence of this form of macro social organization. In the West, they became prominent again in the late Middle Ages, especially in Italy, the Low Countries and Germany, but were gradually absorbed into the emerging nation-states from the 16th through the 19th centuries. Despite their failure to survive, however, the influence of the ancient and medieval city-states on virtually every major aspect of the development of Western civilization has been incalculable. Indeed, without their contributions, our present society and culture would be quite different.

The role of the city-state in the development of the great civilizations of East and South Asia has been just the reverse. True, as in West Asia and Egypt, the emergence of cities in the northern river plains of China and India was by definition the origin of the Chinese and Indian civilizations. But, these cities were generally parts of, or were soon absorbed by, larger kingdoms, which were dependent on their much more extensive and populous rural areas and whose senses of sociocultural identity were not extensions of those of any of the urban settlements included in them. Indeed, in none of the Oriental civilizations did the city—let alone the city-state—play the crucial formative role that it did in the development of Western societies.² Since the 11th century in the West, the cities fostered and were in turn sustained by the growth of increasingly powerful groups of commercial, financial and industrial entrepreneurs and craftsmen. Both by their own efforts and in cooperation with the centralizing royal power against the autonomous feudal magnates and landed nobility, these middle classes won a significant measure of self-government for their urban communes. They also obtained carefully defined legal rights and judicial procedures, which protected their property, governed their business transactions and contracts, and regulated taxation, inheritance and other important aspects of their relationships with superior feudal or royal authorities.

¹By this definition, Westerners can point to only two surviving examples in Europe—Monaco and San Marino. The three other European mini-states—Andorra, Lichtenstein and Luxembourg—have comparatively large rural areas and neither historically nor today has their sense of identity depended upon citizenship of their capital cities.

²The only Asian city-states that seem to have persisted for substantial periods during historical times were along the great east-west trade routes in Central Asia. But, owing to frequent barbarian invasions and interludes of Chinese rule, they flourished intermittently and were in any case peripheral to the main centers of Asian civilization. Even so, their artistic and literary remains and other artifacts appear to indicate an unusual degree of vitality and creativeness.

In contrast, Chinese and Indian cities never became self-governing to any significant degree or for any appreciable period, nor did their merchants, financiers and artisans ever win clearly defined legal rights and judicial procedures that constituted substantial protection against the arbitrary will of the sovereign power. Although until the 16th century some were much bigger, wealthier and technologically more advanced than their Western counterparts, Chinese and Indian cities were essentially adjuncts of the dominant political authorities or of religious cults. As centers of imperial, provincial and local administration, they were important for the collection of taxes and other types of official income in money, commodities and labor services; for the production or transmission of the luxury goods and *objets d'art* required by the imperial court, the governing bureaucracy and the landed gentry or other ruling elites; and for carrying on religious activities. Even when some of them also became major commercial and manufacturing centers for the inhabitants of their regions, Chinese and Indian cities—unlike those of the West—tended to have little sense of an independent, self-justifying *raison d'être* expressed in a distinctive civic identity that served as a strong focus of loyalty for their citizens.

Hong Kong and Singapore were not typical Asian cities either in origin or in subsequent development. Both were new cities founded by the British to carry out entrepot functions.³ The fact that they provided uniquely Western benefits was a major reason why they soon attracted growing numbers of people. For, from the beginning, their fully developed, formalized British legal and judicial systems offered Asian merchants, financiers and manufacturers a most desirable alternative to the inadequate protection of private property and the restrictions on commercial activities in the traditional codes and to the usually extortionate and often capricious administration of justice by Chinese magistrates and Malay sultans. Equally important, they granted freedom of trade—an unprecedented privilege in societies in which, from time immemorial, the production, sale and transportation of goods had been subjected to internal tolls, external duties and detailed regulations of many kinds. Nevertheless, Hong Kong and Singapore resembled Oriental cities in one important respect. Because they were ruled by a distant and culturally very different colonial power, they were inhibited from developing strong senses of distinctive sociocultural identity that could become powerful foci for the loyalty of their inhabitants. This possibility has been open to Singapore only since achieving independence after World War II and is still largely unavailable to Hong Kong.

Founding and Early Development

Both Singapore and Hong Kong owe their existence to British interest in trading with China and the East Indies.

In the late 18th and early 19th centuries, the East India Company, then in process of becoming the paramount power in India, was also increasing its trade

³An Asian-type city existed on the site of Singapore in the 12th and 13th centuries but it subsequently declined and no trace remained when the British arrived in 1819. The island was inhabited by about 100 Malay fisherman and a few dozen Chinese farmers and traders. Hong Kong island contained a few small fishing villages.

with China mainly in a triangular pattern involving the export of Indian goods to China, of Chinese goods to England, and of British goods to India. In addition, independent British merchants were more and more encroaching on the Company's trading preserves. The Company's ships and those of the independent merchants trading with China passed through the South China Sea en route either to and from India or to and from Europe via the Cape of Good Hope. All needed a safe and convenient port in which to take on water and supplies and to make ship repairs. During the Napoleonic War when the French ruled Holland, the British occupied the Netherlands East Indies and used its ports for these purposes, as well as to take over the highly profitable trade of this rich archipelago, hitherto a Dutch monopoly. After the War, however, the Indies were returned to the Netherlands as part of the peace settlement, and the Dutch soon reestablished their trading monopoly and tried to exclude British ships from the region. In these circumstances, Sir Thomas Stamford Raffles, the energetic and farsighted agent of the East India Company in the "Eastern Seas," as the British called the region from their vantage point in India, arranged in 1819 with the local Malay ruler for the establishment of a British trading post on the island of Singapore.

Situated off the southern tip of the Malay peninsula, Singapore (Lion City) was strategically located astride both the north-south seaway between China and the Indian Ocean/Cape of Good Hope route to Europe and the east-west seaway between India and China or the Dutch East Indies. Thus, it provided both the necessary stopping place on the long sea voyages and a convenient port from which to recapture, openly or clandestinely, a share of the rich East Indies trade, as well as to develop commercial relations with the Malay states in the peninsula and on the nearby north Borneo coast, which were not under Dutch rule. The rapid growth of the settlement justified Raffles' choice, and in 1824 the British purchased the entire island of 225.6 square miles (including the surrounding small islands).

Throughout the 19th and early 20th centuries, Singapore continued to be a major station on the sea routes to China; indeed, the general abolition of the European trade monopolies in Asia and the opening of the Suez Canal steadily enhanced its importance in this respect. However, it soon became apparent that the main source of its growth was its trade with Malaya and the East Indies. It was the center from which British colonial control was gradually extended throughout the peninsula and along the northern coast of Borneo. Much of the exports and imports of these areas, as well as an increasing share of the trade of the Netherlands East Indies, passed through Singapore. In the main, the outflows of primary products from Singapore to Europe and North America and the inflows of manufactured goods from those regions were handled by British merchant houses; the inflows of primary products from Malaya and the Indies and the outflows to them of manufactured goods were organized by Chinese merchants.

The Chinese were settled in Southeast Asia—Nanyang, the "Southern Ocean," as they called it—long before the British established themselves in Singapore. Since the 14th century, Chinese merchants had been trading southward from Canton and other South China ports in reverse along the routes that had been opened up in earlier centuries by the Indians, the Persians and the Arabs. By the 19th century, substantial numbers of Chinese traders and farmers were resident throughout the region; in fact, a few were already living on Singapore island when the British established their trading post. The advantages of free trade, business security, legal protection, and judicial impartiality attracted

growing numbers of Chinese and, in little more than a decade, they became—and have remained ever since—the largest ethnic group in Singapore's population. After the traders came the workers—the dockhands, warehousemen, porters, servants, and day laborers, as well as the skilled artisans and clerks—needed for Singapore's expanding economic activities. As political disorders and economic difficulties became increasingly prevalent in China from the 1840s to the 1940s, more and more Chinese migrated southward to Singapore and the other lands of the Nanyang.

Thus, by the opening decades of the 20th century, when rubber and tin production (the latter by Chinese entrepreneurs) was rapidly expanding in Malaya and the nearby islands, the growing need for labor and ancillary services on the plantations and tin dredges was largely met by Chinese already settled in the region or brought down from South China by contractors. For their part, the British provided the financial resources and management skills required for the rubber plantations and other new activities. By World War II, Singapore had long been the major port of Southeast Asia in consequence of the efforts of its British mercantile and agency houses, its Chinese merchants and clerks, and its hard-working Chinese labor force.⁴ It was also the chief bastion of British naval power in Asian waters until the Japanese captured it by a land rather than a sea attack in 1942.

Much more than in Singapore's case, the founding and growth of Hong Kong were dependent on British interest in trade with China. Situated in the outer estuary of the Pearl River, the island is convenient to Canton, further up the river, which for centuries had been China's most important port for trade with the Nanyang, as well as with India, Africa and the Western nations. By the early decades of the 19th century, the British had warehouses in Canton, where they stored the opium—grown in India—that constituted their main export to China, and the tea, silk, porcelain, and other Chinese products they bought in return. Naturally, the Chinese imperial government sought to limit and, if possible, to cut off the supply of opium, which was being smoked not simply by the wealthier groups, among whom it was traditionally used, but increasingly by the poorer classes as their economic situation deteriorated and their personal security was impaired by the disorders of the times sketched in Chapter II. In addition, the British merchants objected to the capricious regulations and extortionate demands of the local magistrates and the monopolistic profits of the Chinese merchant houses (*hongs*) through whom they were legally required to trade. A series of incidents led to the Opium War of 1840-42, one result of which was the cession to the British in perpetuity of the Island of Hong Kong (Fragrant Strait or perhaps Incense Strait) of 29 square miles. In 1860, after a second war with China, the British acquired the 3 3/4 square miles of the Kowloon peninsula, the nearest mainland, and the neighboring Stonecutters Island, also in perpetuity. Finally, in 1898, China was forced to lease to the United Kingdom for 99 years an additional 365 3/4 square miles of the contiguous mainland and surrounding islands known as the New Territories. Thus, the colony of Hong Kong comprises 398.5 square miles of owned and rented territory.

⁴Mention should also be made of the influx of Indians into Singapore first as transported criminals and later as voluntary immigrants. Although never more than a small proportion of the population, they too have contributed significantly to Singapore's productiveness and dynamism.

The sheltered, deep-water strait between Hong Kong island and the Kowloon peninsula is one of the world's largest and finest natural harbors. Also, surrounded by rugged mountains and hundreds of smaller islands, it ranks with Rio de Janeiro, Sydney and San Francisco as scenically one of the most spectacular. After its acquisition by the United Kingdom, permanent shipping and commercial facilities were rapidly established and it became the center from which British trade with much of South China was conducted. As earlier in Singapore, freedom of trade, legal and judicial arrangements conducive to business enterprise, and the social and physical security of British rule soon attracted increasing numbers of people from the nearby towns and villages of Kwangtung province. They became the clerks and laborers needed for Hong Kong's growing commerce and undertook the retail and other service activities required by its expanding population. The profitability of the China trade induced an increasing number of British merchant houses and shipping firms to establish branches on the island. Many young Scotsmen, especially, came to Hong Kong to seek their fortunes during the second half of the 19th century.

By the opening decades of the 20th century, Hong Kong's energetic British merchant houses were heavily engaged not only in trading with China but also as financing and management agencies for the construction of railroads, port facilities, public utilities, and other projects throughout that country. The big British-owned banks arranged syndicates to float loans for the imperial Chinese government and, after the Revolution of 1911, for the republican regime. Chinese merchant houses and banks also grew substantially in number, size and scope of activities, especially during the interwar period when first civil war and then the Japanese invasion disrupted conditions on the mainland. By World War II, Hong Kong was after Shanghai the most important center for Western economic relationships with China.

The Developmental Advantages and Disadvantages of an Entrepot

Until the end of the 1940s, both Hong Kong and Singapore had overwhelmingly the character of entrepots *vis-à-vis* China and Malaya and the East Indies, respectively, as their hinterlands. An entrepot is an economic center—usually, although not necessarily, a port—that carries on certain essential distributive, financial, transportation, and communications functions. The entrepot continuously collects its hinterland's products—natural and manufactured—directly from the producers and through middlemen in the wide variations in quantities and qualities in which they are available. By combining, sorting, grading, semiprocessing, and storing these commodities, the entrepot is in a position at all times to meet the specific quantitative and qualitative requirements of buyers in other countries. Conversely, the entrepot maintains a continuing inventory of the foreign raw materials and manufactured goods required by its hinterland, and reexports them to the latter's merchants and manufacturers in needed quantities and on suitable credit terms. These importing and exporting activities inevitably require ancillary shipping, insurance, banking, and communications services, as well as the facilities, equipment and supplies for carrying them out. Finally, retailing and other service enterprises are needed to meet the consumption needs of the people engaged in entrepot activities.

Thus, a successful entrepot will inevitably develop a very wide variety of sophisticated economic activities even though its hinterland may be a largely agrarian economy and it may have no significant manufacturing facilities of its own. Since its essential function is to link two external entities—its hinterland and the world market—it is outward oriented, attentive to changes elsewhere in the world that could affect its own interests, and inclined to import innovations from other countries that could help it protect or improve its competitive position. By the nature of its major economic activities, an entrepot tends to have a higher real income per capita than does its hinterland, its population is more literate and their skills more varied, and its elite groups—officials, civil servants, businessmen, educators, technicians, and others—relatively more numerous, enterprising and flexible.

Increasingly in the years since World War II, Hong Kong and Singapore have been in process of transformation from colonial entrepots into more complex city-states. In political and psychocultural terms, this development has gone further in Singapore as a result of its attainment of independence. Nevertheless, even though Hong Kong continues to be politically a colony of the United Kingdom, the fact that it is virtually autonomous in economic affairs and social welfare, combined with its other relevant characteristics, justify considering it to be a city-state by the definition at the beginning of this chapter.⁵ Moreover, in economic terms, the transformation is more advanced in Hong Kong, which is no longer importantly dependent upon entrepot trade with a hinterland but now relies heavily upon the export of its own manufactured products to markets in other parts of the world. Although Singapore has also become a major manufacturing center, its entrepot activities still constitute about half of its total foreign trade.

This study is essentially concerned with the process whereby Hong Kong and Singapore—each in a different way—have been transforming themselves into successful city-states with rising real incomes and living standards, which by now are second only to those of Japan in Asia. True, compared with most developing nation-states in Asia, Africa and Latin America, their entrepot backgrounds gave them certain initial advantages, as explained above. But, city-states also have some serious disadvantages compared with nation-states.

For one thing, Hong Kong and Singapore are almost totally lacking in natural resources: their mineral deposits and forests are negligible, their arable land can provide only a small portion of their food supply, they are even dependent upon outside sources to meet some of their fresh-water needs, although Hong Kong's additional reservoir construction and forthcoming desalination plant may eventually make it self-sufficient. Unlike the developing nation-states of Asia, Africa and Latin America, the two city-states do not have their own rural hinterlands in which a majority of their people still live and support themselves by subsistence or commercial agriculture. Nor do they have domestic markets large enough to serve as the initial base for industrialization. Hence, their very existence depends upon their ability to import, which in turn rests upon their capacity to earn the necessary foreign exchange by exporting goods and services to competitive regional and world markets. Moreover, they are

⁵For this reason, we shall not use the designation "the Colony" common in Hong Kong but will refer to it as "the city-state."

too small and vulnerable to be able to defend themselves against a determined and reasonably effective aggressor and their political independence or autonomy is inherently precarious.

The extreme dependence of Hong Kong and Singapore on foreign trade is dramatically illustrated by the fact that their total imports and exports are about double their gross domestic products. In contrast, leaving aside the monoproducer petroleum-rich Moslem countries, even nation-states with substantial reliance on foreign trade have total imports and exports that are less than half of their gross domestic products.

To a significant extent, however, these dependencies and weaknesses are also sources of strength. The harsh fact that they must export or die helps to inculcate in them the strong motivation and the pragmatic attitude necessary for successfully adopting the only rational alternative. Their vulnerability inclines them to get along with their neighbors. Their small size and need for cooperative trading partners deter them from wasting resources on grandiose schemes of foreign aggrandizement or on ideological crusades. Their highly concentrated urban populations and lack of rural hinterlands ease the difficulties of social communication and administrative control. Their outward orientation tends to make them receptive to new ideas and ways of doing things, and the necessity to compete in regional and world markets fosters their adaptability.

City-states have only one resource: people. Everything depends upon what their people choose to do and how they decide to do it. Human decisions are never solely, and sometimes not even mainly, the result of rational calculation, of the conscious weighing of limitations and opportunities and of costs, benefits and risks. They always reflect in greater or lesser degree the constraints of the institutions and relationships of the society and the perceptual and conceptual biases of the culture. Hence, in trying to account for the development progress of Hong Kong and Singapore, we have had to be concerned not only with the operation of economic factors but also with their interactions with the political and other institutional systems of these societies and with the values and behavioral norms of their cultures. Because of their complexity, however, these aspects of the development progress of Hong Kong and Singapore cannot be summarized in this chapter. The Chinese sociocultural background of the two city-states is sketched in the next chapter, and the influence of political and other noneconomic factors on their current situations and future prospects are dealt with at length in the detailed analysis of Hong Kong and Singapore in Parts II and III respectively. Moreover, it must be stressed that the overview of their development progress in the next two sections is only a bare outline and perforce leaves for Parts II and III the discussion of many important economic problems and achievements, as well as the explanation of the necessary qualifications and exceptions.

Hong Kong's Development Progress

In the years immediately after World War II, Hong Kong was confronted by two developments, either of which could have been disastrous for the city-state. While an inpouring of former residents and refugees from China and a high rate of natural increase quadrupled the size of its population within 10 years, the most important part of Hong Kong's economy—its entrepot trade with China—was interdicted by the United Nations embargo imposed during the Korean War.

Instead of collapsing under the combined impact of these events, Hong Kong turned them to its advantage through the dynamic entrepreneurship of its businessmen, the energy and adaptability of its people, and the constructive policy of its government. This outcome required a complete transformation of the nature of its economy. From being primarily an entrepot, Hong Kong converted itself into an industrial economy making an increasing volume and variety of consumer goods and intermediate products for export to competitive world markets.

The rising productivity, employment and incomes intrinsic in this successful transformation have enabled its people to enjoy steadily improving living standards that today are among the highest in the developing countries. In 1972, Hong Kong's gross domestic product totaled HK\$22.9 billion (US\$4.1 billion at the average exchange rate for that year), equal to a per capita GDP of approximately US\$1,000 for its nearly 4.1 million people.

With a population of 1.6 million in mid-1939, Hong Kong had less than 600,000 when the Japanese surrendered in 1945. Thereafter, the number of people multiplied as many former residents returned from the mainland areas to which they had fled during the War, refugees from the advancing communist armies poured into the city-state, and the birth rate increased to a high level. Population was 1.8 million by the end of 1947, 2.2 million by the end of 1952 and 2.6 million by the end of 1955. There was no housing for a large proportion of these people nor did employment opportunities exist for the rapidly growing numbers of men and women of working age. Although entrepot trade with China revived satisfactorily during the late 1940s, it could not provide nearly enough jobs for people seeking work nor could it generate the private incomes and government revenues needed to house, feed and clothe the city-state's mounting population. Then, the UN embargo on trade with China at the height of the Korean War dealt Hong Kong's entrepot trade a near mortal blow. Its exports to China—36.2 percent of its total exports in 1951—fell from HK\$1,604 million in that year to only HK\$520 million in 1952.

In these circumstances, Hong Kong had to find a new way of life—and, moreover, to do so almost completely on its own. During those years, the only outside aid it received was for relief and rehabilitation, not for development. The difficult task of transforming the city-state's economy and providing the necessary jobs and housing was accomplished by the ability of Hong Kong's people and government to turn the causes of impending disaster into the means for achieving unprecedented prosperity.

Prominent among the refugees from the new communist regime in China were a number of Shanghai businessmen with long experience in operating cotton spinning and weaving factories. They were soon able to reestablish these activities in Hong Kong thanks to the machinery brought with them from Shanghai or bought in Europe and the United States, the cadre of foremen and skilled workers who accompanied them from Shanghai, the readily available work force in the city-state eager for jobs and training, the credit forthcoming from Hong Kong's banks, and the export-marketing channels provided by the long-established British and Chinese merchant houses. Started in this way in the late 1940s and early 1950s, the city-state's industrialization has continued ever since. Hong Kong producers gradually diversified into woolen and man-made textile products; clothing and footwear of all kinds; toys, artificial flowers, handbags, luggage, furniture, and other types of personal and household goods made of plastics,

leather, wood, and metal; consumer durable goods, such as radios, optical and photographic equipment, and electrical appliances, as well as parts, components and other intermediate products for the electronic and electrical industries; and recently into more sophisticated forms of machinery and capital equipment. Although the lead was taken by Shanghai entrepreneurs, the Cantonese and other South Chinese forming the great majority of Hong Kong's inhabitants soon followed them into manufacturing operations. Also, an important role in diversifying consumer-goods production was played by the large chain stores, mail-order houses and department stores in the United States and other importing countries that provided information on changing specifications and styles, merchandising and marketing services, and supervision of product quality.

The city-state's development as a manufacturing center both depended on and further stimulated the growth of ancillary activities, such as the construction of factories and warehouses, transportation and communication facilities, public utilities, offices and retail shops; and of ancillary services, such as banking, insurance and shipping, and the establishment of accounting, advertising and legal firms. These activities and services were attracted to the city-state not only by the prospect of profit but also by its political stability and freedom of trade and investment and by the government's sound fiscal and monetary policies and very low rates of taxation. They were undertaken by local British and Chinese entrepreneurs and by American, European and Japanese banks and business firms, which started branches and subsidiaries in Hong Kong. In turn, the external economies made possible by the availability of these goods and services attracted increasing numbers of foreign companies to locate their regional headquarters in the city-state even though they did not have manufacturing operations there. By the mid-1960s, Hong Kong was second only to Tokyo in East Asia as a financial, insurance, shipping, and business-service center. Finally, the emphasis on the production of consumer goods of all kinds, as well as the government's free-trade and low-tax policies, made Hong Kong a gigantic shopping center for tourists, who flocked to the city-state in growing numbers during the 1950s and '60s to buy and to enjoy its spectacular scenery.

Full employment was achieved by 1960 and has been maintained ever since. Through the development of the foregoing activities, the rapidly growing labor force was transformed from the unemployed liability of the immediate postwar years into an increasingly valuable productive asset.

Product and income accounts are available only since 1966; in that year, Hong Kong's gross domestic product was HK\$10.9 billion and it more than doubled in current prices to HK\$22.9 billion in 1972, a real increase of nearly 60 percent. Total exports rose from HK\$2.5 billion in 1955 to HK\$3.9 billion in 1960, HK\$6.5 billion in 1965, HK\$15.2 billion in 1970, and HK\$19.4 billion in 1972. The reexport part of the entrepot trade fell from an estimated 85 percent of total exports in the late 1940s to only a third by the late 1950s and to a fifth in the early 1970s; conversely, Hong Kong's own manufactures grew from an estimated 15 percent of total exports in the early postwar years to four-fifths today. The United States is the largest market for Hong Kong's exports, taking 40 percent of the total, followed by the United Kingdom with 14 percent, Germany with 10 percent, and Canada and Japan with over 3 percent each. Always larger than total exports, Hong Kong's imports grew from HK\$3.7 billion in 1955 to HK\$21.8 billion in 1972. They are principally supplied by Japan (23 percent), China (18 percent), the United States (12 percent), the United Kingdom (7

percent), and Taiwan (6 percent). However, while exports paid for only 67 percent of imports in 1960, they covered 89 percent in 1972.

Hong Kong does not publish a balance-of-payments accounting but its external transactions are most probably in surplus owing to large earnings from tourism and net capital inflows. The Hong Kong dollar is one of the world's soundest currencies and it is at all times backed at least 105 percent by liquid foreign assets. According to the most recent official statement, the total sterling assets amounted to £768 million or HK\$11.2 billion (US\$2 billion) in April 1972 but, by early 1973, they were lower because of the decline in the market value of gilt-edged sterling securities and the loss entailed by the downward float of sterling in 1972, as explained in Chapter IV. A substantial portion of the official part of these foreign assets is derived from the government's annual budgetary surpluses, most of which are invested abroad to serve as a reserve fund against contingencies adversely affecting the city-state's economy.

Even with such budgetary surpluses in most years, the government's expenditures are now 3 1/2 times larger than a decade ago, totaling more than HK\$4.4 billion in 1973-74. The largest category—38 percent—is for social services, such as housing, education, health, and public assistance to the needy, and the next largest—27 percent—is for community services, such as streets and highways, water supply and sanitation, fire protection, and so forth. Both capital and recurrent expenditures are covered by revenue; the government has no domestic debt; and its foreign debt is miniscule, limited to the HK\$46 million due on the Rehabilitation Loan of 1947-48, HK\$12 million owed on an airport expansion loan also from the United Kingdom, and a 1972 loan of US\$21.5 million from the Asian Development Bank toward the cost of a giant water desalination plant. Yet, despite the financing of virtually all public investment from current revenues, business profits are taxed at only a flat rate of 15 percent and the maximum tax on personal incomes is also only 15 percent. There are no import or export duties; excise duties are levied only on alcoholic beverages, tobacco products, and vehicle and aviation fuels; and stamp taxes, inheritance taxes and land taxes (rents and rates) are moderate.

These unusual fiscal practices reflect the government's basic economic policy which, since World War II, has been to rely primarily upon private initiative and the market process for economic growth. Hong Kong has complete freedom of trade and capital movements; it has no central bank; the money supply (currency in circulation and demand deposits) is determined by the automatic operation of market forces and of its foreign-asset currency system; and, with one very minor exception noted in Chapter IV, the government makes no attempt to carry on a policy of macroeconomic management. Far from establishing or maintaining uneconomic industries by means of tariffs, subsidies, tax incentives, monopoly privileges, and other devices, the government relies upon market forces to keep the city-state's production costs and export prices competitive and continuously to reallocate capital and labor into those activities that yield satisfactory returns to both and are responsive to the changing demands and opportunities in world trade. Thus, Hong Kong has the freest economic system on the planet today.

At the same time, the government is by no means indifferent to the problems and prospects of the city-state's economy and the welfare of its people. Since the immediate postwar years, it has carried on an active, increasingly imaginative and sophisticated program of publicizing Hong Kong's productive

capabilities in foreign markets, assisting foreign importers to make the necessary contacts in the city-state, facilitating manufacturing investment in Hong Kong by foreign companies, and educating the city-state's own entrepreneurs to the need and opportunities for expanding and diversifying their exports. The government builds and rents factories, operates an export-credit insurance scheme, and provides technical assistance to private enterprises for improving their productivity and ability to design and manufacture more technologically advanced products. The government endeavors to maintain standards of safety and health in Hong Kong's factories, shops and offices; it regulates working hours and conditions, especially for women and young people (child labor is forbidden); and protects the right of workers to participate in trade unions and to strike and picket peacefully. The government plans and carries out many infrastructure projects (although utilities and most transportation facilities are in the private sector) including the development of new towns and urban renewal, land reclamation, water supply and sewage, roads and highways; it buys equity shares in private projects, such as the Cross-Harbor Tunnel opened in 1972; and it is responsible for the new Metro subway system to be built over the next few years. It has recently embarked on an ambitious program of expanding and improving technical education and training so as to foster the ability of Hong Kong's enterprises to produce and export increasingly more sophisticated and technologically more advanced goods.

The dynamism of Hong Kong's entrepreneurs, the hard work of its people, and the free-market policy of its government are reflected in the city-state's steadily improving standards of living and popular welfare. The index of real wages has risen from 100 in March 1964, when the series began, to 158 in March 1973. Savings deposits in Hong Kong banks rose from HK\$133 million in 1955 to HK\$8.3 billion in 1972, an increase of over 6000 percent! Private consumption expenditures by Hong Kong's households and nonprofit institutions (that is, excluding expenditures by tourists, temporary residents, etc.) were HK\$8.9 billion in 1966 and HK\$13.1 billion in 1970, the latest year for which figures are available—an increase of 48 percent in current prices. Although during this four-year period population grew by 9 percent and the consumer price index rose by 21 percent, there was still a substantial real increase in consumer expenditures. For example, 80 percent of Hong Kong's households were estimated to own television sets by 1972.

Moreover, in 1954, the government started upon one of the world's most successful programs of low-rent residential construction that, by 1972, had housed or rehoused 46 percent of Hong Kong's people. By then, too, free primary education was guaranteed to every child, over four hospital beds per 1,000 people and numerous low-cost medical clinics were available, social-welfare programs and public assistance to the needy had been started and were steadily being expanded, and recreational and cultural facilities were being rapidly increased. In 1972, too, the government announced ambitious new targets under which, within 10 years, 1.8 million additional people would be housed in new or improved low-rent accommodations, free secondary education would be made available at a rapid rate to all children desiring it, advanced technical education facilities at the new Polytechnic would be tripled and the two universities expanded by 1978, and social-welfare services and aid to needy families and individuals would again be increased substantially over the next few years.

The necessity of providing special financial and other types of assistance to the destitute, however, emphasizes the fact that not everyone in Hong Kong has shared in the city-state's mounting prosperity. The census of 1971 revealed that 16.6 percent of the households had monthly incomes of less than HK\$400 and were receiving a meager 4.5 percent of total household income. In addition, much of the low-rent public housing built before 1964 was constructed to bare minimum standards in order to provide accommodations for as many homeless refugees as quickly as possible. Because family size increased over the years without additional space becoming available, many blocks are now badly overcrowded and have deteriorated into slums, as has much of the private tenement housing in which other low-income families live. Moreover, although their numbers have declined substantially since the earlier years, a quarter of a million persons are still squatters housed in flimsily built shacks on hillsides and other unused land.

It should be noted that the new housing built directly by the government since 1964, as well as the sizable government-assisted low-rent housing—together accommodating about three-quarters of the people resident in these projects—have been built to much higher standards, and the deteriorated blocks are being reconstructed and improved. And, serious as is the plight of Hong Kong's poor, they are likely to experience steady improvements in their condition over the coming years. This will result from the government's recently declared resolve to use more of Hong Kong's growing resources deliberately to raise the levels of living of the poorest groups through new housing, improved education, better medical care, and increased social-welfare benefits.

There are few developing countries that have not only overcome problems relatively as grave as those of Hong Kong but also have gone on to accomplish as much in as short a time. And, Hong Kong has done these things with virtually no development assistance from abroad. Indeed, even the relief and rehabilitation aid it received in the early critical years was comparatively modest, and the major outside contributions to Hong Kong's extraordinary progress have been part of normal business relationships. One is the help in merchandising, marketing and product quality control provided by the big importing chain stores, mail-order houses and department stores in the United States, the United Kingdom and other developed countries. Another is the growing number of people employed by foreign manufacturing, financial and other firms who have been trained by them in modern managerial and technical skills. In all other essential respects, Hong Kong's achievement is a tribute to the efforts of its people and the policy of its government.

Singapore's Development Progress

Like Hong Kong, Singapore was confronted in the postwar years with a series of developments that could have been equally disastrous. And, thanks to the policies of its government and the good sense and hard work of its people, Singapore, too, was able to meet its challenges in ways that at least offset their adverse impacts, where nothing more was possible, and that brought positive benefits, where such results could be achieved. While Hong Kong's problems were concentrated in time and more massive in size, those with which Singapore had to deal were more varied in nature and were spread out over a longer period.

Singapore's first major challenge was the so-called Emergency of 1948-60, the prolonged warfare waged in neighboring Malaya by communist guerrillas, that

interacted with the growing communist influence in the city-state's trade unions and domestic politics. A second related challenge was the rising unemployment resulting from the stagnation of the entrepot trade during the 1950s and the continuing high rate of population growth, and the attendant labor unrest. While the guerrilla warfare was suppressed by the combined efforts of the British and Malayan governments, communist influence in the trade unions and in politics continued to be strong in Singapore. It began to decline only after Lee Kuan Yew and his associates in the People's Action Party (PAP) successfully "rode the communist tiger" to power in the early 1960s and initiated a strategy designed to cope with the city-state's serious unemployment and popular discontent. Their plan involved political union with recently independent Malaya, which would provide a large enough domestic market for Singapore to industrialize on the basis of import substitution; generous tax and other incentives and protective tariffs to stimulate local and foreign investment in manufacturing; and an ambitious program of low-rent public housing and expansion of educational facilities.

Consummated in 1963 after prolonged difficulties, the merger with Malaya in the new Federation of Malaysia provoked the next serious challenge. This was Indonesia's "confrontation policy" and sabotage and guerrilla activities against Singapore and the Federation's member states in North Borneo, instituted by Sukarno because he believed that the latter should belong to Indonesia. Confrontation disrupted—although it did not put a stop to—Singapore's very important entrepot trade with Indonesia, aggravating the already existing unemployment and labor unrest. Then, in 1965, the Malaysian government terminated the merger with Singapore in consequence of political and economic disagreements. Singapore, now suddenly an independent city-state, faced the new problems and costs of defense and of carrying on political and economic relationships with other countries. At the same time, its domestic market was reduced to its premerger size, thereby removing the basis for its import-substitution policy. In response, Singapore's energetic PAP leaders shifted quickly to the far more difficult strategy of export-oriented industrialization. Their success was sufficient to achieve virtually full employment by the early 1970s despite the city-state's most recent challenge—the gradual reduction to minor proportions of the British military bases that had directly and indirectly provided jobs for around 50,000 people. By 1972, Singapore's economy was rapidly industrializing and, in that year, its gross domestic product was over S\$7.3 billion (US\$2.6 billion at the 1972 exchange rate), equal to a per capita GDP of over US\$1,200 for the city-state's more than 2.1 million people.

One consequence of these successive challenges was that a major effort to develop manufacturing industry for export to competitive world markets did not begin until the mid-1960s. Under the earlier import-substitution strategy, most industrial ventures had been undertaken by existing and new local Chinese and British firms. When the city-state shifted to an export-oriented policy after its expulsion from Malaysia, speed was felt to be of the essence in view of the high and still rising unemployment. Convinced that it could not wait until Singapore's local manufacturers—many of whom required tariff protection—could learn how to produce economically enough to compete in export markets, the government turned to already experienced foreign companies to undertake the primary responsibility for developing manufactured exports. Tax incentives, prepared factory sites in the vast new industrial estate of Jurong and in other similar facilities, and efficient expediting and other services were provided for foreign and

local industrial enterprises accorded "pioneer" status. Offices staffed by imaginative, energetic, knowledgeable young people were opened in North America, Western Europe, Japan, Hong Kong, and other places to publicize Singapore's productive potentialities, to arrange for visits to the city-state by prospective investors, and to facilitate the investment process. Most important of all in stimulating private foreign and local investment in manufacturing were the continuing political stability under the PAP regime, its success in eliminating labor unrest and reducing strikes to minor proportions, and its generally even-handed regulation of trade-union and management relationships to prevent production costs and export prices from rising too fast compared to those of Singapore's competitors. The government encouraged joint ventures involving not only foreign and local investors but also in many cases its own participation through loans and the purchase of minority equity interests.

Thanks to these efforts, investment in manufacturing for export has grown rapidly in recent years as American, European, Japanese, Hong Kong, and other foreign firms flocked to Singapore. Initially, investment was concentrated in labor-intensive industries, such as textiles, wearing apparel and footwear and the assembly of electrical and electronic consumer goods from mainly imported components. But, as the city-state approached full employment in the early 1970s, the government ceased to grant pioneer status to labor-intensive activities and instead shifted its incentives to more capital-intensive industries requiring increasingly more advanced technologies and higher managerial, technical and labor skills. This new emphasis made the importance of large multinational companies to Singapore's development strategy all the greater. For they alone already possessed the requisite financial resources, research and development capabilities, technological know-how, managerial experience, and comparatively assured access to regional and world markets. Nor was the government concerned over the prospect of the city-state's increasing dependence on multinational corporations. The strength of its own self-confidence and the rationality and consistency of its policies and actions have evoked the respect of the foreign companies and, in the great majority of cases, they have been operating in ways of mutual benefit to themselves and the city-state.

From only a little over 6 percent of total exports in 1960, domestically produced goods rose to slightly over half of total exports for the first time in 1972. Conversely, entrepot trade (excluding trade with Indonesia on which no statistics are published) fell to just under 50 percent in that year. Total exports grew from S\$3.5 billion in 1960 to S\$6.1 billion in 1972, an increase of 77 percent over the period. Singapore's major export markets are Malaysia (21 percent), the United States (15 percent), Japan (6 percent), Hong Kong (6 percent), and the United Kingdom (6 percent). Total imports grew from nearly S\$4.1 billion in 1960 to over S\$9.5 billion in 1972, an increase of 134 percent and came mainly from Japan (20 percent), Malaysia (16 percent), the United States (14 percent), and the United Kingdom (7 percent). Singapore's trade deficit has been gradually increasing from S\$600 million in 1960 to over S\$3.4 billion in 1972, when exports amounted to 64 percent of imports compared with 85 percent in the former year.

Despite its merchandise deficit, Singapore's overall balance of payments is generally in surplus in consequence of net capital inflows and of the city-state's unrecorded trade with Indonesia and of other unrecorded transactions. The government has accumulated substantial foreign-asset holdings, which amounted

to almost S\$5.7 billion (over US\$2 billion) at the end of 1972. Except for the foreign assets that serve as backing for its currency, Singapore's official reserves are invested not only in the gilt-edged securities of North American and West European governments but also in the shares of profitable American, European, Japanese, and other foreign companies, from which the city-state obtains both dividend income and capital gains. And, like Hong Kong, Singapore has one of the world's soundest currencies, fully backed by liquid foreign assets.

The government's main, or operating, budget is normally balanced, including a sizable annual contribution to the development, or public investment, budget. In the fiscal year 1973-74, the main-budget expenditures total nearly S\$1.9 billion, more than three and a half times larger than in 1966, the first full year of independence. Although now beginning to decline, defense and internal-security costs still account for 30 percent of the budget, as Singapore's own effort replaces that of the British. Social services, which include the operating expenses for the city-state's schools and universities, hospitals and clinics, water supply, sanitation, and other community amenities, comprise 26 percent of the total. The transfer of funds to the development budget represents 15 percent; government-owned public utilities, transportation and communication facilities, and other economic services require nearly 8 percent; and servicing of the domestic and foreign debt and public-administration expenditures make up the balance. Over 40 percent of the government's current revenue is derived from direct taxes, the largest of which are the tax on company profits, levied at a flat rate of 40 percent, and the personal income tax, levied on a sliding scale from 6 to 55 percent. Indirect taxes produce 29 percent of the government's income, mainly from customs and excise duties. The remainder comes from reimbursements and sales of goods and services, income from investments and property, and other income.

Singapore has received loans and grants for development purposes from the World Bank, the Asian Development Bank, the United Kingdom, and Japan that, by the end of 1972, totaled well over US\$300 million. Nevertheless, drawings on such external loans finance only a little over 4 percent of development expenditures in the current fiscal year. From the beginning of its organized development effort in 1960, the great majority of the funds for Singapore's public-sector investment, including the government's loans to and equity participation in private local and foreign enterprises, have come from two internal sources. They are the annual transfer from the main budget, which finances nearly a quarter of the development budget in the current year, and domestic borrowing, which provides almost 54 percent. In turn, the largest part of this official domestic borrowing for development purposes is in the form of compulsory savings through the Central Provident Fund, into which employers and employees make monthly payments that are vested in the latter and payable with accumulated interest upon retirement at age 55 or later. Other official agencies, such as the Post Office Savings Bank and the statutory boards, are also required to invest their funds in government securities. The commercial banks and finance companies have to keep portions of their mandatory liquidity reserves in Treasury bills and other short-term government obligations, and they and other private investors are encouraged by tax concessions to buy longer-term government bonds. Thus, through both tax payments and savings, the city-state's private citizens and business firms have largely financed its notable development progress.

Unlike Hong Kong, which relies predominantly upon freely operating market forces continuously to reallocate capital and labor to more productive activities,

Singapore actively constrains and supplements the operation of market forces by macroeconomic management policies of various kinds. The government offers tax exemptions, loans and other incentives to local and foreign enterprises for establishing the industrial activities it believes are most desirable, and it provides tariff and quota protection to those noncompetitive industries it regards as necessary. The government regulates labor-management relations so as to preserve industrial peace and control the rate of increase of wage and other labor costs. Within the rather narrow limits imposed by the city-state's extreme dependence on foreign trade and its foreign-asset currency system, the government carries on central-banking types of activities to regulate the money supply, the credit availabilities of the banks, and interest rates; to assure a domestic market for government securities; to control foreign-exchange transactions; and to supervise the operation of the stock market, the Asiandollar market, and the other facilities designed to make Singapore a major regional financial center. And, through forced savings and internal borrowing, it determines the division of resources between consumption and investment, as well as the specific pattern of capital formation in the public sector.

The growing size and diversification of Singapore's economy have provided the resources for the rising living standards of its people. Per capita GDP in current prices was $2\frac{3}{4}$ times greater in 1972 than in 1960, and private consumption expenditures were $2\frac{1}{2}$ times larger. However, due to the fact that population grew by 30 percent and the consumer price index rose from 100 in the base year 1960 to 121.7 at the end of 1972, only part of the increase in private consumption represented real growth in the expenditures of families and individuals. Singapore does not publish an index of real wages but they, too, must have risen over the period for real private consumption expenditures to have increased as much as they did. Another indication of rising real incomes is the fact that savings deposits in commercial banks quadrupled from S\$146 million in 1961 to S\$603 million in 1972.

By the end of 1972, Singapore had rehoused about 40 percent of its population in new low-rent housing estates that meet increasingly high standards of design and construction, space per person, sanitary and cooking facilities, and in the provision of ancillary shopping, educational, recreational, and other community services. Under a home-ownership scheme, nearly 45,000 units, mostly of two or more rooms, have been sold to families with monthly incomes of not over S\$1,500. Free primary education is available to all children. Although fees are charged for secondary and higher education, scholarships and other forms of financial aid are provided for qualified students whose families cannot afford them. Singapore has four hospital beds per 1,000 inhabitants and numerous dispensaries for outpatients and maternity and child-care centers where the fees are low. Sports complexes, swimming pools and other recreational facilities are constructed as integral parts of the new housing estates. The city-state has a program of public-assistance to the needy that had to care for a monthly average of 23,400 cases in 1962 but a monthly average of less than 7,900 in 1972.

Although Singapore is pressing ahead as rapidly as it can afford with its housing and other urban-renewal programs, there are still substantial numbers of people living in central-city slum tenements and in squatter communities on the outskirts. Other families in the new high-rise housing estates have difficulty adjusting to the unfamiliar conditions of vertical living after traditional horizontal

living with its communal use of the common space of streets and marketplaces. And, because the means test is strict and the benefits are modest in the public-assistance program, the monthly average of 7,900 families and single persons receiving help understates the number and condition of the near destitute. Hence, as both the government and most opinion leaders recognize, there is still much that Singapore needs to do to improve the levels of living of the poorest groups.

There are few developing countries today that have been as successful as Singapore in combining an active macroeconomic management approach with the incentives and pressures of market forces to bring about rising employment and real income. This development strategy has yielded such substantial results because of the hard work and good common sense of Singapore's people and the government's willingness and ability to adapt its policies rapidly to changing circumstances, to observe the fiscal and monetary limitations needed to maintain a sound currency and balance-of-payments position, and to establish a relationship of mutual benefit and respect with the multinational companies upon which the city-state so largely depends for its economic growth and well-being.

Challenges Ahead for Hong Kong and Singapore

The success of the two city-states in meeting the challenges confronting them in the decades since World War II provides a strong *a priori* reason for believing that they will be equally effective in dealing with the challenges that lie ahead. Such an assumption, however, would be valid only if the means required for coping with prospective difficulties are within the capabilities of Hong Kong and Singapore as demonstrated by their past and present performances. Hence, we need to inquire briefly into the nature of the problems likely to confront them in the years to come if we wish to assess the durability of their respective achievements and the probability of their continued progress in the foreseeable future.

The internal sociopolitical difficulties that could arise in Hong Kong and Singapore are too complex and contingent on a variety of different variables to be analyzed adequately in a short space. So, too, is the question of Hong Kong's future relationship with China, which is the overwhelmingly important political uncertainty confronting that city-state. For these reasons, these subjects are treated in the necessary detail in Chapters VI and X. Here, we can only deal with the possible worldwide and regional political and economic developments that could adversely affect employment and incomes in Hong Kong and Singapore. Those of greatest potential significance are the increasing competition from lower-wage developing nations producing manufactured goods for export, and the growing restrictions on access to export markets implicit in the basic trends toward tripolarization of the noncommunist world economy and protectionism in the developed countries.

As to the first, competition from new, lower-wage producers is an inescapable characteristic of the worldwide process of economic change and development that entails the continuous migration of comparative advantages among participating national economies. For reasons explained below, many of the labor-intensive industries hitherto important in Hong Kong and Singapore—such as textiles and wearing apparel, and the making of parts and components for electronic and electrical products and their assembly into finished consumer

goods—are especially suited for the early stages of industrialization in developing countries. Nevertheless, despite the growing production and export of such commodities by new, lower-wage producers in other developing nations, both Hong Kong and Singapore have not only remained competitive in most of these fields but have been steadily increasing their own output and sales abroad, although by different means.

Under the influence of the pressures and incentives provided by its reliance on market forces, Hong Kong has been able to preserve its competitiveness through the rising productivity resulting from improved labor skills and increased capital investment in the affected industries, and by upgrading production into higher-quality goods. Singapore has depended upon the advantages in productivity, financing, research and development, and marketing enjoyed by the foreign companies making many of its manufactured exports, and upon the effectiveness of its government's policy of limiting the increase of wage and other labor costs. More important for the future, both city-states recognize that such measures will sooner or later prove ineffective in preventing the loss of their comparative advantages in some—perhaps even in most—of the labor-intensive industries suitable for the early stages of industrialization. Hence, Hong Kong and Singapore are engaged in deliberate efforts to move increasingly into the production of more sophisticated, higher-technology goods and services and to diversify their export markets. These problems of competition and the measures being taken to cope with them are analyzed in Chapters IV and VIII.

Increasingly in the future, the ability of the two city-states to maintain their existing exports and to develop markets for higher-technology goods and services will depend upon the second set of external probabilities—those reflecting the basic political and economic trends in the world polity and economy.⁶ Since the late 1960s, three additional centers of economic and/or political power, the European Community, Japan and China, have gradually been emerging in the international system alongside the two older superpowers, the United States and the Soviet Union. Although it is already the world's largest trading entity, the influence of the European Community in world politics is not commensurate with its economic importance owing to its lack of a unified political policy and the limited capabilities and uncoordinated nature of the British and French nuclear forces. As the third largest trading entity, Japan's economic power is already great and still rapidly growing but its political-military importance, too, is still minor. However, when its current rearmament plan is completed, Japan may rank behind only the Soviet Union, the United States and perhaps China as a conventional military power, and the possibility that it would feel impelled by the future course of world and regional politics to develop a nuclear capability cannot be discounted. So far, China's influence is expressed mainly in political-military affairs and it will probably not become a major economic power for at least another decade.

Relationships among the five existing and emerging world economic and political powers are likely to be increasingly characterized by continuous maneuvering to protect or advance their interests while seeking to prevent a world

⁶For a much fuller analysis of these trends and their implications, see Theodore Geiger, *The Fortunes of the West: The Future of the Atlantic Nations* (Bloomington and London: Indiana University Press, 1973), Chapters IV and VI; and Ernest H. Preeg, *Economic Blocs and U.S. Foreign Policy* (Washington, D.C.: National Planning Association, in press).

nuclear war and the fundamental disintegration of the international economy. In such a multipolar balance-of-power system, it will be more and more difficult for many smaller countries to avoid becoming disproportionately dependent on, and eventually tied to, one or another of the major economic centers. Thus, both the Soviet Union and the European Community are already the centers of more or less formalized economic blocs, within which there are preferential trade, investment and monetary relations of different kinds and varying degrees of economic integration. The United States has analogous explicit or implicit preferential relationships with Canada, Mexico and some of the other Western Hemisphere nations, as does Japan with South Korea and Taiwan. But, neither of these incipient bloc-type arrangements is as overt, extensive and discriminatory as that of the European Community. Nevertheless, both Japan and the United States could be more and more impelled to expand and deepen their respective incipient bloc-type relationships not only as a protective reaction to the explicit bloc-creation policies of the European Community but also in consequence of basic changes within their national societies and of the resulting implications for international economic relationships.

Within all of the developed nations of North America, Western Europe and the Pacific area, the pursuit of domestic economic, social and cultural goals takes priority over external concerns in the competition for scarce resources. This nationalistic trend is manifested in the increasing unwillingness of their people to subordinate their employment and incomes to the discipline of the balance of payments, as required under fixed exchange rates to maintain reasonable equilibrium in the international monetary system. At the same time, the economic welfare of these countries and their ability to generate the resources needed to achieve noneconomic goals depend in greater or lesser degree upon the large and growing flows of goods, capital and technology that have characterized the substantially integrated world economy of the past decade or so. In these circumstances, the only workable arrangement is very flexible—probably continuously floating as at present—exchange rates among the dollar, the yen and the leading European Community currencies individually or as a group. Other countries are already, and would continue to be, constrained to tie their own currencies to one or another of the three major noncommunist currencies. The resulting impulse toward bloc formation would be reinforced by the conflicts among the three noncommunist world economic powers over their trade and investment relationships and by their competition for preferential arrangements with smaller countries important as markets or as sources of raw materials increasingly in demand.

For many East and South Asian countries, Japan is already, or is likely sooner or later to become, their largest trading partner and most important source of investment capital and technology. Thus, Japan is in the process of becoming the paramount economic power in the region.⁷ If the trends sketched above toward bloc formation persist, the smaller or less developed Asian countries will

⁷If a left-wing government were to be elected in Japan during the 1970s, Japan's course of development projected in this section would still be likely to continue. The Japanese Communist Party is committed to preserving—and, once in power, it would probably strengthen—the country's armed forces. Ideological considerations would induce the Communists and the Socialists to reduce, if not to terminate, the remaining aspects of Japan's formerly close economic-policy collaboration with the United States. And, the exigencies of the country's economic needs would sooner or later impel them to pursue regional and worldwide economic relationships not much different from those that would be sought by the existing regime.

be constrained to tie their currencies to the yen and to enter into preferential trade and investment relations with Japan. In these circumstances, the other great powers would endeavor to offset Japan's predominance by efforts to preserve and increase their political influence, as well as their economic interests, in the region. As in the world polity and economy as a whole, political and economic relationships in East and South Asia would be more and more characterized by continuous maneuvering to advance or protect their interests by China, Japan, the Soviet Union, and the United States. They might eventually be joined in these interactions by the European Community if its members become willing and able to deepen their own integration sufficiently and to concert their economic and political policies effectively *vis-à-vis* the rest of the world. As in the worldwide system, the four or five great powers would both compete and cooperate with one another in regional affairs, but alignments between two or more of them would not be likely to be permanent because each would be impelled by the configuration of power relationships to seek advantages for itself.

An international economic system increasingly organized according to greater degrees of discrimination between as compared to within bloc-like groupings of countries could still support high and rising levels of world trade and investment flows. Indeed, granted the concern for domestic employment and incomes in North America, Western Europe and Japan, such differential discrimination might be the only way to preserve the expansionary trend of world trade and capital movements. In such circumstances, the likelihood is that these nations would be willing to recognize, and able to act in accordance with, their interest in and responsibility for preventing the economic rivalries and conflicts among them from deteriorating into neomercantilist restrictions and retaliations. However, even if the existing trends toward tripolarization do not develop into explicit, fully formed, competing economic blocs, the trade and monetary problems confronting the United States, the European Community and Japan are likely at times to be dealt with in ways that increase rather than diminish the restrictions on international trade and capital movements owing to the nationalistic changes in these countries noted above. The European Community, Japan and the United States are not only prone to succumb from time to time to the protectionist demands of their own businessmen and workers adversely affected by imports. They are also inclined to reserve for domestic production substantial percentages of their consumption of many types of manufactured goods for national security reasons even though the costs are disproportionately high compared to imports.

Developing countries in East and South Asia, including Hong Kong and Singapore, will seek for as long as possible to avoid being drawn explicitly or implicitly into a bloc-type association with Japan, or any of the other major powers, and to preserve the maximum possible market access to all of them. And, if relationships among the emerging economic blocs were to deteriorate into protectionism and mutual retaliations, such a regression into neomercantilism would have especially serious consequences for Hong Kong and Singapore owing to their extreme dependence on foreign trade. As explained in Chapter IV, the greater the protectionism and discrimination against its exports, the less effectively can Hong Kong's flexible macro-adjustment process operate to prevent rising unemployment and falling incomes for its people. In Singapore's case, as explained in Chapter VIII, the effectiveness not only of its less freely operating adjustment process but also of the government's complementary active macro-management policy would be correspondingly reduced. Few countries in the

world have relatively as great a stake as Hong Kong and Singapore in rising levels of international trade and investment and continued access to world and regional markets. Granted their own interest in increasing interbloc trade and investment, the United States, the European Community and Japan are in the last analysis more likely to behave in ways conducive to this objective than they are to permit, let alone encourage, a deep regression into neomercantilism. Even under such favorable conditions, however, the development by Hong Kong and Singapore of the requisite diversification of their exports and markets will require great realism, adaptability, innovativeness, ingenuity, and hard work. These are precisely the qualities that have been so largely responsible for the past success of the two city-states, and this fact supports the conclusion that the challenges ahead are not likely to be too difficult for them to meet.

The Relevance of the Two City-States' Experiences to Other Developing Countries

There is a widespread tendency in both the developed and the developing worlds to dismiss the examples of Hong Kong and Singapore as irrelevant to the development problems of other countries. In most cases, this view reflects the conviction that the progress of Hong Kong and Singapore is owed to the sociocultural characteristics of their Chinese elite groups and people. Certainly, as explained in the next chapter, there are important historical continuities between traditional and transitional Chinese institutions, values and behavioral norms and the nature and achievements of the economic and political systems existing in Hong Kong and Singapore. Nevertheless, we find it hard to believe that only countries inhabited predominantly by ethnic Chinese are capable of following sound fiscal and monetary policies, carrying out pragmatic and flexible development strategies, and responding productively to economic pressures and opportunities. That Chinese are able to do these things is proven by the success of Hong Kong and Singapore (as well as of Taiwan). But, it does not necessarily follow from this demonstration that other peoples cannot—that, in effect, the general development strategies and the specific development policies in particular fields adopted by the two city-states have little or no relevance to countries that are not populated by Chinese. Indeed, the fact that a number of these measures have been more or less successfully implemented by some non-Chinese countries validates the conclusion that they are more widely applicable. Before turning to these lessons, therefore, it would be well to elucidate briefly the considerations involved in determining whether and to what extent general development strategies and specific development policies are transferable among countries.

First, the question of the validity of a development strategy or policy is different from the question of whether it can or cannot be successfully applied in a given sociocultural context. The former question relates to the consistency of the strategy or policy with the body of demonstrated theory about how various types of economic and political systems operate and how they respond to changes in their determinative variables, *all other things being equal*. This *ceteris paribus* qualification is essential for scientific analysis and the development of theory precisely because it permits the physical or social scientist to abstract certain sets of relationships from the seamless flux of existence, to analyze them as isolated self-contained systems, and to formulate generalizations about their structures and interactions. However, the failure to drop the *ceteris paribus* qualification is

often a fatal flaw in efforts to deal with the latter question of whether a theoretically valid strategy or policy can be effectively applied in an existing economic or political system. For, actual economic and political systems do not exist in isolation. They are inextricably interrelated in more or less determinative ways with the other institutional and cultural systems constituting the national society as a whole and with other national societies in the regional and worldwide systems. On the one hand, a strategy or policy is not likely to work if it is inconsistent with the body of relevant demonstrated theory—or, if it does, the theory is wrong and has to be revised or abandoned. On the other, it is equally unlikely to work, despite its theoretical validity, if it is incongruent with the situational limitations and potentialities of the society in which it is to be applied.

Second, unlike the question of theoretical consistency, which is always governed by the rules of logic and must ultimately be answered by either *yes* or *no*, the question of congruence is usually one of more or less and often has to be answered by both *yes* and *no*. The reason is that actual societies are highly complex multidimensional systems comprised of many different structural constraints and operational processes that continuously reinforce, counteract and transform one another. The more differentiated and internally interdependent the society, the more it will be characterized by trends and countertrends, variations and disparities, ambivalences and contradictions. Within varying limits, this heterogeneity provides room for different strategies and policies to be congruent in some degree with many different societies. Policy makers need always to determine the extent of this congruence in their own societies and whether it is sufficiently great to be pragmatically significant. Thus, many strategies and policies that work well in a Chinese sociocultural context are also likely to be congruent in other societies even though not in the same ways or to the same extent.

The important considerations are always whether the degree of congruence is substantial enough and whether the requisite adaptations are well enough understood and are sufficiently practicable to justify the effort to apply the strategy or policy in the society concerned. These are always empirical questions that can only be answered with respect to each particular society. Hence, it would be beyond the scope of this study to try to determine the countries to which the development strategies and specific policies of Hong Kong and Singapore would be more and less relevant and the adaptations that would be required to apply them. All that we can do in this chapter is to explain those strategies and policies of the two city-states that, we believe, would have a wider applicability.

The Lessons for Development Strategies

The development strategies of Hong Kong and Singapore are sufficiently different to constitute alternative approaches:

- *Hong Kong* is a model of how freely operating market forces intelligently supplemented by governmental policies can most effectively foster the growth of manufacturing industry for export with resulting full employment, rising real incomes and higher living standards.
- *Singapore* is a model of how to reconcile macroeconomic management constraints on market forces with preservation of the necessary market

pressures and incentives so as to foster the growth of manufacturing industry for export with resulting full employment, rising real incomes and higher living standards.

Each city-state has been able to become a model of its particular development strategy because it has not tried to ignore or circumvent the limitations imposed by its institutional characteristics and international situation. Both governments have been fully cognizant of their city-states' extreme dependence on foreign trade and the consequent necessity of keeping their manufactured exports competitive in world markets. Thus, they have been willing to live within the restraints of currency systems fully backed by foreign assets and to refrain in other ways from generating rates of increase of internal demand that would have led to inflationary pressures resulting in stagnant or declining exports, rising unemployment, and prolonged balance-of-payments deficits.

In Hong Kong's case, the development of manufacturing industry for export has taken place mainly in Chinese business firms. Freedom of trade, the flexibility and skill of businessmen and workers in responding to market pressures and opportunities, continuing capital investment in more productive machinery and equipment, and the government's public-sector investments and low-tax policy combine to keep Hong Kong's costs and export prices competitive while real wages rise. The government endeavors to stimulate and assist the private sector to diversify its overseas markets, improve its productivity, increase the technological sophistication of its products, and develop more advanced industries and services.

In Singapore's case, the development of manufacturing industry for export has occurred predominantly in the subsidiaries of foreign companies, while indigenous firms serve mainly the domestic market. The government takes the lead in determining the new, more advanced export industries to be encouraged and in working with foreign and local companies to get these activities started. To attract and keep the necessary investment and to preserve the competitiveness of Singapore's exports as real incomes rise, the government counteracts the limitations imposed on the adjustment process by protective tariffs and other economic and political restraints on market forces. It does so by means of an active macro-management policy, the control of labor costs, and the fostering of rising productivity and improved technological competence.

To the extent to which a developing nation is or wishes to become dependent on the export of manufactured goods, its government has to give a comparable priority to assuring the competitiveness of such products in world markets. This requirement is becoming increasingly important as, on the one hand, the number of low-cost producing countries is growing and, on the other, the protectionism and discriminatory practices of the importing countries are rising. In the last analysis, there are only two ways of trying to keep costs low enough to preserve the competitiveness of existing products for as long as practicable and at the same time of stimulating the manufacture of new, more technologically advanced products requiring greater productivity and skills. One is by allowing adequate scope for market forces through internal and external freedom of trade. The other is by the judicious use of macro and micro controls. The more there is of one, the less there need be of the other. But, too much of each is self-defeating. In contemporary societies, the classical *laissez-faire* ideal, under which the government limited itself to administering justice and assuring internal and external security, would sooner or later lead to political disorder

because the market process does not always allocate resources quickly or in sufficient volume to realize enough of the greater and more diversified social goals now required to satisfy elite-group and popular expectations. Due to the inherent administrative limitations even of authoritarian governments and the need for incentives to innovation and the conscientious performance of occupational roles, the more fully planned and centrally controlled an economy is, especially in transitional societies, the less efficient and competitive it is likely to be, thus restricting the people—if not the elite groups—to lower living standards than they could otherwise attain. In effect, Hong Kong and Singapore exemplify alternative *median* strategies, the one relying more heavily on market forces and the other depending more extensively on active though limited economic management to provide steadily improving levels of living for their people.

Hong Kong's private-enterprise, market-determined strategy is relevant to the growing number of developing countries that, in recent years, have been becoming disillusioned with the unfulfilled expectations of detailed development planning, the inefficiency of highly protected import-substitution industries, the deadening effects of extensive regulation of the private sector, and the burdensome deficits of many government-owned and -managed enterprises. By studying Hong Kong's experience, these countries can see a living example of how such deficiencies could be prevented or substantially mitigated by allowing greater scope for market forces to provide the decentralized incentives and pressures necessary to bring about increasingly more efficient patterns of public and private investment and production. Although they may not be willing or able to go as far as Hong Kong in all of the respects described in Part II, they may recognize the benefits of the city-state's general approach and be capable of applying the more important aspects of its market-oriented strategy.

Other developing countries are likely to find an active management strategy like that of Singapore more congenial to their institutional limitations and their transitional values and behavioral norms. Indeed, some have been endeavoring to follow strategies similar to Singapore's. Nevertheless, one of the most important features of Singapore's strategy that needs to be understood is the major extent to which it, too, relies upon decentralized private initiative, indigenous and foreign, and on the incentives and constraints of market forces. The Singapore government's development planning goes no further than targeting certain high-priority objectives for the city-state's economy and taking the lead in trying to get sufficient resources allocated to these purposes. Although some of the city-state's older import-substitution industries are still protected, the government has been attempting to reduce the degree of protection, and the newer export industries are, of course, unprotected. The regulation of the private sector—both business and labor—while fairly extensive is nevertheless dominated by the criterion of preventing costs and prices from rising disproportionately to those of the city-state's competitors. And, Singapore's government enterprises and governmental participation in private enterprises are managed primarily in accordance with considerations of efficiency and profitability, not of ideology, bureaucratic aggrandizement, or benefits for relatives and political supporters. Thus, countries interested in profiting from Singapore's experience need to study what Singapore's government *has refrained from doing* as well as how it has been carrying out the positive aspects of its strategy.

Both city-states exemplify the fundamental importance of sound fiscal and monetary policies for any successful development strategy. Because of their high

degrees of dependence on imported goods and capital, neither city-state can adequately protect itself against inflationary impulses coming from abroad, and they recognize that this limitation is all the more reason for inhibiting inflationary pressures that could be generated at home by unduly expansionary fiscal and monetary policies. Also, both rely very substantially upon domestic savings to provide resources for development investment—in Hong Kong's case by voluntary means through the private sector and in Singapore's case by similar voluntary means and, in addition, by large-scale mandatory savings through the public sector. Yet, their people would not have been willing to participate in either process if the purchasing power of their savings was constantly being eroded by unsound fiscal and monetary policies. Nor would local businessmen and foreign companies have been nearly as prone to invest in private-sector development if the two city-states had been compounding the effects of externally generated inflationary pressures by those engendered by domestic policies. Far from inhibiting development, as some opinion leaders in developing countries insist, sound fiscal and monetary policies are preconditions for substantial and lasting socioeconomic progress, as Hong Kong and Singapore demonstrate. In a paper delivered in January 1973 at an international seminar on economic development, Dr. Goh Keng Swee—Singapore's former Finance Minister and one of the principal architects of its successive development strategies—pointed out:

In Singapore, we found that the best fiscal and monetary policy to underpin a major investment effort is to turn a deaf ear to the seductive appeals of the New Economics, which preaches that economic growth can be achieved by over-spending and manipulating the supply of money. We found that the old-fashioned conservative policy of balancing the government budget—in fact of budgeting for a substantial surplus on current account to finance development expenditure—produces the best results in the long run.

Two general sociopolitical lessons can also be learned from the experiences of the two city-states. The first relates to Hong Kong's nonpolitical system for extensive elite-group participation in policy making described in Chapter VI. Many developing countries are governed by military or civilian dictatorships and have only nominal or no political processes in which the elites and the people can participate meaningfully. Yet, the greater the extent to which the elite groups can advise the responsible political leaders and officials on the various relevant national policies, the more willingly and effectively they are likely to contribute by their own activities to the achievement of the development objectives involved. Arrangements for elite-group participation in policy making similar or analogous to those of Hong Kong could heighten the effectiveness of many national development efforts.

The second relates to Singapore's continuing practice of improving public understanding of the city-state's limitations and accomplishments described in Chapters IX and X. Public education on national development in most countries is concerned with goals and needs—what the government, elites and people believe they are entitled to have in the years ahead and the resources they would have to produce or obtain from abroad to achieve these objectives. Usually intended to intensify development efforts, such an approach often has the opposite effect because it generates unrealistic expectations of early and substantial progress, whose inevitable disappointment results in loss of morale and sometimes in

political unrest. In Singapore, from the Prime Minister down, political leaders, responsible officials, heads of trade unions and other private organizations, university experts, and other opinion leaders are enlisted in the day-to-day effort to "tell it like it is" and as it realistically could become. They explain to the people, on the one hand, the limitations and possible dangers confronting the city-state at home and abroad and, on the other, the advances already made and the additional benefits that can be anticipated with the resources available. The resulting greater popular understanding of Singapore's problems and prospects has been an essential element in the government's success in keeping the city-state's costs and prices competitive in world markets and in attracting the necessary foreign investment and technology.

Specific Policies Applicable in Other Countries

Industrialization has long been a principal objective of many developing nations. But, until a few years ago, the industries to be developed were generally conceived as serving the domestic markets of the countries concerned; in other words, the aim was import substitution. Recently, however, a growing number of developing nations have become interested in industrialization primarily to serve foreign markets, that is, to increase the value and variety of manufactured exports. Instead of selling all or most of the output of the new industries in protected domestic markets where they often enjoyed monopoly positions, these countries are trying to penetrate foreign markets in competition with both other foreign and local producers. Hence, the new export-oriented industries must above all conform to the requirements—which they do not set themselves—that their prices, quantities, qualities, delivery dates, credit terms, and other relevant conditions of sale be regarded by the foreign importers as more advantageous than those offered by their competitors.

These stringent requirements are especially difficult for new exporting industries to meet. On the one hand, as newcomers without already demonstrated performance capabilities, their terms often have to be better than those of the established suppliers in foreign markets. On the other hand, as new enterprises, their efficiency tends to be substantially lower and their costs higher than those of more experienced companies with bigger production runs. Moreover, they may lack the necessary marketing contacts and the requisite information regarding the performance standards, styles, fashions, packaging, and other characteristics in demand in the markets they are seeking to penetrate. Hong Kong and Singapore have successfully overcome these difficulties in developing their manufacturing industries for export. Study of the different ways by which each city-state has done so can be helpful to other countries attempting to develop their own export industries.

Hong Kong's experience is particularly relevant to those countries trying to foster export manufacturing of consumer products by indigenous enterprises. As explained in Chapter III, Hong Kong's entrepreneurs initially concentrated their efforts on developing industries, such as textiles, clothing, footwear, household furnishings and utensils, and the assembly from imported components of radios and other consumer electronic and electrical products, for which the technology was relatively simple, standardized and readily available, and low labor costs constituted a major factor in competitive pricing. At the beginning, their principal difficulties were in merchandising—producing the changing qualities, styles,

colors, sizes, and seasonal variations required by prospective importers—and in marketing—making the necessary contacts with importers, wholesalers and retailers in the importing countries. In part, these problems were overcome with the help of Hong Kong's long-established British and Chinese merchant houses. In large part, however, their successful resolution was owed to cooperation with American and European chain stores, department stores, mail-order houses and importing firms, whose intense mutual competition impels them to seek the lowest-price sources of supply and to take the initiative in assuring that the manufacturers involved are able to produce the specific qualities, styles and other specifications in the time required. Establishing such cooperative merchandising and marketing relationships is often an essential requirement for new export-manufacturing firms in developing nations to obtain significant and enduring shares of the competitive markets for consumer goods in the high-income countries. And, once they have mastered the necessary techniques in this way, they can develop their own merchandising and marketing capabilities, as Hong Kong has done, which will then enable them to export to markets anywhere in the world.

Although the technology required for these consumer-goods industries is in most cases comparatively simple, standardized and readily available, this does not necessarily mean that new manufacturers can start production without the latest machinery and methods. As explained in Chapter IV, the pressures both of competition and trade restrictions in the importing countries and of rising labor costs in the city-state have been impelling Hong Kong's business firms to continuing technological and product innovation and capital investment so as to improve their productivity and keep their prices in line with those of their trading rivals. The need to adopt efficient technology even in relatively labor-intensive consumer-goods production is made all the greater in countries newly embarking on manufacturing for export by the handicaps, noted above, with which they generally start. In other words, even very low wage rates may not by themselves be sufficient to enable them to break into export markets, in which their competitors are established, experienced and continually improving their own technology to keep down their unit costs. And, unless these export-oriented enterprises—private or public—begin as efficiently as possible and keep up to date with technological advances, they will be unable without subsidies of one kind or another gradually to raise the real wages of their workers or to supply the domestic markets of their countries at prices that protect—let alone improve—the real incomes of consumers.

In Hong Kong, the manufacture of most higher-technology intermediate and capital goods was introduced by American, European or Japanese companies—although, as explained in Part II, the city-state's experienced Chinese enterprises have usually been able to follow them into these industries sooner or later. In contrast, Singapore's indigenous manufacturing firms are generally not yet sufficiently experienced or dynamic to do so. In consequence, the Singapore government has deliberately chosen a development strategy that places primary reliance upon American, European and Japanese multinational companies to introduce and carry on the manufacture for export of increasingly more technologically advanced products. The advantages it expects to derive from this approach are presented in the concluding section of Chapter VIII and may be briefly summarized here.

As stated by Singapore's Finance Minister, the obvious first reason is that these companies are usually the owners of the requisite technology, which their large resources and their bases in the planet's most advanced technoscientific societies enable them to improve and expand through continuous research and development. Second, they already possess the merchandising experience, marketing links, and ability to extend suppliers' credits that are required to export their products in competition with one another. Third, because of these capabilities and the fact that many of their products are exported as intracorporate transfers, multinational companies are likely to be less adversely affected by restrictions on international trade and monetary flows than are indigenous firms.

In a number of developing nations—and even in some developed ones—these benefits of encouraging manufacturing for export by multinational companies are believed by many politicians and opinion leaders to be outweighed by the presumed danger of losing control of their economies to foreigners, whose interests are assumed to be incompatible with their own. Few countries have bigger shares of their manufacturing industry controlled by foreign companies through full or partial ownership than does Singapore and, as explained in Chapter VIII, the proportion will be increasing under its current development strategy. True, as we point out, it would be desirable for the city-state to foster the capabilities of its indigenous firms so as to inhibit the tendencies toward jealousy and resentment that would otherwise be likely sooner or later to emerge. But, the question of whether a country's economy is controlled by foreigners or by its national government does not depend solely or even mainly upon the percentages or the kinds of industries owned by the former. Of greater importance is the nature of the relationship that exists between the national government and the multinational companies involved. If it has the will and the administrative capacity to do so, the government of the smallest country—of a tiny city-state like Singapore—can usually prevent even the biggest multinational company from acting in ways that it believes are contrary to the national interest. For, a government naturally possesses the sovereign power to impose its will on any private entity sooner or later, by one means or another, and at greater or lesser cost to the two parties concerned.

At bottom, therefore, the problem of who controls whom in the relationship between national governments and foreign companies is much more often one of psychological power than of political or economic power *per se*. If the responsible political leaders and civil servants think and act in ways that convince not only the company but, more important, themselves that they are in control of the relationship, they will in fact exercise the political and economic power they intrinsically possess and even the largest multinational company will conduct itself accordingly. But, if they are filled with self doubts or neurotic fears of being dominated by others, or if they are susceptible to being bribed or suborned,⁸ then both they and the multinational firms will soon be convinced that, despite the

⁸Such psychological conditions reflect the conflicted nature of particularistic transitional societies—the competition among their traditional and modern social groups and institutions and the incongruities among their traditional and modern values and behavioral norms. However, although they have deep sociocultural roots and are intensified or eased by sociocultural processes, conflicted psychological states can also be resolved by individual efforts to improve self-awareness and self-knowledge and to guide personal behavior by universalistic values and behavioral norms. In turn, such individual changes hasten the sociocultural processes whereby transitional societies become less conflicted and more universalistic. See Theodore Geiger, *The Conflicted Relationship: The West and the Transformation of Asia, Africa and Latin America* (New York and London: McGraw-Hill for the Council on Foreign Relations, 1967), Chapter Four.

government's inherent political and economic power, the companies are in control—and they may be tempted to behave accordingly.

The lesson of Singapore's high and rising degree of dependence upon multinational companies is that, from the beginning, there has never been any question in the minds of the people at both ends of the relationship as to who has the sovereign authority. And, the resulting respect of the multinational companies for the Singapore government is reinforced and sustained by the fact that it generally acts in a reasonable manner. It understands that, whatever economic and social-welfare objectives business firms may serve voluntarily or perforce, they must operate efficiently and profitably. Hence, the government seeks to attract reputable companies with good records of performance, and it facilitates as much as possible the establishment and carrying on of their activities in the city-state. While it carefully observes their operations to assure compliance with national laws and goals, it is equally careful to avoid imposing unnecessary, burdensome or capricious regulations on them or in other ways to detract from their efficiency. In general, Singapore's government conducts its relationships with business firms, indigenous and foreign, in a businesslike way. And, the city-state shares in their resulting profitability not only through the employment, incomes, exports, and tax revenues thereby generated but also through the dividends and capital gains that the government obtains from its minority equity holdings in some companies.

The importance of rational, consistent and calculable behavior by Singapore's government in attracting multinational companies to the city-state and in keeping its relationships with them mutually beneficial was stressed by Dr. Goh Keng Swee in the recent paper cited in the preceding section:

When [foreign investors] start up an enterprise in a foreign country, not only are the business risks much larger than would be the case in [their] home environment, but also many kinds of unfamiliar problems have to be tackled—engagement of an unfamiliar work force including lower and middle level supervisory and management staff from local sources, complying with local laws and customs—all these are additional to the normal risks and uncertainties of business. If in addition, the government's policy and conduct are unpredictable, it becomes impossible for the investor to make dependable forecasts of the future. It is therefore necessary for government policy and practice to be consistent, predictable and rational. Further, governments must develop a repute for keeping their word, of honouring their commitments and discharging their obligations.

Just as there are lessons to be learned from Singapore's relationships with multinational companies, so too are there lessons to be derived from the government's relationships with the trade unions. The city-state has a comparatively large and active labor movement, out of which the ruling political party grew and which it is committed to fostering. As in many developing countries, Singapore's labor unions are controlled by the government. In Singapore's case, however, this control has been exercised in ways that have hitherto avoided the extremes prevalent in certain other developing nations. On the one hand, it has refrained from emasculating the labor movement and making it unable to protect and advance the economic interest of its members in obtaining higher real incomes. On the other hand, it has not allowed labor costs to rise disproportionately to productivity increases, and it has maintained appropriate wage

differentials and thereby prevented either large disparities that would be socially disruptive or the forcing of general wage rates to the level of the highest paid in the economy, which would tend to make exports noncompetitive.

So much for policies of the two city-states that have been conducive to their extraordinary rates of economic growth and rising real incomes. Let us turn now to the uses they have made of their increasing resources.

In recent years, opinion leaders among development practitioners have been stressing the need to pass on the fruits of economic growth to the people generally through rising living standards and more equitable distribution of income. And, as initially with each successive shift in development priorities, there has been a tendency to regard attainment of the new objectives as simply a technical problem readily solved by scientific analysis and application of the indicated policy prescriptions. As in the case of land reform a decade ago, the fact that rapid and substantial changes in income distribution are inextricably interrelated with the distribution of political and economic power among social groups was at first ignored or minimized. Then, when the limitations on direct policy measures imposed by these institutional constraints were recognized, attention turned to indirect means of raising popular living standards and improving income distribution through better health, housing, education, and other benefits that, it was believed, could be provided without arousing the protective reactions of politically or economically powerful vested interest groups. Here again, however, disillusionment often followed—as, for example, when public-housing projects proved difficult to get underway, expensive to construct, impossible to operate without substantial subsidies, and in the end more beneficial to the rich than to the poor. But, just as the early optimism was unrealistic, so the current pessimism is unwarranted.

The people of Hong Kong and Singapore have been obtaining dramatic improvements in housing, education, health, recreation, and other aspects of welfare without excessive planning delays, construction costs, operating subsidies, or the other problems that plague such programs in many countries. Over 46 percent of Hong Kong's people and nearly 40 percent of Singapore's people live in low-rent government or government-assisted housing estates that are soundly financed and managed and are steadily being improved in quality. Universal free primary education is guaranteed to every child, and the numbers receiving secondary education are increasing, as are the facilities for higher education and technical and vocational training. Each city-state already provides four hospital beds per 1,000 people, and extensive clinical facilities for low-cost outpatient medical care. More parks and playgrounds, public athletic facilities and swimming pools are being constructed. And, these and other extensive social-welfare benefits are being financed without inflation, operated without burdensome subsidies, and actually enjoyed by the great majority of the poor—however much they may have profited the construction and other business firms involved. Surely, there are practical lessons of planning, financing, organization and management to be learned from these aspects of the experiences of Hong Kong and Singapore.

True, as we point out in the relevant chapters, neither Hong Kong nor Singapore is without serious deficiencies. Both city-states still have substantial numbers of people earning very meager incomes in traditional petty trading and servicing activities, numerous squatters living in flimsy huts, and many families crowded into decaying slums. There are also the ill, the aged, the families without full-time adult wage-earners, and the unskilled unemployed, for all of whom

special programs have yet to be instituted on an adequate scale. Nevertheless, the extraordinary record of the two city-states in providing greatly improved housing, education, health and recreation facilities, and other types of welfare for increasing majorities of their people makes it highly probable that their remaining disadvantaged groups will share sooner rather than later in the fruits of their economic growth.

II.

The Chinese Sociocultural Background

Virtually all of Hong Kong's people and over three-quarters of Singapore's are ethnic Chinese. That is, they regard themselves as Chinese, speak one or more variations of the Chinese language, retain essential features of certain Chinese institutions, and continue to think and act in accordance with distinctive Chinese values, conceptions and norms of behavior. The importance of these sociocultural characteristics is all the greater because Chinese society and culture have constituted one of the major civilizations evolved on this planet. However far removed ethnic Chinese may be geographically or in generational descent from China proper, the overwhelming majority of them have not only a strong sense of belonging to this great historical tradition but also a persisting pride in its accomplishments and a deep conviction of its superiority. After a considerable loss of confidence from the mid-19th to the mid-20th centuries, these feelings have been substantially strengthened by China's revival and growing international importance in recent years.

For several thousand years, Chinese civilization ranked with that of the West in developmental momentum and creativity and, until the 16th century, probably exceeded it in economic productivity and technological sophistication. However, about 500 years ago, the two began to diverge. After 100 years of Mongol rule, the Ming restoration of a native dynasty in the mid-14th century ushered in nearly three centuries of gradual stagnation that was solidified for another 250 years under the Manchu dynasty of the Ch'ing. In contrast during these centuries, Western civilization was undergoing a period of accelerating dynamism that was manifested especially in its growing political, economic and technoscientific capabilities. By the 19th century, not only was the West much in advance of China in these respects but its expansionism and activism brought it into direct confrontation with the latter. For China, this was a new experience. Always in the past it had been able to absorb or expel its invaders, who were nomadic barbarians forced by their own lack of the necessary civil institutions to adopt those of their Chinese subjects. The West's stronger political, economic and technoscientific capabilities—whose irresistibility was dramatically demonstrated by the fact that they could be exercised at so great a distance from their source in Europe—had a traumatic impact on China. This unprecedented confrontation led not only to the fall of China's age-old imperial system but to deeper changes in its traditional society and culture, which were thereby jolted out of their stagnation and complacency.

Hong Kong and Singapore are among the many results of this historic encounter between two great sociocultural traditions. Founded in the 19th century, their establishment and development were products of Western dynamism and expansionism but their growth was also nurtured by the inflow of human energies and economic resources released by the collapse of the Chinese imperial system

See Bibliographical Note at the end of this chapter for the sources on which the analysis is based.

and the disintegration of China's traditional institutional structure—as well as, in Singapore's case, by the analogous changes in Southeast Asia. The development of the two city-states depended upon their ability to use these energies and resources effectively, which meant the adoption of Western technology, economic organization and methods, and political and administrative arrangements and procedures. These Western organizations and techniques were amalgamated with Chinese institutions, values and behavioral norms into a transitional society and culture—transitional in that they were neither modern Western nor traditional Chinese and are still in process of evolution.

Such transitional blendings have been occurring throughout Asia and Africa during the past 150 years in consequence of the impact of the West. But, the resulting transitional societies have been more pragmatic and effective in the countries that have been part of, or heavily influenced by, traditional Chinese civilization than elsewhere in those continents. Japan was, of course, the first and is still the leading example of this successful blending. The Chinese outside China—the so-called overseas Chinese, to whom the people of Hong Kong and Singapore belong—have been second, although their amalgamations take different forms. As the vast and populous heartland of its civilization, China itself lagged behind because the momentum of traditional institutions was greater, the psychocultural changes involved were slower, and the political and economic disruptions resulting from the corrosive impact of the West were more difficult to heal. Nevertheless, even before the communist conquest, the blending was well underway, and its pace and extent have been increased under communist rule. For these reasons, too, the amalgamation has been different in China than among the overseas Chinese or in Japan, Korea or North Vietnam, the other countries strongly influenced by Chinese civilization throughout their history.

Regardless of these variations in rate and form, the transitional blending of modern Western and traditional Chinese sociocultural characteristics has been more effective than other transitional blendings elsewhere in Asia or in Africa because the incompatibilities between them have not been as great. True, Western civilization and Chinese civilization differ in very important respects, and many of these differences will be pointed out in the course of this chapter. Nevertheless, the great civilizations of India and of the other South and Southeast Asian countries influenced by it, or of the Moslem states of West Asia and North Africa, or of the many indigenous tribal societies of tropical Africa were all more profoundly divergent—although, of course, in widely different ways—from Western civilization than was that of China. In contrast to all of them, Western and Chinese societies—each in its own way—were more practical and rationalistic, more oriented toward achievement in this world, more disposed to physical and mental work as the preeminent—and not perforce simply the predominant—human activity, more inclined to save and invest, and more conducive to social mobility. The values, motivations and institutional constraints responsible for these similarities were different, as will be explained below. But, they were not incompatible. A Chinese—or Japanese or Korean—given the opportunity to engage in Western-type economic activities did not find it psychologically too difficult to do so because—unlike many other Asians or Africans—he was already accustomed to think and act in ways that were substantially consistent with the motivational and conceptual requirements for successfully adopting Western techniques.

Western civilization and Chinese civilization have been similar in other important respects—in their complexity, in their multiplicity of varying trends

and countertrends, in the inner tensions and conflicts that both reflect and generate their dynamic ambivalences. Hence, every description of Chinese society and culture, even the most comprehensive and detailed, must suffer from incompleteness, oversimplification and distortion. The difficulty of minimizing these shortcomings is all the greater when, as in this chapter, space permits only a sketch of those sociocultural characteristics most relevant to the subject of the study. And, the difficulty is compounded by the need to take account not only of the selected aspects of the traditional society and culture but, equally important, of how they have been changing under the impact of the West and the influence of their own internal dynamic.

One further caveat is necessary. Society and culture are interdependent concepts referring, respectively, to the institutions, organizations and other persisting patterns of relationships among people, and to their modes of seeing, feeling, believing, thinking, and acting and the material artifacts and techniques thereby produced. Neither set could exist without the other, and each is constantly reshaping itself and the other in a multiplicity of continuous interactions that are fast in some periods and slow—sometimes, as in primitive societies, virtually imperceptible—during other periods. Thus, institutions and other kinds of patterned relationships, and values, attitudes and norms of behavior together constitute a sociocultural system, no part or aspect of which is solely determinative of the others, although some may exert more powerful influences than others. This holistic systemic character complicates the task of analysis and fosters the misleading impression that the aspect of society or culture described first must be the “cause” of or more “basic” than the rest.

The Micro-Social Units

In contemporary Western societies, the smallest social entities would generally be considered to be isolated, self-making and self-responsible individuals. The aim of the learning process from infancy through childhood and adolescence is to develop such “free-standing” adults capable of operating on their own and willing and able to assume full responsibility for their actions. These developmental experiences inculcate into most Western men and women a sense of their personal identities as unique individuals. True, their identities are also shaped by their membership of families, of the organizations where they work, and of the many other institutions and associations in which they participate, as well as by the sociocultural characteristics of their national societies as a whole. However, the latter identifications do not predominate in personality formation but operate in continuous interaction with the process of individualization.

In traditional Chinese society, the most significant micro unit was the family, and participation in it was the major developmental experience shaping a person's sense of identity. The individual as such counted for very little—he rarely stood alone *vis-à-vis* the society but usually dealt with it as a member of his family. The family was the basic economic unit, especially in the countryside where the great majority of the Chinese people have always lived and worked. The family was held responsible for its members with respect to taxation, obedience to the law, and other obligations to the governing authorities, and for their relationships with other organizations and institutions. True, there were free-standing, self-making and self-responsible individuals in traditional Chinese society but their numbers were small and in most cases they functioned in its interstices—as Taoist priests and Buddhist monks and nuns, bandits and rebels, military

adventurers, etc.—and not as integral members of its determinative institutions. The primacy of the family for the sense of identity is indicated by the fact that, in ordinary daily intercourse, kinship titles (such as father, uncle, elder brother, younger sister) rather than personal names were generally used not only among relatives but also among friends.

The traditional Chinese family was patriarchal—that is, the father, or grandfather if still active, was the head of the household with absolute authority over all of its members, whether adults or children. It was patrilinear—that is, descent was always traced through the father—and patrilocal—that is, brides in most cases moved to and became members of their husbands' families—and marriage was exogenous—that is, women never married men belonging to the families or lineage associations in which they were born.

Westerners often have a mistaken picture of the typical Chinese family as comprising grandparents, married sons and their wives and children, unmarried sons and daughters, married male grandchildren and their wives and children, and so on for three or more generations living harmoniously together in a large common household. True, this was the Confucianist ideal to which most Chinese families aspired. But, it was approximated by only a small minority, principally among the landed gentry and scholar-officials, and the wealthy merchants and artisans. For one thing, life expectancy was short and infant mortality was high, as in all premodern societies, and the better-fed, better-clothed and better-housed tended to live longer than did the peasants and the poor traders and workmen of the towns. For another, among the gentry the absolute control of substantial property and income by the patriarchal head of the family was a powerful sanction for preventing his sons and grandsons from setting up their own households. Nevertheless, at all economic levels, the imperial prohibition against primogeniture and the legal right of each son to share equally in the inheritance—large or small as it might be—together with the tensions between brothers and their wives provided strong incentives for division of the property and the establishment of separate households upon the death of the patriarchal head.¹

The traditional Chinese family also tended to fall short—although not to the same extent—of the Confucianist ideal of filial devotion and interpersonal harmony. To the Chinese, the family was not only a biological necessity for the nurturing of children, a more or less self-sufficient economic unit for the support of adults, and a set of interpersonal relations for the satisfaction of emotional needs. Rather, its major expressed function was reverence of and accountability to the ancestors as progenitors of the family and still concerned for its perpetuation and reputation.² Thus, the inner orientation of the Chinese family was toward the old, not as in contemporary Western families toward the young. Prestige, honor, respect, obedience went to the oldest living generation as closest to the ancestors and responsible to them for the family's well-being and good name. Periodic reports on the family's welfare were commonly given to the ancestors and explanations and apologies made to them for the misfortunes or disgraceful behavior of its members. The emotion most highly valued was the feeling of

¹However, the oldest son might receive a somewhat larger share so that he could discharge the obligations of caring for an aged mother and maintaining the ancestors' graves.

²It is usually but mistakenly called ancestor worship. However, neither the concepts nor the ceremonies were the same as those generally involved in religious worship.

respect by the younger for the older, not personal love between them, which could have led to placing the interest of individual members over that of the family as a whole.

These conceptions and feelings both expressed and reinforced patriarchal authority and helped to make the Chinese family highly cohesive and hence capable of acting as the major micro unit of the society. Nevertheless, inherent in the relationships within the traditional Chinese family were certain tensions, two of which were of central importance. The first, involving the males, was between the authoritarian father and the obedient adult son. The second, involving the females, was between the domestically dominant mother-in-law and the subordinate daughter-in-law, who became a member of the family in consequence of an arranged marriage and not because of an emotional relationship with her husband. In turn, these tensions helped to generate incompatibility between brothers and rivalry between sisters-in-law, while strengthening the ties between mothers and sons. These inner family tensions were significant for the traditional society as a whole, as well as for the nature of the subsequent transitional process, because they involved the relationships of authority that were central features of Chinese society.

In the modern Western family, although psychic disturbances generated by authority relationships are not uncommon, the most characteristic tensions are rooted in the individualization process. Western children and adolescents are subjected to conflicting pressures, on the one hand, to model their thinking and behavior on those of adult exemplars and, on the other, to develop their own unique individual personalities. Failure to resolve these tensions before adulthood may lead to neuroses involving inadequate sense of identity, self-denigration and lack of self-confidence, and other ego disorders. In traditional China, however, the characteristic authority tensions were generally not resolved during adolescence but only by eventual succession as adults to the position of the authoritarian father or mother-in-law. If the resulting prolonged repression of conflicted feelings of obedient respect and rebellious resentment became unbearable, it could lead to protoparanoid or depressional neuroses, and to the outbreaks of individual and mass violence that recurrently erupted partly in consequence of the projection of familial hostilities onto the other, less anxiety-provoking relationships of the society.

In most cases, however, aggressive manifestations within and outside the family were effectively repressed with the help of the Confucianist norms of behavior enjoining the concealment of emotions, impersonality of expression, avoidance of confrontation, resort to face-saving devices, the use of mutually familiar "go-betweens" for relationships among strangers involving personal feelings (as in the arrangement of marriages or in business dealings requiring trust), and elaborately decorous manners and forms of address.³ Moreover, the predominant self-critical emotion was shame felt before others for having disgraced or let

³Overt displays of affection were usually manifested only toward children up to the age of about five, who were rarely restrained or punished. Fathers tended to be especially affectionate and indulgent toward boys until this age, but thereafter their behavior changed radically, becoming impersonal, unemotional and highly disciplinary as they assumed responsibility for the social education and technical training of their sons. This reversal helped to foster the son's ambivalent feelings toward the authoritarian father and the development of close and enduring ties with the mother.

down the family; not, as in Western societies, guilt felt within himself by the individual over failure to live up to his internalized standards of expected feelings or actions. These behavioral norms reinforced the psychocultural and socio-economic importance of the family in preserving the degree of interpersonal harmony needed to maintain its essential cohesiveness.

For the bulk of the population, most of the significant life activities were conducted within the context of the family. Work on the land or in the shop, religious observances and reverence of the ancestors, the education and training of children, as well as domestic chores and satisfactions, were organized on a household basis. Nor were the significant life activities separately organized and conducted, as in Western societies. Rather, they were fused into a multifaceted whole that simultaneously provided economic, educational, emotional, recreational (in the sense of continuous conversational interplay), and other satisfactions. So wide was the family's purview that, especially in the countryside, there were virtually no institutions in which ordinary people participated that were not outgrowths of or dependent on the family, and even their number was quite small. The scarcity of organizations unrelated to the family meant that loyalties were not diffused over a variety of more or less competing institutions, as in Western societies.

Chief among these other local institutions were the lineage, or clan, associations and the organizations for carrying on the common responsibilities of the innumerable villages in which the great majority of peasants lived. Lineage organizations were groups of families with the same surname and tracing descent through male lines from a common founding ancestor. Like the family itself, their ostensible reason for being was reverence for the ancestors, but they served other functions as well. Some lineage organizations embraced a large number of families and traced their descent back through 8, 10 or more generations, often with written genealogies to substantiate their claims. Others were small, going back only 3 or 4 generations. The larger and older the lineage association, the more likely it was to include families of varying social status and economic level. In such cases, too, growing size, internal quarrels or migration to other provinces might lead to progressive segmentation into sublineages and branches that in time might lose touch with one another and become independent organizations. Lineages that included families above the subsistence level were likely to receive donations of property, generally land, the income from which enabled them to build and maintain ancestral halls, where the member families deposited their ancestors' soul tablets and conducted common rites and festivals. Income from the lineage's land, usually rented to member families, as well as from such regular or occasional contributions as member families were able or willing to make, was also used to teach the children to read and write, to help support promising young men studying for the official examinations, and to provide food or money in time of need. Disputes among member families were usually settled by the governing leaders of the lineage rather than by the local imperial magistrate.

Next to the family itself, the lineage organization was for large numbers of people, especially in South China, the most important institution providing social, economic and physical protection and help. The status and income differentiation that often occurred over several generations meant that many lineages and branches linked together high-status, high-income gentry and scholar-official families with low-status, low-income peasants, handicraftsmen, and petty traders. Even though a functioning lineage or branch may have originated in a distant part of the country, its member families tended at any given time to be localized,

often constituting the entire population, or a substantial proportion of the inhabitants, of a village or several villages and nearby market towns. In an authoritarian society, the high-status, high-income families—the elites—naturally dominated the lineage organizations and in many cases used the corporate resources and the influence derived from their control over a large membership to advance their own interests. Nevertheless, the poorer families also found membership advantageous, for they were preferred tenants on land owned by the lineage or by gentry member families, recipients of charitable and educational benefits, participants in the rites and festivals conducted in the ancestral halls, and sharers in the prestige of the lineage and of its elite members. They could sometimes count on their elite kinsmen to intercede on their behalf with the local magistrate or to help them in other ways. Moreover, when disputes arose between families or villages of different lineages, each supported its members against the other even to the extent of armed combat.

For their part, villages—especially if inhabited by more than one lineage—usually required an organization for making and carrying out decisions regarding common problems, such as construction and maintenance of local irrigation facilities, water allocation, compliance with governmental regulations. Considerations of social status and habits of subordination led inevitably to the tacit understanding that village councils and analogous local organizations would be composed of the heads of elite families or their nominees. In normal times, therefore, the elders of the local gentry families and the resident retired scholar-officials tended to dominate the countryside through the two most important types of institutions, in addition to the family, that were autonomously generated at the micro level—the lineage and village organizations.

An analogous situation existed in the market towns and the larger cities. There, too, families constituted the basic micro units. They were generally organized into occupational guilds enjoying a monopoly of the production of a particular commodity or the provision of a service. Guild membership was often restricted to a specific lineage. The urban guilds and lineage associations were also dominated by their wealthier and more prestigious members.

The central importance of the family in all social groups made Chinese society highly particularistic. That is, the interests of and the sense of loyalty to the family generally took precedence over commitments to larger organizations and institutions, including that to the welfare of the society as a whole. This meant that people were motivated to act to defend or advance the interests of the successively larger organizations in proportion to the extent to which such interests were perceived as coinciding with—or at least as not detracting from—those of the family itself. Hence, all other things being equal, the more extensive and heterogeneous these institutions were, the greater the incompatibilities among the respective interests involved were likely to be, and the weaker the commitment to the bigger institution compared with that to the family. Particularism was manifested in the struggles between families, between villages, and between lineage associations that often erupted into violence. It was also expressed in the tendency of the society as a whole toward disintegration of its macro-institutional structure in consequence of the incompatibilities among the interests of its ruling elite groups, as explained in the next section. Conversely, the major integrating force counteracting the divisiveness of particularism was the universalism of Chinese culture, described in a later section, expressed in the Confucianist ethic and sense of common identity and destiny.

The Macro-Institutional Structure and Processes

In its essential outlines, the macro-institutional structure of traditional Chinese society was quite simple. At the local level, more or less autonomously generated from below, were the micro units and the larger organizations into which they were grouped, as described in the preceding section. At the top were the emperor and the imperial court. The two levels were linked by the hierarchically organized bureaucracy composed of scholar-officials selected and promoted—to an important degree in practice and not simply in theory—by competitive examinations. There were no significant intermediate-level territorial or functional institutions outside the official bureaucracy. Districts, prefectures, provinces, groups of provinces existed institutionally only as successively higher administrative divisions consisting of a career official—a mandarin—and his staff.

The district magistrate, the lowest level of the official hierarchy, and the micro units described in the preceding section were formally linked by a variety of administrative arrangements. The most common organized varying numbers of village or urban families into a group responsible for the collection of taxes and the maintenance of order. Like the lineage and village associations, these official arrangements for control at the local level tended to be dominated by their more prestigious members—gentry and wealthier peasants, merchants and artisans. The families comprising such groupings were in most periods collectively responsible for the payment of their members' tax and labor-service obligations, for assuring their obedience to imperial laws and decrees, and for reporting to the district magistrate or his staff all crimes and disorders and even the presence of strangers in their midst. From the point of view of the imperial authorities, the effectiveness of these local administrative arrangements depended upon the conscientiousness, energy and influence over the members of the elite-group headmen, whose interests, as explained below, partly coincided and partly conflicted with those of the government. Despite many reorganizations and changes of name throughout China's long history, the arrangements for local administration were always more or less unsatisfactory because of the highly particularistic character of Chinese society.

Thus, traditional Chinese society was predominantly organized horizontally into innumerable more or less similar official and nonofficial family, lineage and other local organizations held together institutionally by a thin, specialized official hierarchy culminating in the imperial court.⁴ This high degree of horizontal segmentation was a source of both strength and weakness in China's history. On the one hand, it helped China to preserve its essential sociocultural identity through many centuries of invasion and conquest. On the other hand, it facilitated the empire's recurrent political disintegration whenever the effectiveness of the central authority was impaired by personal power struggles, factional disputes, incompetent rulers, venal officials, or other manifestations of particularism.

Even in "normal" times—that is, periods without invasions, peasant rebellions, or wars between contenders for the imperial throne—the political hierarchy contained important tensions. On the one side was the emperor and the imperial

⁴The number of career officials—the mandarin—was always quite small. Together with the much more numerous noncareer staff of clerks, attendants, doorkeepers, messengers, police, and guards, the imperial administration comprised only a few hundred thousand in a population estimated to have been between fifty and sixty million until the 18th century.

court, comprising the members of the ruling dynastic family and their servants, especially the influential corps of eunuchs who were the closest associates of most emperors throughout their lives. On the other side was the official bureaucracy of career scholar-officials largely chosen from gentry families. Both had the powerful common interest of preserving the imperial authority as a major support of the society's system of authority-subordination relationships. Neither could operate effectively without the other. The official bureaucracy was the instrumentality by which the imperial authority was brought down to the micro level and through which taxes and other types of revenue in commodities and labor services flowed up or were made available to the court and the central administration. Conversely, the official hierarchy could not govern without the legitimization of the emperor's divinely sanctioned absolute authority and the coordinating functions of the central administration.

At the same time, the two groups had conflicting interests. The imperial court was reluctant to share its power with the bureaucracy of scholar-officials lest they obtain too much control over policy making and the flow of revenues. Hence, it imposed restrictions and safeguards on their initiative and freedom of action; required all important decisions to be referred to the capital, along with innumerable routine reports; shifted officials every two or three years; and never assigned them to serve in their native districts. For their part, the officials naturally used their positions to further their own and their families' interests. As the proportions of imperial revenues which they were legally permitted to keep for salaries and administrative expenses were grossly insufficient, they were impelled not only to hold back additional portions from the amounts they transferred to higher authorities but, more important, to resort to unauthorized taxes and charges of many kinds on the people and to "squeeze"—the nearly universal taking of bribes. Despite the constant efforts of the central administration to suppress bribery and corruption, most officials endeavored during their careers to maximize their incomes by these and other means so as to provide for a comfortable retirement devoted to scholarly and artistic pursuits and to increase the wealth and prestige of their families.

The gentry mediated between the court and imperial bureaucracy, on the one hand, and the great mass of the people, on the other, through the official and nonofficial local organizations that they controlled. However, performance of this necessary linkage function involved conflicting gentry interests and purposes *vis-à-vis* both sides. The gentry's own security and power depended upon the internal and external effectiveness of the imperial system, in whose preservation they accordingly had a crucial interest. But, the desire to increase their wealth and influence impelled them to evade taxation, to seek to extend their landholdings and augment their incomes at the expense of the imperial estates and the government's salt and silk monopolies, and to enlarge the scope of their local autonomy.

Similarly, the gentry's interests with regard to the peasantry and the urban artisans, merchants and traders were ambivalent. Their role in the imperial system was substantially based upon their ability to dominate the lineage and other local organizations and thereby maintain local order, facilitate revenue collections, and inculcate loyalty to the imperial system. But, their control was effected not only by the fear but also by the willing respect and deference they were able to evoke from their nonelite kinsmen and neighbors, and by the belief they could sustain among them that they were trying to protect local autonomy and welfare against the exactions of the imperial administration and the rapacity of the officials. Yet,

at the same time, their own interests impelled them to use their positions and influence to shift as much as possible of the burden of taxation onto the peasantry and to increase their landholdings and incomes at the latter's expense. Thus, the gentry served the partly contradictory functions of acting as a major means of imperial control at the local level, as an important mediatorial buffer between the official hierarchy and the micro social units, and as a social group of particularistic families each advancing its own interests *vis-à-vis* both the imperial system and the great mass of the people.

Unlike in most traditional societies, the degree of social mobility—upward and downward—was comparatively high in imperial China. Aristocratic conceptions of social status derived from noble birth and proficiency in warfare, and feudal arrangements involving large inherited landed estates with dependent clients owing dues and military services, had been prevalent before the unification of the empire under the Han dynasty (206 B.C. - 220 A.D.) and periodically threatened to revive during the shorter or longer interludes of political disintegration between the major succeeding dynasties.⁵ To prevent such undermining of the basis of their absolute power, the emperors consistently prohibited primogeniture and enforced the right of sons to inherit equal portions of the estate upon the death of the father. This resulted sooner or later in the breakup of the landholdings of gentry families, with some branches reaccumulating property and others sinking after a generation or two into the peasantry. Similarly, the division of peasant holdings at the father's death left many families with too little land to support themselves, forcing their members to become serfs, tenants or hired hands of the gentry and better-off peasants. Conversely, hard-working, thrifty, clever, or lucky peasant families were able to buy—or foreclose mortgages on—the land of their neighbors, and thereby obtain large enough incomes to permit a promising son to abstain from work and to study for the official examinations. If he was successful, an official career conferred gentry status.

Social mobility was also fostered by the invasions, wars and natural disasters so tragically frequent in China's history, and by the Chinese equivalent of Europe's overseas migration and the westward movement of the American frontier. Time and again, districts, regions, sometimes entire provinces were partly or wholly depopulated by Mongol, Tartar or Turkish invasions, wars among contending minor dynasties and imperial rivals, and peasant revolts, or by floods, famines and epidemics. These catastrophes recurrently made available unoccupied or unclaimed acreages for surviving peasants with too little or no land and for those willing to migrate from other areas. Also, the establishment of new dynasties or the triumph of one court faction over another might sweep away large numbers of losing officials and gentry families and provide opportunities for newcomers to rise in socioeconomic status.

Another major means of social mobility was the gradual spread of Chinese civilization north, west and south from its homeland in the Yellow River (Hwang Ho) valley and the plains of northern China. The principal direction of migration was southward, first to the immense fertile valley of the Yangtze River, next through the intervening upland regions to the coastal plains of Fukien and Kwangtung, and then into Kwangsi and Yunnan. Gradually displacing, absorbing or pushing into the southernmost mountains and jungle river gorges the scanty

⁵The major dynasties after Han were T'ang (618-906), Sung (960-1126), Southern Sung (1127-1279), Mongol or Yuan (1280-1368), Ming (1368-1644), and Manchu or Ch'ing (1644-1911).

non-Chinese indigenous inhabitants of this vast trans-Yangtze region, the migrating families were able to make successively "new beginnings" on this advancing frontier, just as their Western counterparts did in the settlement of North America. And, like them, these Chinese migrants had to possess or develop the pioneering virtues of self-reliance, courage, risk-taking, hard work, and frugality needed to survive, let alone prosper, in the harsh frontier environment. Except under the Southern Sung and early Ming dynasties, the imperial capital was generally located in northern China and the central administration was not as effective locally south of the Yangtze valley as north of it. Combined with the need to cope with frontier conditions, this situation fostered in South China local autonomy and reliance upon locally generated lineage and village institutions. In the northern provinces, lineage associations were neither as widespread nor as important nor was local autonomy as great as in those of the South. And, as in other parts of the world, frontier conditions meant that feuds between families, lineage associations and villages were prevalent, leading frequently to violence which, especially in periods of dynastic decline, the imperial administration was unable to prevent or to punish.

Internal migration and the settlement of the frontier were important outlets for the rapid increase of population during periods of peace. Until the 16th century, technological innovation, growing demand from the urban centers and the court and imperial administration, and peasant motivations for family advancement and hard work were both reflected in and stimulated by rising agricultural productivity. As population pressures increased, the sons of declining gentry families and peasants with too little or no land would migrate to regions devastated during the preceding periods of war or natural disaster or to the frontier provinces, and marginally productive land in the settled areas would be brought under cultivation. Thus, until the stagnation of the late imperial period, the Chinese economy expanded both intensively and extensively—that is, in productivity as well as in size.

Relative prosperity for all social groups generally prevailed during the early reigns of each major dynasty, when the barbarians were kept beyond the Great Wall, the emperors ruled as well as reigned, the imperial administration was reasonably efficient, taxation was moderate in relation to incomes, scholar-officials were more highly motivated and comparatively less corrupt, and the conflicting interests of the gentry were in consequence less difficult to reconcile. During such periods, the imperial administration constructed major public works, such as large-scale irrigation and flood-control systems, canals and roads; encouraged the planting of new crops and the use of more efficient methods; undertook relief measures in regions devastated by war or natural disaster; and assisted education and artistic and literary development.

In contrast, during the later reigns of each major dynasty, conditions progressively deteriorated as different court factions contended for control of the emperor, the imperial administration became less efficient and more corrupt, taxation pressed more heavily on static or falling incomes, and the gentry was less and less willing or able to perform its mediatory functions effectively. During these periods of particularistic disintegration in the dynastic cycle, peasant flights from the land became increasingly frequent and many joined secret societies or wandering groups—"brigands" as they were officially called—that roamed the countryside, living by begging, theft and armed robbery. Some of these secret societies or bands of brigands might grow under a charismatic leader into rebel

armies that sacked towns and even cities and were suppressed with difficulty by the imperial troops. Eventually, such changes led to the fall of the dynasty through a barbarian invasion, the triumph of an imperial general or military adventurer over his rivals, or even—as with the founders of the Han and Ming dynasties—the successful revolt of a peasant leader.

Thus, for long periods of China's history, life was precarious for all groups in the population. Even in the best of times, substantial numbers of peasant families eked out a meager subsistence from tiny plots of owned or rented land. And, in bad times, most peasant families had little or no margin with which to endure crop failures, tax increases, or the exactions of self-seeking local officials and gentry. Nor, in such periods, were they likely to receive much help from the imperial administration, itself hard pressed to cope with its problems and enemies. This dependence on their own resources and energies fostered the cohesiveness of the peasant family, despite its inner tensions, and bolstered its role as the predominant micro unit of the society. As the centuries passed, the Chinese more and more learned from bitter experience that, in the last analysis, the only institution upon which they could rely was the family, whose welfare was best served when it had greatest autonomy to pursue its own interests.

In the macro-institutional structure of traditional Chinese society, the balance between the integrative factors and the disintegrative effects of particularism was nearly equal and hence precarious. The integrative institutions and techniques of the imperial system were never able to control decisively two major disintegrative manifestations of particularism; indeed, in different forms, their counterparts persist even today under the communist regime. The first was the tensions between the authoritarian central administration and the various pressures for local autonomy from both the elite groups and the popular organizations. The second was the deep ambivalences of interests within the ruling elites, that is within and between the imperial court, the official bureaucracy, and the gentry.

Considering the vast extent of China's territory and the enormous size of its population, it is remarkable that these macro-institutional weaknesses did not lead to more frequent, or even permanent, disintegration. That they did not was the result, we believe, of two factors. First, the imperial administration—for all its particularistic deficiencies—was organized in a sufficiently rationalized way, could generally apply efficient enough financial and military techniques, and was usually staffed with enough experienced career personnel to operate with the minimum unity and effectiveness necessary to maintain a functioning political system for the society as a whole even during most of the period of decline in the dynastic cycle. Second, and more important, the predominant characteristics of traditional Chinese culture, described below, decisively reinforced the limited integrative capabilities of the macro institutions and techniques.

Relevant Aspects of Traditional Chinese Culture

Traditional Chinese culture is much too vast and diverse to be covered comprehensively in a survey of this kind. Nor is it necessary to do so for our purpose, which is to explain those universalistic aspects of the culture which played integrative roles in counteracting the particularism of traditional Chinese society.

Any account of traditional Chinese culture must begin with Confucius, who is believed to have lived from 551 to 479 B.C. during the period of the "Warring States" prior to the unification of the empire under the Han dynasty. As a product of China's most feudalistic period, Confucius himself was inculcated with aristocratic conceptions and standards but he did not advocate feudal autonomy at the expense of the central institutions. Instead, he believed that China was originally unified under the benevolent rule of Heaven-descended emperors, who introduced the arts and ethics of civilization to the hitherto barbaric Chinese. Confucius thought of himself as rediscovering and reformulating these divinely ordained social arrangements and rules of conduct. Like Plato about a century later in the West, he sought in vain for a ruler who would give his political ideas a fair trial. But, unlike Plato, who also made seminal contributions to natural philosophy and mathematics, Confucius was concerned with men and society, not with nature.

Subsequent interpretations and elaborations of Confucius' ideas also usually emphasized the universalistic imperial aspects of his thought rather than the particularistic feudal aspects. Two periods of Confucianist development were especially important—that by Mencius (373-288 B.C.) and others during the two centuries preceding the Han unification in 206 B.C. and that by the so-called Neo-Confucianists during the Sung dynasty in the course of the 11th and early 12th centuries A.D. We shall be concerned mainly with the latter, final formulation of Confucianist conceptions and expectations, although some of the differences from the earlier forms will be noted.

However, Confucianism was by no means the only significant system of ideas and values in Chinese culture. At least three others have been important: the concepts and way of life developed from the ideas of Lao Tzu, supposedly an older contemporary of Confucius, called Taoism; Buddhism imported from India during the 1st century B.C.; and the so-called Legalist tradition of imperial authoritarianism and *realpolitik*. The contradictions and variant combinations among these different currents of thought greatly enriched Chinese culture. Even though Legalist ideas were influential under vigorous emperors at the beginning of the major dynasties, Confucianism nevertheless became the official philosophy and provided the predominant concepts of the sense of identity and purpose of Chinese society.

In contrast to Taoism and Buddhism which, in different ways, were world-rejecting and existence-transcending ways of thinking and aspiring, Confucianism was preeminently concerned with achievement in this world, with reestablishment of the moral life of interpersonal harmony and social peace that had supposedly existed under the rule of the early mythical emperors. Such conditions could be restored, Confucius maintained, essentially through the "rectification of names." That is, fathers had only to act in accordance with the standards of proper patriarchal authority, sons with those of true filial devotion, rulers with those of benevolent despotism, scholar-officials with those of virtuous administration, and so on for each of the society's other constituent roles, and the harmonious social relationships of the happy past would *ipso facto* be restored. Confucianists disagreed among themselves, however, on how this rectification could be accomplished. Some, influenced by the Legalist tradition, insisted on governmental action as the sole efficacious means for social reform; others, reflecting Taoist and Buddhist influences, claimed that only through an inner psychological comprehension of and dedication to Confucianist values would people behave in accord-

ance with the norms required for the rectification of society.⁶ With the development of Neo-Confucianism under the Sung, inner moral renovation and right thinking were increasingly emphasized at the expense of outer social action. To that end, Confucianists generally agreed on the need to inculcate proper standards of conduct and loyalty in the people, and on the necessity of government censorship, the regulation of popular manners and morals, and the suppression of heretical sects and potentially subversive secret societies and brotherhoods.

Again unlike Taoism and Buddhism, which relied upon intuitive understanding and mystical illumination, Confucianism was rationalistic. It stressed the acquisition of knowledge through study and the logical exposition of ideas and information. Although it resembled Western culture in this respect, the aim of rational activity in China was different. In the West, reason served not only, as Milton put it, "to justify the ways of God to men" but also increasingly from the 12th century on as the instrument, in Descartes' words, "for making ourselves masters and possessors of nature." In Chinese culture, an empirical, scientific strand, stimulated by Taoist emphasis on the primacy of nature and of direct experience, had been significant in earlier periods, especially during the T'ang and Sung dynasties, and had been expressed in notable technological innovations and observational achievements. Yet, even then, the ethical, humanistic strand emphasized by Confucianism had been more important and it became predominant after the Sung period. In place of direct observation and control of nature, it exalted literary and philosophical activity and aesthetic sensibility as the means for comprehending the Confucianist virtues and the ways to manifest them in social behavior. However, both approaches stressed the importance of formal education and rational study for the realization of moral standards and the rectification of society.

Confucianist concepts, values and norms of behavior permeated all social groups in greater or lesser degree. Their exemplars and expositors *par excellence* were the scholar-officials comprising the imperial bureaucracy. They were more familiar than other social groups with the classical corpus of Confucianist writings because the examinations by which they qualified for appointment and promotion tested their ability to memorize, comment on and imitate them. Confucianist conceptions of moral behavior and sociopolitical arrangements constituted the standards by which they judged their own performance, the state of the empire, and the goals toward which the society's efforts were directed. Thus, the obligation to lead the way toward realization of the Confucianist ideals imbued them with the sense of identity, purpose and responsibility necessary to sustain their collective morale, their *esprit de corps*, and to justify their exercise of power. As in the analogous case of the Christian ethic in the West, the fact that the mandarins always fell more or less short of their own judgmental standards in no way weakened the importance of these ideals: the failure to realize them meant only that the special responsibility of Confucianist officials to rectify society was as yet unfulfilled.

The rectification of society that animated the officials' sense of identity and purpose expressed and in turn greatly elaborated and strengthened the conceptions of filial piety and reverence for the ancestors imbedded in the traditional

⁶This tension between outward social action and inward personal virtue as the prerequisite for social reform is a familiar dichotomy in Western culture as well.

family. Just as within the family the patriarchal father wielded absolute authority and was accountable to the ancestors for the family's perpetuation and welfare, so in the society as a whole the emperor—the son of Heaven—was the benevolent despot accountable to Heaven—from which his imperial ancestors were descended—for the preservation and well-being of the empire. If he fell seriously short of these responsibilities, Heaven's displeasure was manifested in natural disasters and social disorders, and if he failed to heed these warnings and rectify his deficiencies, Heaven would withdraw his mandate to rule and confer it on a successor of his own or a new dynasty. Thus, the usurpation of imperial power by a Chinese rebel leader or invading barbarian warlord was legitimized by his success in seizing and keeping the throne, which demonstrated the transfer to him of the mandate of Heaven.

The institutional ambivalence of the bureaucracy *vis-à-vis* the emperor, discussed in the preceding section, was reflected in and reinforced by the scholar-officials' ambivalent conception of their relationship to the imperial power. They felt that they owed the emperor absolute loyalty and obedience so long as he held the mandate of Heaven. But, as the exemplars and sustainers of the Confucianist ethic, they were obliged to interpret and call to his attention the signs of Heavenly displeasure and, as the governing elite, to propose and carry out measures for rectifying the deficiencies of the regime. Constrained by the restrictions placed by the central administration on their initiative and freedom of action, most officials resolved the dilemma in favor of uncritical obedience and protection of their careers and family interests. However, under every dynasty, there were always some high-minded mandarins who informed—"memorialized" was the official term—the emperor of serious shortcomings in the imperial administration and urged the adoption of reforms for relieving the sufferings of the people. In many cases executed for their presumed disloyalty, these courageous officials provided the martyrs and heroes so important for sustaining the vitality of, and popular belief in, an elite group and its system of values and behavioral norms.

Next to the scholar-officials, the gentry was the social group most imbued with the Confucianist ethic and life-style. With multigenerational patriarchal families along the lines of the Confucianist ideal prevalent among them, the gentry also had the leisure for studying the classics and engaging as amateur gentlemen in literary and artistic pursuits. Thus, their sons had advantages in competing for the official examinations; and, after retirement, the influence of these officials helped to strengthen Confucianist ways of thinking and acting among their gentry relatives and friends.

In turn, the gentry—as the mediatory group between the imperial hierarchy and the micro social units—played the principal role in disseminating and sustaining Confucianist concepts and norms of behavior among the peasantry and the urban population. Their channel for doing so was through the lineage, village and other nonofficial and official local organizations in which the gentry participated with the other social groups and which they dominated. Popular storytellers and theatrical troupes, who traveled among the villages and towns providing entertainment, also disseminated Confucianist ways of thinking and behaving, as well as mythologized versions of Chinese history. In consequence, even though peasant and artisan families deviated much more from the multigenerational ideal, their internal relationships and behavioral norms were shaped by and helped to perpetuate the Confucianist ethic.

Among all social groups, Confucianist conceptions provided the modes in which the psychosocial tensions generated by authority relationships were expressed. On the one hand, there was the universal yearning for the benevolent protecting and fostering authority of the "good father," be he the family patriarch, the village or lineage headman, the district or provincial official, or the emperor himself. On the other hand, there was the repressed resentment against the overbearing or ineffective authority of the "bad father" that recurrently manifested itself in violence. This deep psychological ambivalence was controlled by the Confucianist insistence that filial respect and obedience were the highest virtues, patricide was the worst of crimes, and rebellion was alone justified when the disobedience of the imperial son of Heaven lost him the mandate to rule.

Permeating the thinking and acting of all social groups, Confucianist concepts, values and behavioral norms provided a homogeneous cultural system for the society as a whole in both its vertical and horizontal dimensions and thereby counteracted the divisive particularism of its institutional structure. Not only did Confucianism apply the same standards universally to all members of the society from the emperor down, but each micro unit throughout the enormous territorial extent of the empire also embodied its distinctive values and norms in greater or lesser degree. Moreover, Confucianist concepts expressed and reinforced the common temporal orientation of the society. Figuratively speaking, everyone's face was more or less turned backward in time—toward the oldest living generation, toward the ancestors, toward the idealized past described by the sages of old. "The older the better" was the traditional society's implicit motto.

The powerful integrating influence of this multifaceted cultural universalism was further strengthened by the sense it inculcated of a common Chinese identity and destiny *vis-à-vis* the rest of the world. Established in accordance with the design of Heaven and ruled by its semidivine son, China was the Celestial Empire, the Middle Kingdom mediating between the supernatural order and the realms of men. This conception of the superiority and centrality of Chinese society was validated in Chinese minds by the nature of the other societies with which they came most into contact. All were either nomadic barbarians—such as the Mongols, Tartars and Turks—or, if settled and civilized, heavy borrowers from China—such as Japan, Korea and northern Vietnam. Little was known about more distant societies with which relations were tenuous and sporadic—India, the Southeast Asian countries, the Moslem states of West Asia, later the European nations—and hence there was no reason to believe that they were equal, much less superior, to China. Indeed, such information as filtered into China through traders and missionaries only confirmed the Chinese conviction that these regions were inhabited by morally and institutionally inferior peoples.

Hence, as it was increasingly expressed under the Ming and Ch'ing dynasties, China's mission was, like the good father, to radiate civilizing influences to the surrounding younger nations in all parts of the world, and they in turn, like dutiful sons, were expected to manifest respectful gratitude for this bounty. Thanks to its superior culture, China already knew and produced all that was necessary for proper living and had no need to learn from or trade with other regions. But, because other peoples needed its knowledge and products, China graciously permitted foreign embassies and traders to visit the Celestial Empire, bringing tribute of their own goods as an expression of their filial respect, and to purchase the Chinese commodities they required. Thus, commercial relations with other countries came to be regarded under the last two imperial dynasties as essentially a political/ethical activity, not an economic one.

At the end of the 18th century, when the imperial system was still largely intact, these attitudes were summed up in a famous reply from the Ch'ing emperor to the king of England in response to an embassy under Lord Macartney sent to establish diplomatic and commercial relations with China:

You, O King, live beyond the confines of many seas; nevertheless, impelled by your humble desire to partake of the benefits of our civilisation, you have dispatched a mission respectfully bearing your memorial. Your Envoy has crossed the seas and paid his respects at my Court on the anniversary of my birthday. To show your devotion, you have also sent offerings of your country's produce.

I have perused your memorial; the earnest terms in which it is couched reveal a respectful humility on your part, which is highly praiseworthy. In consideration of the fact that your Ambassador and his deputy have come a long way with your memorial and tribute, I have shown them high favour and have allowed them to be introduced into my presence. To manifest my indulgence, I have entertained them at a banquet and made them numerous gifts. . . .

Swaying the wide world, I have but one aim in view, namely, to maintain a perfect governance and to fulfil the duties of the State: strange and costly objects do not interest me. If I have commanded that the tribute offerings sent by you, O King, are to be accepted, this was solely in consideration for the spirit which prompted you to dispatch them from afar. Our dynasty's majestic virtue has penetrated into every country under Heaven, and Kings of all nations have offered their costly tribute by land and sea. As your Ambassador can see for himself, we possess all things. I set no value on objects strange or ingenious, and have no use for your country's manufactures. This then is my answer to your request to appoint a representative at my court, a request contrary to our dynastic usage, which would only result in inconvenience to yourself. I have expounded my wishes in detail and have commanded your tribute Envoys to leave in peace on their homeward journey. It behooves you, O King, to respect my sentiments and to display even greater devotion and loyalty in future, so that, by perpetual submission to our Throne, you may secure peace and prosperity for your country hereafter.⁷

The Stagnation of the Imperial System and the Impact of the West

The period of the Southern Sung dynasty (12th and 13th centuries) would seem to have been a major sociocultural watershed in Chinese history. Until then, the creativity and developmental momentum of the society were high. Despite barbarian invasions and the long intervals of political disintegration under minor native and alien dynasties, the processes of institutional and cultural development continued under the Han, the T'ang and the Sung proper (or so-called Northern Sung who ruled from 960 to 1126). During the latter, the administrative system was further improved, the various Neo-Confucianist schools arose to enrich the intellectual heritage, literature and art reached new peaks of sensitivity and elegance, and science and technology were still flourishing. Then, in 1126, China north of the Yangtze was lost to invading barbarians, and the survivors of the Sung dynasty established a new capital south of the river from which they ruled southern China until conquered by the Mongols under Kublai Khan in 1279.

The century and a half of this Southern Sung dynasty was a period of consolidation and refinement from which the society never again resumed its

⁷Quoted in Lucian W. Pye, *China: An Introduction* (Boston: Little, Brown and Company, 1972), p. 107.

previous developmental dynamism. The slowing down was, however, gradual—technological innovations continued to be made under the Yuan and artistic advances under the Ming. But, even this creative momentum was lost under the later Ming and, during the 250-year rule of the final imperial dynasty of the Ch'ing, Chinese society virtually stagnated until the traumatic shock of the Western impact in the 19th century.

An analysis of the reasons for the post-Sung stagnation of Chinese society is beyond the scope of this study. Suffice it to say that, under largely peaceful conditions, continued reliance on traditional institutions and methods enabled the society to expand quantitatively in terms both of population and of total economic output by settling and bringing under cultivation virtually all land that could be made productive with existing agricultural and transportation techniques. But, unlike under the preceding dynasties, the interrelationships among the particular types of traditional institutions and techniques prevalent from Ming times on were such as increasingly to inhibit qualitative growth—that is, the development and application of significantly more productive economic organizations and methods and of more efficient political and administrative arrangements. Three contributory cultural aspects of this gradual process of politico-economic stagnation are especially relevant to the purpose of this chapter.

One was the decline and eventual atrophy of interest, especially among the elite groups, in scientific pursuits. Although never predominant, observation and analysis of natural and social processes had hitherto been regarded as useful and prestigious. During and after the Southern Sung, however, the importance of, and the time and energy devoted to, literary and historical studies and artistic activities became increasingly preponderant. Reflecting the humanistic emphasis of Neo-Confucianism, this change contributed to the gradual drying up of technological innovation and also affected the nature and capabilities of the governmental system. As introduced under the T'ang, the official examinations tested the candidates' knowledge not only of the literary and ethical aspects of Confucianist thought but also of its distinctive conceptions of sociopolitical processes and the arts of government. In contrast, by Ch'ing times, the conviction was nearly universal that the only intellectual qualification required for service in the bureaucracy was proficiency in literary and historical studies.

A second characteristic of the gradual stagnation was the related predominance of inner moral renovation over outer social action as the primary means for the rectification of society. This change, too, reflected the personalistic and moralistic biases of Neo-Confucianism. While the need for and the desirability of governmental initiatives were never downgraded as much as were scientific concerns, nevertheless the sense of the urgency and efficacy of official activism substantially declined. Instead, mandarins urged the necessity of reforming their own and the people's feelings and thoughts through study and education reinforced by the strict supervision of manners and morals. Reaching its fullest expression under the Ch'ing, this attitude fostered, on the one hand, bureaucratic passivism in the face of mounting socioeconomic problems and, on the other, an intensification of the official censorship and the organized efforts to inculcate conformity with Confucianist behavioral norms and loyalty to the dynasty among all social groups.

A third, related characteristic of the stagnation was the persistently negative attitude and policy toward commercial and financial activities and the merchants and bankers as a social group. In Confucianist thought, merchants had always

been ranked in social prestige below not only the scholar-officials and the gentry but also the peasantry and the handicraftsmen. Their sons—unlike those of the peasants—were prohibited from taking the official examinations, and merchant families and guilds had inferior legal rights compared with other social groups. In fact, they generally operated through an unofficial system of “protection” by local and higher magistrates, under which a greater or lesser share of their profits was siphoned off by the mandarins and which subjected them to the latter’s arbitrary decisions and cupidity. Although merchants could and did grow rich under this system—especially through informal cooperation with the officials in charge of government procurement and the salt, silk and other imperial monopolies—their situation was inherently precarious and unsatisfactory. As such, it reinforced the economic factors that inhibited merchants from investing in the application of technological advances in manufacturing and encouraged them to buy land, which could confer gentry status on them and was less vulnerable to loss through war or official rapacity. The inability of the mercantile and financial guilds to break out of their inferior position both reflected and contributed to the failure of Chinese cities to develop into self-governing communes with a strong sense of civic consciousness, like their Western counterparts.

Helping to perpetuate the low status of merchants and financiers was the tendency of Confucianist thinkers and officials to regard commercial and financial activities as essentially subversive of the structure of traditional Chinese society. Confucianists recognized that buying and selling and money holding and lending could not be conducted mainly within the confines of largely self-sufficient households, as could agricultural and handicraft production. Instead, these activities were by nature outward oriented, mostly involving relationships with persons not members of the family, and thereby tending to divert those engaged in them away from the satisfactions, obligations and loyalties of the society’s most important micro unit. By Ch’ing times, the Confucianist elites generally agreed that, although China could not dispense with the services of its merchants and bankers, the activities of this potentially subversive social group could not be allowed to develop freely but had to be closely restricted and carefully supervised.⁸

These characteristics of the stagnation of the imperial system—as well as others too varied to be noted in this study—illustrate how ill prepared traditional China was to withstand the impact of the West in precisely those respects in which the latter excelled—its technoscientific, political and economic capabilities. Moreover, as this critical encounter developed in the course of the 19th century, it coincided with the disintegrative phase of the dynastic cycle, greatly compounding the difficulties with which the Ch’ing regime was forced to cope.⁹ Not

⁸There are interesting similarities and differences in the attitudes toward commercial and financial activities in imperial China and medieval Europe. Both accorded low status to merchants and moneylenders. But, whereas to the Confucianists these activities were subversive because extrafamilial, to Christian theologians of the Middle Ages they were wicked because nonproductive. Following Aristotelian economics, Christian theologians held that only farmers and handicraftsmen were productive; all that merchants did was to buy cheap and sell dear products made by others, and bankers lent sterile money in return for interest which they did nothing to produce.

⁹Ironically, the most serious peasant rebellion during the 19th century—that led by the secret society of the T’ai-p’ing T’ien-kuo (Heavenly Kingdom of Great Peace)—was partly inspired by Christian millennialism propagated by Western missionaries and could only be suppressed with Western help. The Taiping rebellion (1851-64) not only sought to overthrow the Manchu Ch’ing as a failed alien dynasty but, more significant, it was the first popular movement to repudiate Confucianism in favor of a quasi-Westernized vision of a perfected future society.

only did the two sets of problems exacerbate each other but also their scale was magnified by the accelerating rate of population growth that was made possible by and in turn sustained China's continuing quantitative economic expansion under the last imperial dynasty.

A comprehensive analysis of the impact of the West on the traditional society and culture of China proper is beyond the scope of this study. Only the most significant changes in institutions and attitudes affecting the overseas Chinese will be discussed in the next section. However, before turning to them, two important psychocultural effects of the encounter with the West need to be noted.

One was the dethronement of Confucianism as the dominant system of thought and behavior. China's technoscientific, political and economic inferiority compared to the West became increasingly apparent to many scholar-officials and educated members of the gentry in the course of the 19th century. Nonetheless, a substantial number of conservative elites, especially in court circles, insisted until the fall of the dynasty that this unfavorable comparison, even if true, was irrelevant because of their continuing Neo-Confucianist conviction that humanistic virtues were much more important not only to guide personal behavior but also for the government of society. Others, however, recognized that China would be unable to resist Western domination, if not outright conquest, unless it could cope effectively with the West's political, military and economic power. Hence, they proposed various ways by which the humanistic values of Confucianism could be combined with Western technoscientific capabilities and methods of improving political institutions and developing an industrial economy. Others were convinced that nothing was worth saving in the Confucianist system and that it had to be completely superseded by Western positivistic approaches of either the liberal-capitalist or the Marxian-socialist variety, as eventually represented by Sun Yat-sen and Mao Tse-tung, respectively. In any event, all of the proposed ways of merging Confucianist and Western concepts and values proved abortive, and explicit Confucianism disappeared during the four decades of turmoil from the fall of the imperial system in 1911 to the triumph of communism in 1949.

In the process, the basic orientation of Chinese culture was turned by 180 degrees—from the idealized past to the utopian future—and the society was propelled out of its centuries-long stagnation into a new period of dynamic change. Yet, in China as elsewhere in Asia and Africa, the inertia of an age-old traditional society and culture has proved to be exceedingly great. For this reason, China—like other Asian and African nations—is in a transitional phase that will probably continue for at least another generation, if not longer. On the one hand, it is experiencing a radical cultural reorientation, fundamental political and economic institutional changes, and major shifts in the nature and relative power positions of the significant social groups—developments largely shaped by the influence of Marxism-Leninism, a variety of Western technocratic positivism. On the other hand, the basic relationships of authority and subordination of the traditional society, many of the behavioral norms by which they were sustained, the psychological tensions in which they were rooted, and the social conflicts associated with them can still be discerned at the heart of the major difficulties with which China's communist regime is struggling.

The second psychocultural effect of the encounter with the West was the severe decline of Chinese self-confidence and sense of superiority that had been so complacently expressed in the emperor's response to the Macartney Mission.

This experience was perhaps more traumatic for China than for other great traditional societies similarly affected by Western capabilities. For, from time out of mind, China had always been the acknowledged leader in its region, not only radiating cultural influences to neighboring countries but also acculturating all of its conquerors. In contrast, proud as Japan was of its indigenous heritage, it had long been in the habit of absorbing and adapting institutional and cultural elements from China and, hence, was able to do so from the West with little, if any, impairment of self-confidence and morale. China's psychic trauma was prolonged—from the mid-19th to the mid-20th centuries. Yet, weak as they became, Chinese self-confidence and sense of superiority never disappeared. Again, the inertia of self-conceptions as deeply rooted psychologically and historically as those of China's traditional culture is exceedingly great. Although expressed in different cultural forms, Chinese self-confidence and sense of superiority have rapidly been reviving in recent years as a renewed consciousness of developmental momentum has been generated under China's communist regime and it has been acquiring increasing influence and respect in the international system.

The Sociocultural Transition Among the Overseas Chinese

Chinese migration to the Nanyang—the countries of Southeast Asia—long antedates the coming of European imperialism to the region. But, in earlier centuries, the numbers involved were small, the purpose was principally to facilitate trade between China and the Nanyang, and the migrants settled within stable traditional societies not fundamentally different from their own. In contrast, during the 19th and early 20th centuries, the number of immigrants greatly increased, their activities were directly or indirectly related to Western economic penetration of the region, and they settled in societies already embarked on the transitional process in consequence of the impact of the West. These differences had important effects on the subsequent development of the Chinese migrants to the Nanyang.

In China, rising population pressures and fractionization of peasant holdings combined with the disintegration resulting from the coincidence of the final phase of the dynastic cycle with the corrosive impact of the West impelled increasing numbers of younger sons of peasant, artisan and declining gentry families to seek their fortunes outside their native villages and towns. Conversely, in Southeast Asia, the mounting demand for labor for plantations, mines and entrepot activities, and the growing opportunities for retail trade and services thereby generated attracted these migrants to the Nanyang. Some came on their own or at the request and with the help of kinsmen and former neighbors already settled in the region. Many others were recruited by labor contractors, who arranged for their transportation in groups and sold the indentures of these "coolies" to plantation, tin-dredging, mining, shipping, and other types of companies.

The great majority of the migrants to the Nanyang—as well as to Hong Kong—were from the two southeast coastal provinces of China, Fukien and Kwangtung. Those from the former spoke mainly two dialects—Hokkien and Teochiu—and those from the latter Cantonese, while others spoke Hakka, another South China dialect whose speakers were scattered throughout the two provinces. Speakers of the same dialect, as well as kinsmen and neighbors from the same

village, town or district, tended to congregate in specific locations in the Nanyang because communication was much easier, mutual trust much greater, and mutual help more readily extended. Thus, Cantonese predominated in Hong Kong, with small minorities of Hakka and Hokkien speakers, while in Singapore the Hokkien and Teochiu groups constituted the majority.¹⁰

Unlike in the earlier overland migration into South China, which often involved families and groups of families, most Chinese migrants to the Nanyang until World War II were single men, mainly from the rural villages and towns of Fukien and Kwangtung. Thus, they were removed from the all-embracing family unit and forced to operate on their own as individuals—a radical psychosocial change. The question naturally arises of how they were able to make this major shift—indeed, not only to be satisfactorily functional in the demanding conditions of the new situation but, in many cases, to prosper by realizing the opportunities for economic advancement available in the Nanyang. For, the most conspicuous achievement of the Chinese settlers throughout Southeast Asia has been their economic success. We offer here some tentative answers to this critical question.

As coastal provinces containing the important ports of Foochow, Amoy, Swatow and Canton, Fukien and Kwangtung were exposed earlier and to a greater extent than the inland parts of South China to the impact of the West. Influences for sociocultural change radiated throughout the countryside from these port cities—as well as from Hong Kong and Macao—in which the Western powers had obtained commercial rights and extraterritorial legal privileges for their mercantile and financial firms. In consequence, production for the market became increasingly important, new agricultural products and manufacturing methods were gradually introduced, and the use of money and of modern-type banking practices and credit arrangements of various kinds spread more widely. These economic developments—and parallel political, administrative and educational changes after the fall of the imperial system in 1911—had the effect of reducing the scope of the hitherto all-encompassing family household. Occupational roles began increasingly to be performed outside its purview, and the money incomes derived from market sales or outside employment began to meet a growing share of the family's consumption needs. Thus, many migrants to the Nanyang had already experienced—or were familiar with others who had—a significant degree of involvement as individuals with other institutions and relationships in the changing society of 19th- and early 20th-century China.

Nevertheless, the hold of the family household on its members continued to be very strong as demonstrated by two important characteristics of the transitional society and culture. First, although its socioeconomic scope was progressively reduced, especially in the Nanyang, the family continued to be the primary focus of loyalty of its members. This sense of loyalty was reinforced in Southeast Asia when the migrants were eventually able to establish their own families by the fact that they were living in alien and sometimes hostile societies which lacked institutions capable of competing effectively for Chinese loyalty.

Second, as the Chinese participated increasingly in economic, political, educational, and other kinds of nonfamily organizations, they found most con-

¹⁰ Although speakers of some Chinese dialects are mutually unintelligible, communication is facilitated by the fact that the written language is everywhere the same. Also, since World War II, the use of Mandarin—the official imperial dialect that has long been standard in north, central and western China—has been spreading in the Nanyang, where it is increasingly used for educational, economic and governmental purposes.

genial those in which relationships were personalistic and multifaceted, as in the traditional family household. The business firms, trade unions, charitable and educational associations, and other modern-type organizations which the Chinese started in the Nanyang tended to be authoritarian and paternalistic, and they carried on not only the specific function they were intended to perform but others as well. For example, Chinese-owned enterprises in commercial agriculture, tin-dredging, retail and wholesale trade, banking, and manufacturing that were large enough to employ nonfamily personnel usually provided housing, meals, medical care, recreation, educational benefits, even the arrangement of marriages and funeral services, as well as celebrations of religious and other festivals. Equally reminiscent of the family household were the long hours spent on the business premises for six—sometimes seven—days a week, during which the work process itself was enveloped in social conversation, the eating of meals, the exchange of news and gossip with numerous visitors, and much other interpersonal activity that was psychologically satisfying but functionally irrelevant to occupational roles. Naturally, the traditional-type institutions established in the Nanyang—lineage organizations, associations of people from the same village or district, even the secret societies and brotherhoods originally founded for mutual protection but often deteriorating into criminal gangs—also helped to fill the need for personalistic, multifaceted relationships, especially for Chinese employed by impersonal, single-purpose Western-owned plantations, mines, commercial houses, and other businesses. Indeed, in many cases, Western enterprises were constrained by the expectations of their workers to provide or permit some of these functionally irrelevant benefits and satisfactions.

Loyalty to their natal families in China and the positive and negative sanctions on their behavior thereby engendered were especially important influences sustaining the ability of single men to function effectively as individuals in the harsh and alien Southeast Asian environment. The traditional orientation toward achievement in this world for the sake of perpetuating the family and the fear of shaming their kinsmen through personal failure were powerful motivations even in the distant Nanyang. The migrant sons couldn't let the family down, especially since news of their activities would sooner or later reach their relatives in China, if not directly from them then through the kinsmen or neighbors among whom they usually settled. Many migrants were expected to, and did, send money to their families in China—indeed, from the late 19th century until today, emigrants' remittances have been a major source of foreign-exchange earnings for China. In many cases, too, the migrants sent home for their wives, or for brides selected by their parents, as soon as they could afford to do so; and others returned to China to marry or retire once they had saved enough money.¹¹

These motivations generated by strong family loyalty were reinforced by traditional behavioral norms conducive to self-control, hard work, abstinence, and saving, and by traditional attitudes fostering a pragmatic approach to problems of daily living, rational cost-benefit calculation, and a high degree of willingness to

¹¹Many settlers in the Nanyang obtained wives through the services of contractors who purchased young girls from their impoverished families in China and shipped them in groups to Southeast Asia, where their indentures were sold to their prospective husbands. Although condemned by Confucianists and the imperial government, the sale of children was common in China in periods of social disintegration or of natural disasters affecting the peasantry.

take risks.¹² Moreover, the traditional capacity for self-reliance, bred both by the earlier internal migration and the long periods of imperial inability to assist or indifference toward the welfare of the people, inclined the settlers in the Nanyang to look to their own efforts and resources in overcoming their difficulties rather than to the initiatives or the help of the colonial or independent governments of the Southeast Asian countries. Indeed, just as in imperial China families and local organizations had always striven to preserve their autonomy, so in the Nanyang the Chinese business firms sought to conduct their activities as inconspicuously and with as little governmental or other outside interference as possible.

These attitudes and behavioral norms that made the traditional Chinese family self-reliant inculcated into its members a latent capacity for functioning as individuals that was released and made effective in the conditions of the Nanyang. Thrown on their own, without the protecting and identity-fostering environment of the all-enveloping family household, the migrants nevertheless continued to be sustained by the sense of loyalty and the behavioral norms they had learned in the family, and they were able to develop or find partial substitutes for the personalistic, multifaceted satisfactions of the household in the other kinds of institutions in which they worked and lived. At the same time, too, the characteristics of Western colonial rule fostered their development as individuals. Western legal codes and administrative practices did not recognize the collective property and responsibility of the family household but instead were based on the concept of the adult person as sole owner of his earnings, as individually liable for paying taxes, as fully capable of contracting obligations, and as alone responsible for the consequences of breaking the law.

The strong motivations of the migrants for achievement in this world were expressed predominantly in economic rather than other types of activity. In the Southeast Asian countries then under colonial rule, they were debarred from political careers and, as largely uneducated aliens, they were unable to participate in intellectual and educational activities. Moreover, in most cases, they had come to the Nanyang to earn money for themselves and their families, and hence were predisposed to concentrate on economic effort. At the same time, the low status traditionally accorded to merchants and other entrepreneurs in the Confucianist ethic was changing under the impact of the West not only in the Nanyang but in China itself after the fall of the imperial system. By the early decades of the 20th century, Confucianist scholar-officials and their gentry families no longer enjoyed the highest prestige in China, and they were virtually nonexistent in the Nanyang. Inevitably in Southeast Asia, as in China before the communist conquest, the successful businessman achieved higher and higher status. Although respect for learning and education remained strong, wealth rather than scholarly attainment attracted the most prestige. These changes also helped to foster the drive for economic advancement and success.

Many, of course, did not prosper, remaining unskilled laborers living as single men in crowded barracks and rooming houses and dying far from their families and homes in China. In time, however, many others did significantly improve their real incomes and conditions of life by comparison not only with their previous situation as newly arriving coolies but, more important, with the kind of

¹²Risk-taking was an aspect of the traditional Chinese propensity for gambling, which reflected both the religious belief in good and bad luck and the comparatively high degree of social mobility.

economic security and living standards they had known in China or could have attained had they remained there. And, a small but growing minority managed to achieve business success and wealth comparable to those of their Western counterparts.

Sooner or later, settlers who could afford to do so founded families of their own which strove to reproduce the relationships, values and behavioral norms of the traditional household. However, in the conditions of Southeast Asia, the settlers' families were substantially less encompassing than in China. Occupational roles increasingly involved activity outside the household or economic relationships with strangers, either Westerners or the ethnically different inhabitants of the Southeast Asian countries. So, too, did education and vocational training in governmentally or privately supported schools, medical care, recreational activities, and an expanding range of other satisfactions formerly obtained within the family or unknown in China. Money income derived from relationships with the market process overwhelmingly predominated even among families settled in the countryside, where they generally became small rubber, vegetable, poultry, and pig producers rather than subsistence farmers. The status of the women members of the family steadily improved as the men were absent from the household, and especially as employment opportunities for unmarried girls gradually arose in the service trades and later in manufacturing industry.

These changes inevitably reduced the extent of the individual's identification with the family and fostered the sense of self-identity, as in Western societies. Moreover, the traditional retrograde orientation of the family toward the oldest generation and the ancestors was counterbalanced by a forward orientation toward the youngest generation and the prospects for future improvement. Loyalties to the nonfamily institutions—employing organizations, trade unions, eventually political parties, etc.—which served individual interests in various ways began to reduce the previously overriding commitment to the family interest *per se*. Self-determining interpersonal relations became increasingly important, especially among young people who insisted upon having more and more of a voice in the choice of friends, spouses, vocations, and recreation in accordance with their personal feelings and inclinations.

Nevertheless, these characteristics of the transitional Chinese families in the Nanyang do not involve displacement of the family as the major—if no longer the overriding—focus of its members' loyalties. The great majority of Chinese families in Southeast Asia are still much more cohesive and enduring micro units than are Western families. The father is still head of the household and his authority remains great, even if no longer absolute and unquestioned. The elders continue to be deeply respected, the ancestors revered, and filial devotion highly valued, while in most cases aged parents live with their oldest adult son or grandson not only for economic reasons but also because he would be shamed in the eyes of his neighbors if they did not.

In the transitional family, the deep psychological ambivalences of the traditional father/son and mother-in-law/daughter-in-law relationships are significantly mitigated. Although they cannot be eliminated in households that continue in important degree to be authoritarian and patrilocal, their intensity is reduced and they tend to be expressed in different forms. Earning incomes and accumulating property of their own, the adult sons are not nearly as dependent economically upon the head of the household as in the past and they do not have to wait until the latter's retirement or death to become their own masters. Instead, the author-

ity tensions tend to be pushed back into adolescence, as in the West, and this stage of the maturation process is lengthened as longer schooling becomes available and desirable. Tensions between parents and adolescents increasingly take the form of disagreements over old versus new life-styles, again as in the West. The persisting authority tensions are less often and less intensively manifested in interpersonal or mass violence, but such outbreaks do occur, as in the aggressive student behavior during China's Cultural Revolution and in the Star Ferry riots in Hong Kong, discussed in Chapter VI. In contrast to the contemporary West, however, identity crises and ego problems, although increasing, are still not widely prevalent among young Chinese in the Nanyang because family identification continues to be strong and the self-responsible, self-making individual is not yet a highly valued goal of personality formation despite the growing social and psychological pressures conducive to the emergence of such an ideal.

The persistence of the traditionalistic aspects of the transitional family also helps to perpetuate—and is in turn reinforced by—other particularistic attitudes and behavioral norms derived from the traditional society and culture. Despite their growing habituation to impersonal, monofunctional, rationalized Western-type economic, governmental, educational, and other institutions, the Nanyang Chinese still tend to prefer personalistic, multifaceted, affective relationships and organizational affiliations. In addition to providing their employees with the diverse benefits and satisfactions noted earlier, most medium and small Chinese business firms are still run as family-type enterprises, in which the ties of kinship predominate over professional qualifications in the selection of managerial personnel, authority and responsibility are rarely delegated to subordinates, and preference is given to relations with companies owned by relatives, neighbors from the same village or speakers of the same dialect.¹³ Like the gentry in the lineage, village and other local institutions of the traditional society, the wealthy elder businessmen of the Nanyang are generally accorded the highest status and wield the greatest authority in the various kinds of civic, educational, charitable, dialect, neighborhood, religious, and other organizations founded by the Chinese to protect and advance their family, business or communal interests.

Even though they may be third- or fourth-generation descendents of original migrants, the Chinese of the Nanyang retain an overriding sense of Chinese sociocultural identity. In part, this self-conception is sustained by their minority ethnic status in the Southeast Asian countries, the explicit and implicit restrictions on their political roles, and the latent—and sometimes overt—hostility toward them of the indigenous majorities. In part, it is maintained by the extensive network of communications among Chinese throughout the Nanyang for family, business, cultural, and protective purposes. It is also fostered—especially in Hong Kong and Singapore, where Chinese are an overwhelming majority—by pride in China's great history and culture and by the traditional sense of Chinese superiority that has been revived and strengthened in recent years by China's growing international importance. These conceptions and convictions reinforce the particularistic attitudes and behavioral norms noted above in inhibiting the development of universalistic loyalties to the nation-states or city-states in which they live. In this respect, however, the Chinese do not differ significantly from the indigenous

¹³As explained in later chapters, however, many of the large and some of the medium Chinese firms have in recent years been increasingly adopting Western-type corporate practices.

majorities of the Southeast Asian countries, among whom universalistic commitments are similarly weak owing to the persistence of their own varieties of particularistic relationships, values and behavioral norms.

In sum, as throughout the Nanyang, the Chinese migrants to Hong Kong and Singapore during the past 100 years have been and continue to be sustained and helped to prosper by the motivations and attitudes they or their forebears brought with them from the traditional society. The relationships and organizations they established in their new homes were modeled as much as possible on the family household and the other traditional institutions they had known in China, but inevitably they were modified by the different conditions existing in Hong Kong and Singapore under British rule. Thus, the sociocultural characteristics of the Hong Kong and Singapore Chinese have been shaped by their historical inheritance and their distinctive developmental experiences in the two city-states, and these transitional institutions, attitudes and norms help to maintain their continuing dynamism and economic progress.

Bibliographical Note

We are far from being experts on the historical development of Chinese society and culture and their contemporary transformations and, therefore, have had to rely upon the work of leading scholars in the various fields involved. However, at many points in this and later chapters, we have rephrased, adapted or added our own ideas to their data and interpretations, and we have organized this information in accordance with our own systemic conception of the interactions of the different dimensions and levels of social, cultural and psychological processes. Hence, we take full responsibility for the historical and sociocultural analyses presented in this and subsequent chapters. Our conceptual approach is defined and exemplified at greater length in Theodore Geiger, *The Conflicted Relationship: The West and the Transformation of Asia, Africa and Latin America* (New York: McGraw-Hill for the Council on Foreign Relations, 1967). We list here in alphabetical order a selected bibliography of books and monographs upon which we have principally relied.

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PART II

Hong Kong

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Hong Kong

III.

From Entrepot to Manufactory

When the Japanese occupiers of Hong Kong surrendered in August 1945, the city's economy was at a standstill and large parts of its business and residential districts were derelict. To the previous extensive pillaging by the Japanese was immediately added the further looting of many of Hong Kong's remaining homes and business premises by destitute inhabitants. More serious than the physical destruction, however, was the fact that the complex network of external economic relationships constituting Hong Kong's entrepot economy was completely disrupted. And, there appeared to be neither the skilled managers and workers nor the capital nor the goods required to reestablish it.

Owing to war deaths, mass deportations by the Japanese, and flights to native towns and villages in Kwangtung, Hong Kong's population had shrunk from over 1.6 million in mid-1939 to less than 600,000 by mid-1945. Most of the remaining inhabitants were impoverished and relatively unskilled, and many of the entrepreneurs, technicians and skilled workers essential for the entrepot economy were dead or scattered. The Japanese occupation currency was worthless, prewar bank accounts and financial assets were frozen, and internal and external credit was nonexistent. Neither the Chinese commodities which Hong Kong normally exported to the rest of the world nor the foreign raw materials and manufactured goods which it usually imported from abroad to reexport to China were available under the conditions prevailing in the wake of the German and Japanese surrenders.

Yet, Hong Kong's recovery started even before British control over the colony was reestablished. When the U.K. military authorities arrived, they found that the surviving colonial government officials and British and Chinese civil servants were already improvising a functioning administration, and the remaining businessmen and bankers were endeavoring to resume their operations in makeshift quarters and with stocks in trade seemingly conjured out of nothing.

From the low point of August 1945 until today, Hong Kong has never looked back. Despite one potential disaster after another, the city-state has enjoyed an almost unbroken record of rapid economic growth and rising living standards. For, each such threat turned into a blessing—and not through lucky accidents but by realistic assessment of the situation and deliberate taking advantage of the circumstances.

The Revival of Entrepot Trade

The condition of East Asia at the end of World War II was bleak; indeed, physically and emotionally exhausted by the War, many Asians viewed it as hopeless. Almost alone in the region during those early postwar months, Hong Kong saw the situation in a different light—as an opportunity to rebuild its traditional entrepot trade.

China, the economic hinterland upon which Hong Kong had always depended, was devastated and its economy disrupted by the long and exhausting

war with Japan. Moreover, the reconstruction and reintegration of the national economy were seriously hampered by the inefficiency and corruption of the Kuomintang regime and the rapid spread of communist power in the North. In consequence, the recovery of commercial, industrial and financial activities in North and Central China was drastically slowed, especially in Shanghai, which had always been a much more important manufacturing and trading center than Hong Kong. However, Shanghai's difficulties and the revival of rural production, particularly in South China, opened the way for Hong Kong's surviving British and Chinese mercantile houses to restart trade between China and the rest of the world. Although the quantities of Chinese foodstuffs and other commodities available for export were small, demand was great from Hong Kong itself and from the overseas Chinese communities throughout the Nanyang, which had been deprived of these goods since the 1930s. Conversely, China's need for foreign raw materials and manufactured products was equally great, and whatever quantities of them Hong Kong's importers could obtain anywhere in the world were readily salable. China had the means to finance such imports, despite its paucity of exports, because of the large amounts of Lend-Lease, UNRRA and other aid funds made available by the United States, substantial portions of which were diverted to the private business activities of Kuomintang officials and supporters.

Outside East and Southeast Asia, only the United States was an important market for Hong Kong's exports in 1946 and 1947. On the import side, the United Kingdom and the United States were its major extraregional suppliers. Table III-1 shows Hong Kong's main trading partners in Asia and elsewhere in the world during the immediate postwar years when it functioned predominantly as an entrepot.

Essentially, the restoration of Hong Kong's entrepot trade involved the reestablishment of the outside branches and subsidiaries of its business firms and banks and of their relationships with foreign suppliers and customers. Both the British-owned and the Chinese-owned merchant houses, insurance companies, shipping firms, and banks rapidly rebuilt such ties not only in East and Southeast Asia and in the United Kingdom, but also in Australia, the United States and Canada, whose economies were undamaged by the war and were rapidly being reconverted to civilian production. In addition, the increasingly unsettled political conditions in China during the immediate postwar years induced many Cantonese and other South China trading companies to shift their headquarters to Hong Kong, where law and order prevailed, free trade had been restored, and governmental restrictions and regulations were minimal.

A crucial requirement for the revival of Hong Kong's entrepot trade was the reestablishment of its currency and credit. The Hongkong and Shanghai Banking Corporation, the city-state's largest bank, undertook to redeem the bank notes illegally issued in its name during the Japanese occupation, thereby helping to revive confidence in the currency. By the end of 1945, normal banking services and foreign-exchange dealings were fully restored, although the latter were, of course, subject to Sterling-Area controls. By these means, commercial credit was once again available to Hong Kong's importers and exporters, as were longer-term loans for investment purposes.

The results of the efforts of Hong Kong's businessmen and banks to rebuild the entrepot economy are dramatically evident in the trade statistics presented in Table III-1. Despite persisting world shortages of goods and shipping, Hong

Table III-1. Hong Kong's Trade by Major Partners—Region and Country, 1946-52

(HK\$ million)

Region and Country	1946		1947		1948		1949		1950		1951		1952	
	Imports	Total Exports	Imports	Total Exports	Imports	Total Exports	Imports	Total Exports	Imports	Total Exports	Imports	Total Exports	Imports	Total Exports
Asia*	649	630	791	833	1,003	1,179	1,302	1,715	2,140	2,894	2,476	3,646	2,146	2,398
China	323	305	382	267	431	280	593	585	783	1,260	863	1,604	830	520
Taiwan									75	201	62	139	45	207
Singapore	69	162	102	214	85	205	108	240	300	543	394	741	164	418
Malaya														
Japan	—	—	37	15	79	49	81	70	230	121	392	193	482	124
Indonesia	5	5	22	53	41	69	39	56	80	123	90	245	28	528
Thailand	29	46	60	87	96	140	110	116	182	98	156	90	205	243
Macau	79	34	82	71	89	136	78	269	104	208	104	228	62	89
Western Europe	85	32	304	129	522	138	628	222	745	342	1,610	381	1,151	225
United Kingdom	44	17	164	38	301	75	388	140	405	168	619	215	470	83
Federal Republic of Germany	—	—	—	1	5	5	8	17	38	49	214	33	119	34
North America	131	85	319	155	424	160	633	249	705	319	461	179	300	133
United States	120	84	299	152	387	152	575	234	655	309	374	163	221	113
World total	933	766	1,550	1,217	2,078	1,583	2,750	2,319	3,788	3,716	4,870	4,433	3,779	2,899

*Includes Middle East.

 Source: *Hong Kong Statistics 1947-67* (Hong Kong: Census and Statistics Department, 1969), pp. 97-98, 212, and revisions as per correspondence with Census and Statistics Department.

Kong's total exports and imports rose from HK\$1.7 billion in 1946 to HK\$3.7 billion in 1948 and HK\$7.5 billion in 1950.

Much of this growth in 1949 and '50 was owed to the fact that Hong Kong took advantage of the new situation resulting from the communist conquest of China. Its merchant houses quickly made themselves the major agents for trade between the new regime and the noncommunist world. With fighting finally ended in that vast country torn by civil and foreign wars for four decades, China desperately needed foreign exchange with which to buy the equipment and materials required for economic reconstruction. Despite domestic shortages, therefore, China's new rulers squeezed increasing quantities of food and other produce from the peasants, and made these commodities, as well as some manufactured goods, available for export to and through Hong Kong. Thus, they were able to obtain imports of machinery and industrial raw materials, often through the agency of Hong Kong firms. In addition, the outbreak of the Korean War in June 1950 was a major stimulus to East Asian trade generally, and the city-state's entrepreneurs were quick to obtain a large and rapidly growing share of it.

However, Hong Kong's expanding economy and rosy prospects received a severe shock in mid-1951, when China entered the Korean War and the United Nations subsequently imposed an embargo on trade with it in goods that could assist its military effort. In consequence, Hong Kong's exports to China fell from HK\$1.6 billion in 1951 to HK\$520 million in 1952. Indeed, in that year, Hong Kong's total trade dropped for the first time in the postwar period and did not begin to increase again until 1955.

The UN embargo on trade with China and the related U.S. restrictions, which were much more severe, were not the only potential disasters to threaten Hong Kong in the early 1950s. Since the end of the War in 1945, the city-state's population had been growing rapidly as former residents returned and swarms of newcomers from China sought refuge from the advancing communist armies. From the low of less than 600,000 people in August 1945, Hong Kong's population grew to 1.8 million by the end of 1947, to nearly 2.2 million by the end of 1952, and to almost 2.6 million by the end of 1955. Thus, during the decade following the end of World War II, two million additional inhabitants crowded into the meager available housing or slept in the streets until they could erect flimsy squatter huts. As trade declined and then remained static after 1951, many of them could find no work and were supported by less unfortunate kinsmen or by hastily contrived government and private relief programs financed in part by contributions from foreign official and private sources.

Although not as bleak as in August 1945, the outlook for Hong Kong was again deeply worrisome by late 1951.

The Start of Industrialization

Once again, however, Hong Kong turned potential disaster to its advantage. It focused its energies on the development of manufacturing industry as the means both for replacing the losses in its China trade and for providing jobs for its unemployed. This effort was successful because, in addition to having a stable and cooperative government, Hong Kong was able to mobilize or develop the four essential economic requirements for industrialization: investment capital, entrepreneurial and technical skills, trained labor, and the ability to sell in domestic or foreign markets.

Capital was the least difficult of these requirements for Hong Kong to meet. Thanks to the restoration of its currency and credit and the booming entrepot trade of the immediate postwar years, the money supply expanded rapidly and bank deposits grew substantially. In addition, large amounts of flight capital sought the safehaven of Hong Kong, sent both by refugees fleeing China and by Chinese communities throughout the Nanyang, where conditions were still unsettled and anti-Chinese outbreaks occurred from time to time. As a result, Hong Kong's banks had ample funds to lend, especially when the demand for commercial credit declined after the UN embargo of 1951.

The entrepreneurial and technical skills needed to start manufacturing were also becoming available in the early 1950s. True, there had been very little industry in Hong Kong before World War II, the main activities having been food processing and beverage making, small-ship construction and repair, and the production of rubber footwear, flashlights and batteries, and enamelware. Most pre-war industries were reestablished and expanded after World War II, but they were estimated to have contributed no more than 10 percent of Hong Kong's gross domestic product and only 15 percent of its exports in 1950.

Before the war, Shanghai had been the great industrial center of the China coast. Its leading industry was the manufacture of cotton textiles, all stages of which had been steadily developed during the interwar period by Chinese entrepreneurs and technicians. After the Japanese surrender, Shanghai millowners placed large orders for spinning, weaving, knitting, and finishing equipment of all kinds in the United Kingdom, the United States and other sources but, owing to shortages, deliveries in volume only began in 1947. By then, however, the prospect of advancing communist power was evident, and many Shanghai businessmen off-loaded and stored their new machinery in Hong Kong when it arrived from Europe and North America. As the communist armies neared the city, many Shanghai businessmen and technicians fled to Hong Kong. There, with the help of bank loans, they were able to rent or construct premises and to get the stored machinery into operation. Other Shanghai businessmen were able to move their machinery from the city before it fell to the communists.

In 1948, Hong Kong had 8,000 spindles; by the end of 1951, 210,000 spindles and 4,500 power looms were in operation. Not only were cotton gray goods being produced in increasing volume by 1952 but a number of Shanghai entrepreneurs had started textile-finishing operations and the production of cotton undergarments, men's shirts, children's clothes, and other wearing apparel. Shanghai businessmen also began or expanded the manufacture of other types of consumer goods during the early 1950s, notably products made by plastic-molding machinery, such as housewares, toys and artificial flowers.

Although large numbers of unemployed were available to staff the new factories, the great majority of them had no experience of industrial work and, therefore, required training as well as supervision. However, some Shanghai manufacturers had brought with them or were followed by foremen and skilled workers, who now formed the cadres for the new factories in Hong Kong. For their part, the untrained refugees were willing to work hard and were eager to learn new skills. In this way, a rapidly expanding labor force was quickly trained for its new work. Employment in manufacturing grew from 47,000 in 1947 to 177,000 in 1959.

The fourth essential requirement for industrialization is access to markets and the ability to sell goods in them. In Hong Kong's case, this requirement could

be met only by exports as its own domestic market was comparatively small in terms both of population and—at that time—of purchasing power. It is generally much more difficult for a newly industrializing country to develop manufacturing industry for export than for sale in its domestic market because the latter is usually protected against competition while those foreign markets that are open to imports are *ipso facto* open to competition. For these reasons, the development of export markets was the most critical and the most difficult of the four requirements, and Hong Kong's ability to fulfill it needs to be analyzed in greater detail than the other three. Before turning to this subject, however, the results of Hong Kong's efforts to export its new manufactures may be briefly surveyed.

Throughout East and Southeast Asia, the demand for textiles was strong in the early 1950s owing to the arrears of consumption inherited from the Great Depression of the 1930s and World War II and to the increased purchasing power generated by the boom in raw material prices during the Korean War period. Although not nearly as large as Japan, whose textile industry was then rapidly reviving, Hong Kong soon became a major supplier of cotton yarn, thread and piece goods to the countries of the region. Hong Kong's exporters also quickly found markets in East and Southeast Asia for other newly developed manufactures, especially knitted cotton undergarments and men's shirts, footwear, household utensils, and flashlights, batteries and bulbs.

However, in the course of the 1950s, the markets for Hong Kong's manufactures in other parts of the world became more important than those in its region. The first of these extraregional markets to be developed was the United Kingdom, owing to the long-standing ties with it of Hong Kong's merchant houses and to Hong Kong's status as a Crown Colony, which entitled it to Commonwealth tariff preferences under the Ottawa Agreement of 1932. As early as 1948, the United Kingdom—which still maintained tight import controls and foreign-exchange restrictions—granted import quotas to Hong Kong for knitted goods, rubber footwear, toys, mats, and basketware. As the British economy recovered and the controls on foreign trade were reduced or abolished during the mid-1950s, increasing quantities of cotton gray goods and finished piece goods were shipped to the United Kingdom. So large did these imports become that, by 1955, Lancashire textile firms were complaining about competition from lower-priced Hong Kong goods. By 1958, these pressures from the U.K. textile industry had become so severe that the British government was compelled to induce Hong Kong exporters to accept a "voluntary" agreement under which they put ceilings on the quantities of cotton textiles shipped to the British market.

The second most important overseas market developed by Hong Kong during the 1950s was the United States. At first, piece goods predominated in this trade but wearing apparel soon became the largest category. So rapidly did Hong Kong's exports to the United States grow that, by the end of the decade, the United States surpassed the United Kingdom as the city-state's major market. It has continued to be Hong Kong's largest export market, despite the fact that, in the early 1960s, the United States too imposed "voluntary restraints" on the exporters of cotton textiles, as described in the next chapter.

Neither the restrictions on imports imposed by the United Kingdom and the United States nor those already or subsequently instituted by other European countries, Canada, Australia, and Japan prevented the continuous growth of Hong Kong's exports throughout the 1960s. For, the effects of such limitations were ambivalent. On the one hand, they slowed the rate of growth of yarn and fabric

exports. Also, quotas based on past performance made it difficult for new companies to obtain a share of exports to the restricting countries, although no significant concentration of production resulted in Hong Kong. On the other hand, the limitations on certain products fostered diversification of industry and the upgrading of production to higher-valued goods. Thus, while the textile industry continued to grow, the difficulties posed by the quota system hastened the movement already underway into other fields, especially clothing, electronics, wigs, and toys and other plastic products. Within the textile industry itself, the quota system encouraged manufacturers to shift from cotton to wool and then to man-made fibers. This change was slower in the manufacture of yarn and fabrics because new machinery, and hence heavy capital investment, was required. But, in the clothing field, only minor adjustments in the machinery were needed and, in consequence, the growth of noncotton clothing manufacture was greatly accelerated. Not only were garments of synthetics and wool higher priced, but this switch also encouraged manufacturers to undertake production of more expensive, higher-styled clothing.

Another effect of the quota system in the course of the 1960s was to foster direct investment by Hong Kong manufacturers in other East Asian countries, where there were opportunities to obtain additional quotas or which were not yet large enough textile exporters to be included in the original restrictions. In consequence, Hong Kong investors have been making significant contributions to the development of industrial skills, employment and income in these nations.

The Development of Export Markets for Manufactures

In developing export markets for Hong Kong's new manufactures, the initiative was taken in the early 1950s by the British and Chinese merchant houses with long-established commercial ties both within and outside the region. Previously engaged in supplying the East and Southeast Asian countries with cotton textiles and other manufactured goods produced in China, they found little difficulty in substituting Hong Kong-made products for them. In many cases, these goods were identical with those produced by the same manufacturing firms when they had previously been located in Shanghai, and hence they were already known to buyers in East and Southeast Asia.

Despite the ease with which this substitution was made in the early 1950s, East and Southeast Asian countries did not continue to be Hong Kong's major export markets for manufactured goods for three reasons. First, as these countries obtained their independence and sought to accelerate their economic and social development, they began to foster their own industries through protective tariffs and other devices that eliminated, or prevented the growth of, competing imports. Second, the rapid recovery of Japan's much older, bigger and more diversified textile industry provided strong competition for those imports still permitted by these countries. Third, the potential of markets elsewhere in the world, especially in the high-income nations of North America and Western Europe, presented the possibility of more profitable alternatives to Hong Kong's manufacturers and exporters.

Thus, the crucial question for Hong Kong in the mid-1950s was whether it would be able to realize the potentialities of these extraregional markets. And, as before, it responded positively and vigorously to the challenge. The role of Hong Kong's government in the development of manufacturing industry for export will

be analyzed in subsequent chapters. Here, it must suffice to note that its indispensable contribution was to assure the political stability and economic conditions necessary for market forces freely to stimulate the growth of trade and industry. Its major active policy was to educate Hong Kong's private sector to the potentialities of overseas markets and to publicize abroad the productive capabilities of the city-state's entrepreneurs. Hong Kong's merchants and manufacturers responded eagerly to these favorable stimuli, and their initiative proved of decisive importance.

Hong Kong's merchant houses took the lead in developing the U.K. market in the early 1950s. Through their branches or correspondent importing firms in the United Kingdom, they made contact with British textile finishing companies or wholesale fabric distributors who were interested in the different kinds of cotton gray goods and yarn-dyed and printed piece goods that Hong Kong's new factories were increasingly producing. Hong Kong's low-wage and other costs, the experience with production and quality controls already gained in Shanghai by many of its managers and technicians, and the skill and flexibility of its industrialists, merchants and shippers provided its exports with important comparative advantages.

In the cases of cotton yarn and gray goods, Hong Kong's competitive capabilities with respect to prices, quantities, qualities, and delivery dates were sufficient to assure it a substantial and growing share of the U.K. market. These commodities are generally manufactured by standard types and qualities in long production runs, and hence could be sold either from inventory or to order. In contrast, considerations of style and the close control of sizes, sewing, accessories, and other specifications are as important as prices, quantities and delivery dates in determining whether a manufacturer will be able to sell most types of wearing apparel. Located halfway around the world from the United Kingdom, Hong Kong's clothing manufacturers had little, if any, idea of the styles, colors and other specifications required in this highly competitive consumer industry. To produce for inventory in expectation of orders would have been foolhardy. Sound practice demanded that they manufacture only to fill specific contracts.

The crucial link between the Hong Kong entrepreneur and clothing retailers and wholesalers in the United Kingdom was in most cases supplied by Hong Kong's British-owned merchant houses. Contacting department stores, chain stores and other large distributors in the U.K. market, they ascertained the specific design, size and other requirements and arranged for the placing of orders with Hong Kong manufacturers capable of meeting these specifications. While the garments were in production, the merchant houses undertook to test whether they conformed to the requirements of the contracts. They also facilitated shipments so that the goods would arrive in the United Kingdom on time. Through their U.K. branches or correspondent firms, they kept close touch with changing fashions in the British market, and the flexibility of Hong Kong's manufacturers enabled them to bid successfully for contracts to supply the popular styles and colors for each forthcoming season.

Although the British market for Hong Kong-made wearing apparel was the first to be developed, exports of such goods to the United States grew rapidly during the late 1950s and soon surpassed those to the United Kingdom. Not only is the American market many times larger than the British, but it also tends to be more highly competitive, fashion conscious and volatile. Both the opportunities and the risks are much greater. For these reasons, Hong Kong's clothing exports

to the United States were in the main established by a different method than that responsible for the earlier penetration of the U.K. market. True, some of Hong Kong's merchant houses played a role similar to that described above. But, the largest share of Hong Kong's rapidly growing exports of clothing to the United States was developed through a more complex concurrence of interests and initiatives.

British pressure after the mid-1950s to limit the growth of textile and clothing imports from Hong Kong turned the city-state's attention to the need to diversify the markets for its new manufacturing capabilities. At the governmental level, the Department of Commerce and Industry arranged for Hong Kong participation in trade fairs and exhibitions in North America and Western Europe to acquaint those potential markets with Hong Kong's manufacturing abilities, which were also publicized through the export promotion sections of British embassies and by other means. Hong Kong's business organizations—such as the General Chamber of Commerce, the trade associations in the various industries, and the Chinese Manufacturers Association—undertook to educate their members regarding the possibilities and requirements of overseas markets, and they cooperated with one another and with the government in organizing trade missions. These efforts met with an active response on the part of many Hong Kong manufacturers eager to diversify their production and their markets so as to increase the volume and profitability of their businesses.

At the same time, the large mail-order houses, chain stores, department stores, wholesale distributors, and importers in the highly competitive American market were equally eager to find new low-cost and adaptable sources of supply. Knowledge of Hong Kong's capabilities came to them not only through the publicity efforts noted above but also through trade publications, word of mouth, and reports from their representatives and correspondents overseas, especially in the United Kingdom. In some cases, the American business firms took the initiative in contacting Hong Kong manufacturers; in other cases, the initiative was from the latter. In both ways, links were rapidly forged between Hong Kong and the American market which, by the end of the decade, made the latter the largest importer of the former's goods.

On the one side, the Chinese manufacturers in Hong Kong were both eager and able to adapt their output to the style requirements and the stringent specifications of their U.S. customers, despite the many difficulties that had to be surmounted. On the other side, to inform and help their suppliers, American executives and buyers frequently visited Hong Kong to transmit samples and specifications of garments to be made and to negotiate the necessary contracts. Soon, the largest U.S. importers opened Hong Kong offices so that they could continuously monitor the production runs, sample test the finished garments, and expedite shipments to the United States. Some U.S. department stores in different cities and other noncompeting American buyers joined in establishing common servicing organizations to carry on these functions. Other American importers arranged for Hong Kong merchant houses to undertake these responsibilities.

The vast size and highly competitive nature of the American market were important influences reinforcing the entrepreneurial vigor of Hong Kong's businessmen in imparting an extraordinary dynamism to the city-state's private sector. An order from a large American mail-order house or chain store was a big and profitable prize for which Hong Kong manufacturers eagerly competed. But, a

producer who obtained a contract to make men's shirts for Sears Roebuck was thereby usually debarred from getting a similar order from its competitors, such as Montgomery Ward or J.C. Penney—a restriction which opened the way for other manufacturers to obtain a share of the business. Thus, the competitiveness of the buyers not only enhanced the competitiveness of the producers but also greatly expanded the latter's opportunities. Moreover, the highly diversified business of the large American department stores and mail-order houses meant that the variety of products of interest to them was continuously widening. If they bought men's shirts in Hong Kong, why not men's pants, or women's sweaters, or girls' dresses—or toys, or household furnishings, or furniture, or any other of the many different types of consumer goods sold in large volume to the American public. Once experience assured them that Hong Kong industry was a reliable and versatile source of supply, American buyers were continuously on the lookout for Hong Kong firms able to make an increasing variety of consumer goods, and Hong Kong entrepreneurs were continuously seeking U.S. orders for products they already manufactured or which they believed they could learn to produce quickly and profitably.

The rapid and continuous growth of Hong Kong's exports to the United States since the late 1950s attests to this dynamic interaction between highly competitive producers and highly competitive buyers. Moreover, this relationship has had a major "spill-over" effect in enhancing the eagerness and ability of Hong Kong's manufacturers to develop other export markets for their products. Both directly and through Hong Kong's merchant houses, they vigorously sought to find purchasers in continental Western Europe, especially in prosperous Germany, which became the city-state's third largest export market by the early 1960s. The Netherlands, the Scandinavian countries, Switzerland, and Italy were also developed into major customers, as were Canada and Australia.

The pattern of Hong Kong's trading relationships with Japan was also set during these years. During the late 1950s, the rapid expansion and diversification of Hong Kong's clothing industry generated demands for fabrics that exceeded the volume and variety that could be produced by its own textile factories. In consequence, Hong Kong manufacturers soon turned to Japan's very much larger and more diversified textile industry to obtain not only additional quantities of cotton piece goods but also woolen and worsted materials and the new man-made fabrics and mixtures of natural and synthetic fibers. In the course of the 1960s, materials, components and subassemblies for other newly developed Hong Kong industries—especially those using plastics and making electrical and electronic goods—were also increasingly imported from Japan. However, Hong Kong's exports to Japan have not grown nearly as fast due to the latter's trade barriers and informal discrimination against imported manufactured goods.

During the 1960s, Hong Kong's clothing production and exports increased both absolutely and relatively. Comprising 34.8 percent of all domestic exports in 1959, they rose to 36.4 percent of a much larger total in 1969. In contrast, over the same period, textile yarns, fabrics and made-up articles fell from 18.1 percent of domestic exports to 10.7 percent, although the production and exports of these items increased in absolute terms. By 1969, Hong Kong's third largest export was toys and dolls, constituting 8.1 percent of the total. Electronic equipment and components came next with 7.8 percent, followed by wigs and hair pieces with 6.2 percent, plastic flowers with 3.5 percent, and rubber and other footwear with 2.8 percent. Travel goods and handbags; flashlights and batteries;

plastic household and miscellaneous articles; furniture and rattan goods; photographic and optical equipment and supplies; watches, clocks and accessories; printed matter; small ships and boats; metal utensils; and a wide variety of other fabricated products comprised the remaining 24.5 percent of Hong Kong's exports in 1969.

Over the decade, exports of domestic manufactures increased five-fold from HK\$2,282 million in 1959 to HK\$10,518 million in 1969, constituting 80 percent of the city-state's total exports in the latter year. In contrast, the entrepot trade, as measured by reexports, amounted to only 20 percent. These proportions marked a reversal of the relative importance of domestically manufactured exports and the entrepot trade that had prevailed in the immediate postwar years. Another indication of the increasing significance of manufacturing may be seen in the fact that industrial employment rose from 177,000 in 1959 to 528,000 in 1969.

The Growth Process in the Private Sector

With one exception, this extraordinary growth of industrial production, employment and exports took place overwhelmingly in and from factories owned and managed by Chinese residents of Hong Kong. Only in the manufacture of electronic components—transistors, diodes, integrated circuits, etc.—have foreign-owned plants, principally American, become responsible for a substantial—in this case, a majority—share of the output. And, even in the manufacture of electronic components, the proportion made in Chinese factories is by no means negligible, and in the production of finished consumer electronic goods, such as radios, they predominate.

In the early 1950s, manufacturing was limited to the small number of local firms surviving from the prewar period and to the larger group of experienced Shanghai businessmen newly settled in Hong Kong. Since then, the number and variety of industrial establishments have continuously increased not only through the expansion and diversification of the already established firms but also through the emergence of thousands of new entrepreneurs. At the beginning, the great majority of the latter were also Shanghainese, most of them previously employed by the Shanghai firms in Hong Kong. But, since the late 1950s, an increasingly large proportion of the new entrepreneurs have been South Chinese, predominantly Cantonese. Today, most of the comparatively small group of large firms—those with several hundred employees—are still headed by first- or second-generation Shanghainese, while the very much bigger numbers of middle-size and small firms are owned and managed by Cantonese.

Typically, the new entrepreneurs are former employees of existing manufacturing establishments, usually technicians, foremen and skilled workmen or junior managers, salesmen and other office personnel. Thanks to the sociocultural characteristics analyzed in Chapter II, they are alert and inquisitive enough to learn much more about the business than their specifically assigned tasks, and are ambitious enough to want to increase their incomes by becoming entrepreneurs themselves.

The main sources of initial investment capital for these beginning entrepreneurs are their own savings and those of their kinsmen and friends. As explained in Chapter II, frugality and thrift are deeply ingrained Chinese behavioral norms that, in the case of most Hong Kong inhabitants, have been strongly reinforced by

the anxiety engendered by their emigrant or refugee experiences. At the same time, other behavioral norms—the propensity to risk taking, the compulsion to become one's own master, the desire to obtain the wealth and social status that go with business success—incline them not simply to bank their savings but also to invest them directly. In addition, kinship ties and obligations predispose relatives and friends to lend money to new entrepreneurs, generally at prevailing rates of interest but for unspecified periods and without security. In these ways, beginning producers are able to accumulate enough capital to make a part payment for the necessary machinery—often used equipment—or to rent it, and to lease space in a “flatted” factory building and to hire workers.¹ Usually, also, the needed raw materials and components can be obtained from importers or local processors on credit terms with a down payment.

The credit available from machinery suppliers is usually for one to two years and that from materials suppliers is even shorter term—one to three months. Hence, debt servicing begins very soon, and the business must be gotten into operation as quickly as possible so that a cash flow for meeting these obligations can be obtained. Indeed, the new entrepreneurs are generally so undercapitalized that they can buy machinery and materials on credit terms only if they already have reasonably firm prospects for contracts. Again, therefore, as in the case of export development, marketing capability is the crucial consideration. The big foreign buyers, American and European, and the large British and Chinese merchant houses are unlikely to place orders with, or to become agents for, untried entrepreneurs whose businesses are not yet in operation. How, then, does the beginning manufacturer make the market contacts necessary for him to get started? There are a variety of ways.

Probably the most important is by means of a subcontracting arrangement with an established company. Both the rapid growth and diversification of the Hong Kong economy and the characteristics of many of its consumer-goods industries and their markets are conducive to a substantial amount of subcontracting among manufacturing firms. Especially in the clothing industries, the larger factories often seek or receive more orders than they can fill with their existing capacity in the time required. However, the volatility of demand for particular types of garments and styles, the difficulty of recruiting and training additional labor, the greater profitability of other possible investments, the problems of directly managing a bigger or more diverse production process or, in the case of textiles, the limitations of the export quotas assigned to them under the “voluntary restraint” agreements, dissuade them from expanding their own facilities. Or, certain sewing and finishing operations can more profitably be delegated to subcontractors than carried on in the firm's own factory because the former have smaller overhead expenses or are willing to realize smaller profit margins. Such conditions fostering subcontracting are also prevalent in other Hong Kong industries. In many cases, a new entrepreneur can become a subcontractor of an established firm because he was formerly one of its technicians, foremen or skilled workmen and, hence, is known to and trusted by its management. Or, he may be a kinsman of its owner or of a senior executive and thus entitled to help.

¹Flatted factories are multistoried premises, in many cases constructed by the government in conjunction with low-rent housing estates, in which entrepreneurs can lease space ranging from a single room to several floors.

The putting-out system, widely practiced in Hong Kong, provides another method for starting new manufacturing enterprises. Many enterprising Hong Kong foremen and skilled workers carry on putting-out operations in addition to their regular jobs. They arrange on commission for members of their families, other kinsmen and neighbors to work at home in their spare time on sewing and finishing garments and on making clothing accessories, artificial flowers and other products requiring easily portable machinery or none at all. These household activities often are the nucleus from which are developed larger, full-time, regularized manufacturing enterprises.

In other cases, the new entrepreneur was a salesman or other office employee of a company making materials, parts, components, or supplies for Hong Kong manufacturing firms. Having access to these customers, he can establish an independent relationship with one or more of them as a result of their already existing mutual confidence, by offering them a share in the new company, or by inducing one of their trusted employees or relatives to go into business with him. Such relationships can sometimes be set up with smaller or intermittent foreign buyers, although the larger overseas importers of Hong Kong products will generally deal only with established manufacturing firms whose capabilities are known.

Thus, there are several ways in which a new entrepreneur gets the all-important initial orders. Once he has them, he may be able to offer such contracts, particularly those with large, reputable local companies, as security for a bank loan. In this way, he obtains funds to help meet his operating expenses and to service his debt to machinery and materials suppliers. If his previous experience did not qualify him to set up and supervise the production activities of his new business, he must hire a technician or highly skilled foreman. As such personnel are in great demand, the new entrepreneur may have to offer even a qualified kinsman or friend either a share of the business or significantly higher wages than he was previously earning.

The recruitment of semiskilled and unskilled workers was easy during much of the 1950s owing to the large number of refugees already in Hong Kong and the additional people who followed them. Total midyear population rose from 2.5 million in 1955 to 3.2 million in 1961 due both to the continuing influx of refugees and to a high birth rate.² Despite the rapid growth of the population of working age, the expansion of industry and other economic activities had reduced unemployment to minor proportions by the late 1950s, with the 1961 census showing 1.7 percent of the economically active part of the population unemployed or seeking work. Although labor has remained tight, the earlier high birth rates have continued to bring enough school leavers and other young people of both sexes into the labor force after the decline of the refugee influx to prevent labor shortages from slowing economic growth. Moreover, such is the desire to maximize family and individual incomes that many married women work full- or part-time in factories and offices, or at home under the putting-out system. In addition, many married men have second jobs or also work at home in their spare time.

The disappearance of significant unemployment and the decline in the rate of growth of the economically active portion of the population have affected

²Thereafter, the rate of population growth slowed, except for 1962 and 1963, as the number of refugees declined and the birth rate dropped from 35 births per 1,000 in 1961 to 19.7 in 1971.

economic development in several ways. Real wages and disposable income have risen steadily, with beneficial effects on the living standards of most families, as will be described in Chapter V. Labor turnover has increased, especially among young unmarried male and female workers, whose pecuniary consciousness and rising consumption expectations make them very responsive to even small differentials in money wages. Hitherto, new entrepreneurs have generally been able to recruit the necessary workers by offering slightly higher rates of pay, news of which quickly spreads among the floors in the flatted factories, on the crowded buses, trams and ferries, and in the large residential housing blocks. Finally, since the mid-1960s, the steady rise in wage rates has been encouraging capital investment in labor-saving machinery in more and more industries, as explained in the next chapter.

Once a new entrepreneur has been in operation long enough to demonstrate a reliable record of production and delivery, he is in a position to bid for the more lucrative orders from the big American and European buyers or to establish a continuing agency relationship with a large Hong Kong merchant house. If he is able to break into the group of firms manufacturing directly for export to the world market, he ceases to be mainly a subcontractor or supplier to prime contractors and has a much greater range of opportunities for his future growth.

The Diversification of the Hong Kong Economy

Established manufacturing firms, old and new, grow both vertically and horizontally. Textile spinning and weaving companies start branches or subsidiaries to make wearing apparel; enterprises assembling radios and other electronic equipment begin to produce transistors, diodes and other components, and *vice versa*. At the same time, or alternatively, firms may expand horizontally. A successful flashlight company starts a toy factory; a toothbrush manufacturer becomes the world's largest producer of medium-priced binoculars, as well as an exporter of low-priced cameras to Japan, among other markets.

This process whereby new businesses are started and old businesses are expanded and diversified has occurred in Hong Kong not only in manufacturing industry but in all of the other major types of economic activity. However, the development of manufacturing industry has been, in one way or another, the "engine of growth" for all of the others, except perhaps for the continuing entrepot trade. Manufacturing industry has directly stimulated the development of other activities catering to its needs. In addition to the public-sector services provided by the government, the private-sector activities fostered by manufacturing include the import of materials, components and fuels; the production of electric power; the furnishing of motor transport, port and storage services and ocean shipping; the building of factories, offices, warehouses, and other related construction; and the provision of a multitude of ancillary services, such as banking, insurance, engineering, accounting, advertising, and maintenance and repair. Indirectly, the income that the growth of industry has created for its owners, employees and suppliers has both augmented the demand, and generated most of the revenues and investment funds required, for the construction by the government of housing, schools, hospitals, roads, and other public facilities; and for private interests to build and operate housing, shops and restaurants, amusement and recreational amenities, to provide transportation and communication services,

and to import and distribute at retail, food, clothing and other products needed for local consumption.

Non-Chinese locally incorporated companies and the branches and subsidiaries of foreign firms have played major roles in the development of banking, commercial and residential construction, insurance, engineering, advertising, electric power, transportation, and communication. But, in these fields, too, Chinese entrepreneurs have been important. In ocean transportation, for example, two of the largest shipping groups in the world in terms of tonnage owned and chartered are headed by Chinese businessmen resident in Hong Kong. In the course of the 1960s, thousands of new nonindustrial Chinese businesses were started or old ones expanded, ranging from sophisticated investment and real-estate companies and motion-picture and TV producers to the innumerable small retail shops and market stalls staffed by the owner and members of his family. In the development of all of these diverse activities, the process has been analogous to that described for manufacturing.

Another major activity, to which both foreign and Chinese businessmen have contributed, is tourism. Here, too, industry played an important stimulative role by supplying much of the consumer goods that became Hong Kong's main attraction for tourists from Japan, North America, Europe, Australia, and other Asian countries. Hong Kong's location on the chief intercontinental and regional air and sea transport routes brings many travelers to the city-state. In 1972, almost 1.1 million of them stopped off for an average of 3.2 days, of which shopping occupied a good part. Kowloon and to a lesser extent the Central District of Hong Kong Island became vast shopping centers for tourists where, thanks to the city-state's free trade and low taxes, the boast has been that consumer products from all over the world could be purchased at prices lower than in their countries of origin. And, the construction of hotels, restaurants and amusement facilities catering to tourists naturally boomed as well.

Hong Kong's diversified and increasingly sophisticated economy and its locational advantages have been responsible for its growing popularity as a regional headquarters for foreign companies of all kinds. Many of the North American, European, Japanese, and Australian firms doing business in Hong Kong also manage their operations in other parts of East and Southeast Asia from their offices in the city-state. In addition, a growing number of other foreign companies have been locating their regional headquarters in the city-state even though they conduct no business activities *per se* in Hong Kong. For their part, Hong Kong's Chinese businessmen have been increasing their investments throughout East Asia, while retaining their headquarters in the city-state for managerial and financial purposes. In turn, these developments have helped to increase employment and stimulate the growth of the service sector.

Today, the movement, the purposeful hustle-bustle, the business go-getting and economic sophistication of Hong Kong's people have to be seen to be fully credible even to Americans used to the dynamism of their own market economy. Neither words nor numbers can convey an adequate appreciation of the drive for economic betterment, the alertness to opportunities, the ready adaptability to changing conditions, the willingness to use resources prudently and to take risks optimistically, and the ingenuity and capacity for improvisation that characterize not only Hong Kong's businessmen but also their workers and employees. For, many of the latter expect, if not to become entrepreneurs themselves, at least to be able to raise their incomes substantially by learning the new skills required for

advancement. And, employers and employees alike are willing to work hard and conscientiously, with cheerfulness and patience, to achieve the economic success and prestige that constitute the dominant motivation of this amazing society.

IV.

The Hong Kong Economy and Its Prospects

The kinds of statistical measures of the city-state's economy issued by the Hong Kong government are related to its policy concerns and orientation. Its continued determination to maintain the soundness of the currency and to foster the growth of foreign trade have always been reflected in excellent published series on imports and exports, government revenues and expenditures, money and banking, and wages and prices. Similarly, the government's equally long-standing commitment to preserving a free-trade economy in which market forces would have adequate scope to allocate resources efficiently meant that it had no need to prepare and publish national product and income accounts. Recently, however, the government has embarked on a deliberate effort to accelerate the improvement of living standards and the more equitable distribution of income through expanded programs of low-cost housing, free education, better medical care, and increased social-welfare expenditures. At the same time, developments beyond the government's control in world trade and monetary relationships are pushing it into the beginnings of a macroeconomic management policy and a more active role in stimulating the city-state's manufacturing industry and exports. In 1973 for the first time, the government published estimates of gross domestic product, capital formation and consumption, and announced its intention of gradually improving and expanding these new series into a complete set of national product and income accounts.

Economic Growth Rates and Structure

As of mid-1972, Hong Kong's population was estimated at 4,077,400, reflecting a growth rate of only 0.8 percent over the preceding year. Despite reductions in both the death rate and infant mortality, the natural rate of increase of the population has been steadily falling for over a decade—from 27.7 per thousand in 1962 to 14.3 per thousand in 1972—reflecting a substantial drop in the birth rate. Immigration, too, has been much smaller in the past decade than in the earlier postwar years.

From 1966—the initial year of the official series—through 1972, Hong Kong's GDP at market prices grew from HK\$10.9 billion to HK\$22.9 billion, (US\$4.1 billion), an average annual compounded rate of 13.2 percent.¹ No GDP

¹The detailed GDP series are published in *Estimates of Gross Domestic Product 1966-71* (Hong Kong Government, Census and Statistics Department, January 1973); the preliminary figures for 1972 are given in *The 1973-74 Budget: Economic Background* (Hong Kong Government, Census and Statistics Department, January 1973). For earlier periods, the estimates of academic economists have to be used. The most recent is by Laurence C. Chau, Lecturer in Economics at the University of Hong Kong, who calculated that GDP at factor cost grew at an annual average rate of 12 percent from 1959 through 1969. See Laurence C. Chau, "Estimates of Hong Kong's Gross Domestic Product, 1959-69," *Hong Kong Economic Papers*, No. 7, September 1972, pp. 11-32.

Table IV-1. Gross Domestic Product, 1966-71

(HK\$ million)

	1966		1967		1968	
	Value	Percent of GDP	Value	Percent of GDP	Value	Percent of GDP
Private consumption expenditure	8,869.0	81.4	9,344.3	77.4	10,348.3	81.0
Government consumption expenditure	749.2	6.9	827.9	6.9	897.4	7.0
Gross domestic fixed capital formation	2,810.2	25.8	2,448.8	20.3	2,073.2	16.2
Exports less imports of goods & services	-1,538.0	-14.1	-554.4	-4.6	-549.9	-4.3
Total expenditure on gross domestic product at market prices	10,890.4	100.0	12,066.6	100.0	12,769.0	100.0
Less indirect taxes	775.8		821.8		877.8	
Total expenditure on gross domestic product at factor cost	10,114.6		11,244.8		11,891.2	

Source: *Estimates of Gross Domestic Product, 1966-71*, pp. 1-3, 16.

1969		1970		1971 Provisional		Index for 1971 (1966 = 100)
Value	Percent of GDP	Value	Percent of GDP	Value	Percent of GDP	
11,422.9	76.2	13,104.6	73.3	14,723.2	75.1	166
985.0	6.6	1,150.0	6.4	1,255.6	6.4	168
2,658.5	17.7	3,688.2	20.6	4,749.9	24.2	169
<u>-65.9</u>	<u>-0.4</u>	<u>-58.7</u>	<u>-0.3</u>	<u>-1,131.6</u>	<u>-5.8</u>	74
15,000.5	100.0	17,884.1	100.0	19,597.1	100.0	180
<u>979.2</u>		<u>1,092.0</u>		n.a.		
14,021.3		16,792.1		n.a.		

deflator has yet been calculated, but the Census and Statistics Department estimates that the real rate of increase was "rather more than half"—say, somewhat more than 7 percent. Using mid-year population figures, per capita GDP at market prices grew from HK\$3,000 in 1966 to HK\$5,616 in 1972 (US\$996), an average annual rate of increase of 11 percent, or a real rate of more than 5 percent. Table IV-1 presents the growth of GDP and its main components from 1966 through 1971.

An indication of the structure of the city-state's economy can be seen in the statistics on employment by sectors, which are so far available in complete form only for the years of the decennial census. Table IV-2 shows the magnitudes and growth rates of employment by major sectors from 1961 to 1971 and their changing proportions of the totals. Manufacturing industry, by far the largest sector, increased from 43 percent of total employment to nearly 48 percent, while growing in absolute size by 47.4 percent over the decade. Other sectors that grew both absolutely and as proportions of the total were construction; wholesale and retail trade and restaurants and hotels; and finance, insurance, real estate, and business service. Conversely, employment declined absolutely and relatively in agriculture, fishing and forestry, and in mining and quarrying. Although it also fell in electricity, gas and water, the output of the utilities sector increased greatly in consequence of substantial capital investment and more efficient methods.

As explained in Chapter III, Hong Kong enjoys full employment. Even though the labor force grew by 4.4 percent in 1972, the number of vacant jobs in industrial establishments reporting to the Labour Department averaged around 20,000 at the end of each quarter during 1972—an estimate that would be higher if data on nonindustrial establishments had been available and included in the figures. Owing to full employment, the city-state's economic growth depends importantly on capital investment. Table IV-3 presents data on gross domestic

Table IV-2. Employment by Sectors, 1961 and 1971

Sector	Number of Persons		Percent Change 1961 to 1971	Percent of Total Employment	
	1961	1971		1961	1971
1. Agriculture, hunting, forestry, and fishing	87,581	62,975	-28.1	7.3	4.0
2. Mining and quarrying	8,869	4,518	-49.1	0.7	0.3
3. Manufacturing	512,438	755,534	+47.4	43.0	47.7
4. Electricity, gas and water	12,617	8,870	-29.7	1.1	0.6
5. Construction	58,209	83,158	+42.9	4.9	5.3
6. Wholesale and retail trade and restaurants and hotels	171,206	253,925	+48.3	14.4	16.0
7. Transport, storage and communication	86,740	114,722	+32.3	7.3	7.2
8. Finance, insurance, real estate, and business service	19,164	41,072	+114.3	1.6	2.6
9. Community social and personal services	217,647	233,359	+7.2	18.3	14.7
10. Activities not adequately defined	16,628	24,716	+48.6	1.4	1.6
Total working population	1,191,099	1,582,849	+32.9	100.0	100.0

Source: *The 1973-74 Budget: Economic Background*, p. 12.

fixed capital formation from 1966 through 1972. Although it varied as a percent of GDP during the period, it grew in value in every year except 1967 and 1968, when it was affected by the uncertainties arising from the 1967 riots in Hong Kong described in Chapter VI. In 1972, gross domestic fixed capital formation totaled HK\$5.6 billion, or 24.3 percent of GDP, of which investment in plant, machinery and equipment was over half. The latter increased over 2 1/2 times in value terms from 1966 to 1972, rising from 9.5 percent of GDP to 12.2 percent. Most capital formation is in the private sector. Indeed, although growing in absolute size, public-sector investment fell from 19 percent of gross domestic capital formation in 1966 to 12 percent in 1971.

Both private consumption and government consumption increased by about two-thirds from 1966 to 1971 while declining as proportions of GDP. Private consumption fell from 81.4 percent of GDP to 75.1 percent and government consumption from 6.9 percent to 6.4 percent. The composition of private consumption will be discussed in Chapter V.

Foreign Trade

Hong Kong is one of the major trading entities of the world. In terms of exports and imports combined for 1972, it ranked 18th among the noncommunist countries, exceeded only by Brazil in Latin America and second only to Japan in Asia.

This ranking reflects the fact that trade has been not simply the engine of growth for Hong Kong but the basis on which its economy rests. The city-state's total imports and exports were almost double its GDP in 1972. Hong Kong produces only about 20 percent of its food—mostly vegetables, fish and poultry—and none or negligible amounts of most of the industrial and other raw materials it needs. It is believed to make only a quarter to a third of the manufactured consumer products bought by its inhabitants and a small, though increasing, percentage of the machinery and equipment purchased by its enterprises. Conversely, well over three-quarters of its output of manufactured goods are estimated to be exported. Thus, the incomes of most of its people are earned, directly and indirectly, from exports of goods and services, and their personal consumption and the capital goods and raw materials they require in order to be productive are supplied mainly by imports.

Table IV-4 shows the growth of Hong Kong's foreign trade since 1955, when manufactured exports were already playing an important role. In 1959, the first year in which the statistics give a breakdown between domestic exports and reexports, the latter amounted to 30.4 percent of total exports. By 1972, the share of reexports had declined to 21.4 percent of the total, even though it had grown in value to HK\$4,154 million from HK\$995 million in 1959, an average annual increase of 11.6 percent. Exports of domestically produced goods rose faster, at an annual average rate of growth of 15.7 percent from 1959 to 1972. During these years, exports and reexports combined grew at an average annual rate of 14.7 percent. Always larger than total exports, total imports increased at an average annual rate of 12.1 percent over the period.

In real terms, imports grew faster than exports in recent years: using 1968 as the base, the quantum index of imports rose to 150 in 1972 while that for exports only to 138. In contrast, export prices increased faster than import prices over this period. With 1968 as the base, the index of import prices rose to 117 in

Table IV-3. Gross Domestic Fixed Capital Formation, 1966-72

(HK\$ million)

	1966		1967		1968		1969		1970		1971 Provisional		1972 Provisional	
	Value	Percent of GDP	Value	Percent of GDP	Value	Percent of GDP	Value	Percent of GDP	Value	Percent of GDP	Value	Percent of GDP	Value	Percent of GDP
Land, building and construction	1,773	16.3	1,385	11.5	925	7.2	1,099	7.3	1,511	8.4	2,003	10.2	2,770	12.1
Plant, machinery and equipment	1,037	9.5	1,063	8.8	1,148	9.0	1,559	10.4	2,177	12.2	2,747	14.0	2,790	12.2
Total	2,810	25.8	2,449	20.3	2,073	16.2	2,658	17.7	3,688	20.6	4,750	24.2	5,560	24.3

Source: *The 1973-74 Budget: Economic Background*, pp. 10-11.

Table IV-4. Hong Kong's Foreign Trade Since 1955

(HK\$ million)

Year	Imports		Domestic Exports		Reexports		Total Exports		Merchandise Deficit
	Value	Average Annual Rate of Increase	Value	Average Annual Rate of Increase	Value	Average Annual Rate of Increase	Value	Average Annual Rate of Increase	Value
1955	3,719	—	n.a.	—	n.a.	—	2,534	—	1,185
1959	4,949	7.4	2,282	—	995	—	3,277	6.6	1,672
1960	5,864	18.5	2,867	25.6	1,070	7.5	3,937	20.1	1,927
1965	8,965	8.9	5,027	11.9	1,503	7.0	6,530	10.7	2,435
1969	14,893	13.5	10,518	20.3	2,679	15.6	13,197	19.2	1,696
1970	17,607	18.2	12,347	17.4	2,892	8.0	15,239	15.5	2,368
1971	20,256	15.0	13,750	11.4	3,414	18.0	17,164	12.6	3,092
1972	21,764	7.4	15,245	10.9	4,154	21.7	19,400	13.0	2,364

Sources: *Hong Kong Statistics 1947-1967*; and *Hong Kong Monthly Digest of Statistics*, February 1973.

1972 and the index of export prices to 131, resulting in an improvement in Hong Kong's terms of trade of 12 percent.

As shown in Table IV-5, the largest category of domestic manufactured exports was clothing, comprising over 40 percent of the 1972 total. Next were textile yarns, fabrics and made-up articles, constituting just over 10 percent of the total. Together, these two categories amounted to half of the exports of domestic manufactures in 1972. Added together, transistor radios, transistors and diodes, and other electronic and electrical components and parts made up the next largest—and the fastest growing—category of domestic exports: they were 10.4 percent of the 1972 total, up substantially from earlier years. Other large categories in 1972 were toys and dolls (8 percent), artificial flowers (2.7 percent), footwear and travel goods and handbags (each 2 percent), jewelry and gold and silverware (1.7 percent), wigs (1.5 percent compared with 7.6 percent during the height of the fashion for them in 1970), and watches and clocks (1.3 percent). Together, all of the foregoing categories amounted to 80 percent of domestic exports in 1972 compared with 73 percent in 1965.

Hong Kong's dependence on textiles and clothing is great. In fact, the importance of clothing has been increasing in recent years as manufacturers have made greater use of the man-made fibers, for which demand is growing fastest, and up-graded the quality of goods produced into the higher-priced ranges. Clearly, under its conditions of free trade, the city-state has had a comparative advantage for making these products. It reflects not only the efficiency of its managers and workers relative to the latter's wage levels, and the ability to import needed production inputs at lowest cost, but also the internal economies of scale and the external economies made possible by the diverse and sophisticated ancillary services and facilities available in Hong Kong.

At the same time, however, the fact that textiles and clothing constitute so large a share of exports makes the city-state especially vulnerable to the effects of two types of adverse developments that are characteristic of the industries involved. The more immediate threat is the proneness of the major importing countries to protect their own textile and clothing producers. The longer-term danger arises from the inherent suitability of textile and clothing production for the early stages of industrialization, which means that comparative advantage in these industries tends to migrate more rapidly to lowest-cost areas than it does in most other lines of production. Thus, Hong Kong is continually threatened, on the one hand, by the protectionism of its customers and, on the other, by the competition of newly industrializing countries. In such a situation, Hong Kong's best—indeed, its only—recourse in the shorter term for preserving its markets and its competitiveness in textiles and clothing is to maintain its freedom of trade and its high rate of capital investment. Over the longer term, assuming a gradual decline of its comparative advantage for these products, the alternative is, of course, diversification, which is discussed later in this chapter.

Table IV-5 also presents the data on the main importers of Hong Kong's domestic manufactures. The share of the United States grew substantially from 26 percent in 1960 to 42 percent in 1970 and then fell slightly to 40.2 percent in 1972. That of the United Kingdom declined from 20.4 percent to 14.4 percent over the period, although it still remains Hong Kong's second largest customer. West Germany, the third biggest, increased its share from 3.7 percent in 1960 to 10 percent in 1972. In the latter year, Canada became the fourth largest market, rising to 3.3 percent from 2.7 percent in 1960, and thereby superseded Japan,

Table IV-5. Domestic Exports: Share of Major Commodities and Markets

(HK\$ million)

	1960		1965		1970		1971		1972	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total domestic exports	2,867	100.0	5,027	100.0	12,347	100.0	13,750	100.0	15,245	100.0
A — Commodities										
Clothing	1,010	35.2	1,773	35.3	4,337	35.1	5,464	39.7	6,113	40.1
Textile yarns, fabrics and made-up articles	554	19.3	834	16.6	1,277	10.3	1,398	10.2	1,552	10.2
Footwear	115	4.0	153	3.0	302	2.4	351	2.6	304	2.0
Travel goods, handbags and similar articles	20	0.7	46	0.9	175	1.4	228	1.7	302	2.0
Wigs	—	—	72	1.4	937	7.6	527	3.8	224	1.5
Toys and dolls	116	4.0	345	6.9	978	7.9	1,102	8.0	1,217	8.0
Artificial flowers	149	5.2	266	5.3	416	3.4	354	2.6	418	2.7
Transistor radios	—	—	128	2.5	549	4.4	712	5.2	919	6.0
Transistors and diodes	—	—	*	*	259	2.1	225	1.6	276	1.8
Electrical and electronic parts & components	*	*	*	*	274	2.2	302	2.2	401	2.6
Jewelry and gold and silverware	*	*	52	1.0	184	1.5	217	1.6	262	1.7
Watches and clocks	*	*	8	0.2	135	1.1	175	1.3	202	1.3
Percent of total domestic exports		68.4		73.1		79.4		80.5		79.9
B — Markets										
United States	745	26.0	1,719	34.2	5,190	42.0	5,708	41.5	6,125	40.2
United Kingdom	585	20.4	861	17.1	1,481	12.0	1,946	14.2	2,195	14.4
West Germany	107	3.7	371	7.4	985	8.0	1,128	8.2	1,525	10.0
Canada	77	2.7	135	2.7	389	3.1	484	3.5	501	3.3
Japan	101	3.5	133	2.6	492	4.0	484	3.5	480	3.1
Australia	86	3.0	134	2.7	359	2.9	402	2.9	445	2.9
Singapore	n.a.	n.a.	143	2.8	280	2.3	332	2.4	350	2.3
Netherlands	16	0.6	86	1.7	216	1.7	250	1.8	295	1.9
Sweden	34	1.2	85	1.7	242	2.0	195	1.4	254	1.7
Taiwan	14	0.5	17	0.3	147	1.2	213	1.6	233	1.5
Percent of total domestic exports		61.6		73.2		79.2		81.0		81.3

*Not separately classified.

Sources: *Hong Kong 1964—Commerce, Industry and Finance Directory* (Hong Kong Government, Commerce and Industry Department), pp.89-90; *Hong Kong Review of Overseas Trade in 1970*, pp. 37-38; *Hong Kong Review of Overseas Trade in 1971*, pp. 15, 19-20; *Hong Kong Statistics 1947-1967*, pp. 101-104; and *Hong Kong External Trade*, December 1972, Tables 6, 21.

whose share declined from 3.5 percent in 1960 to 3.1 percent in 1972. The other major importers from Hong Kong are Australia, Singapore, the Netherlands, Sweden, and Taiwan. Excluding Singapore for which 1960 figures are not available, the nine countries took 79 percent of Hong Kong's exports of domestic manufactures in 1972 compared with 61.6 percent in 1960. This growing dependence on so small a number of countries—even though including most of the wealthiest and some of the fastest growing in the world—both reflects Hong Kong's success in realizing the best export opportunities available in the past and points to the city-state's need to diversify its markets, as well as its commodities, in the future.

The main data on Hong Kong's entrepot trade is given in Table IV-6. Diamonds and other precious stones were the largest category of reexports, representing 19.9 percent of the total in 1972. Other major categories were textile yarn, fabrics and made-up articles (14.1 percent), chemicals, dyes and pharmaceuticals (13.4 percent), machinery and transport equipment (10.8 percent), foodstuffs (8.9 percent), and watches (5.0 percent). Together, these commodities amounted to 72.1 percent of reexports. In 1972, Japan took 20.1 percent of total reexports, Singapore 10.5 percent, the United States 8.8 percent, Taiwan 8.4 percent, Indonesia 7.8 percent, South Korea 3.4 percent, and Macau 3.0 percent—in all, 62 percent of entrepot exports. It is likely, however, that Hong Kong's entrepot trade with China will increase significantly in the coming years as the latter country becomes more and more integrated in the world economy.

Table IV-7 presents the main commodities and sources of Hong Kong's imports. In 1972, the two largest categories were textile materials, yarns and fabrics at 17.6 percent, and foodstuffs at 17.5 percent, followed by capital goods of all types at 12.8 percent, diamonds at 4.9 percent and fuels at 2.8 percent. Hong Kong's principal source of imports in 1972 was Japan, which supplied 23.2 percent of the total. Previously, the major source of Hong Kong's imports—over 27 percent as recently as 1966—was China, which was in second place in 1972 with 17.7 percent. The United States was the third largest source at 11.9 percent, roughly the same share as in 1960. Other large suppliers of imports in 1972 were the United Kingdom (6.6 percent), Taiwan (6 percent) and West Germany (3.4 percent). Together, these six countries supplied 68.8 percent of Hong Kong's imports in 1972 compared with 65.1 percent in 1960.

Hong Kong's principal trade deficits are with Japan, China and Taiwan. Its imports from Japan are almost four times as large as its combined exports and reexports to that country. The main imports from Japan are textile yarns and fabrics, machinery of all kinds, photographic equipment and watches (largely for sale to tourists), plastic materials, and iron and steel; the major exports to Japan are clothing, various types of manufactured consumer goods, and fish and fish preparations, while diamonds and other precious stones and foodstuffs and pharmaceuticals constitute the bulk of the reexports. China's exports to Hong Kong are 37 times larger than its merchandise imports from and through the city-state. Half of Hong Kong's food imports come from China, as well as substantial quantities of low-priced clothing and other light consumer manufactures, industrial raw materials, and the foodstuffs, medicinal preparations and other traditional goods that still comprise a significant part of the city-state's reexports. Although not nearly so disparate in quantitative terms—Taiwan's exports to Hong Kong are 2 1/4 times its imports—the composition of the city-state's trade with Taiwan resembles that with Japan and China. As from the former, Hong Kong imports

Table IV-6. Reexports: Share of Major Commodities and Markets

(HK\$ million)

	1960		1965		1970		1971		1972	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total reexports	1,070	100.0	1,503	100.0	2,892	100.0	3,414	100.0	4,154	100.0
A – Commodities										
Chemicals and pharmaceuticals	130	12.1	236	15.7	493	17.0	571	16.7	558	13.4
Textile yarn, fabrics and made-up articles	210	19.6	220	14.6	387	13.4	441	12.9	587	14.1
Diamonds, unset	42	3.9	183	12.2	516	17.8	513	15.0	615	14.8
Other precious stones, unset	1	0.1	24	1.6	119	4.1	152	4.5	210	5.1
Machinery and transport equipment	66	6.2	72	4.8	277	9.6	379	11.1	450	10.8
Watches	31	2.9	48	3.2	130	4.5	168	4.9	208	5.0
Food and live animals	181	16.9	278	18.5	306	10.6	335	9.8	368	8.9
Percent of total reexports		61.7		70.6		77.0		74.9		72.1
B – Markets										
Japan	130	12.1	255	17.0	584	20.2	644	18.9	834	20.1
Singapore	n.a.		206	13.7	337	11.7	397	11.6	435	10.5
United States	18	1.7	86	5.7	244	8.4	303	8.9	364	8.8
Taiwan	62	5.8	69	4.6	154	5.3	200	5.9	351	8.4
Indonesia	75	7.0	146	9.7	202	7.0	312	9.1	326	7.8
South Korea	32	3.0	32	2.1	82	2.8	84	2.5	142	3.4
Macau	54	5.0	65	4.3	84	2.9	123	3.6	125	3.0
Percent of total reexports		34.6		57.1		58.3		60.5		62.0

Sources: *Hong Kong Review of Overseas Trade in 1970*, p. 49; *Hong Kong Review of Overseas Trade in 1971*, pp. 6, 10, 12, 13, 18, 31; *Hong Kong Statistics 1947-67*, pp. 93-94, 101-104; and *Hong Kong External Trade*, December 1972, Tables 6, 15, 32.

Table IV-7. Imports: Share of Major Commodities and Sources

(HK\$ million)

	1960		1965		1970		1971		1972	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Imports	5,864	100.0	8,965	100.0	17,607	100.0	20,256	100.0	21,764	100.0
A — Commodities										
Foodstuffs	1,440	24.6	2,120	23.6	3,154	17.9	3,605	17.8	3,804	17.5
Man-made fibers, yarns and fabrics	124	2.1	220	2.5	1,228	7.0	1,723	8.5	1,804	8.3
Raw cotton, cotton yarn and fabrics	783	13.4	880	9.8	1,181	6.7	1,437	7.1	1,504	6.9
Wool, wool yarn and fabrics	119*	2.0	349	3.9	562	3.2	432	2.1	526	2.4
Plastic moulding materials	118	2.0	221	2.5	421	2.4	454	2.2	478	2.2
Capital goods	420	7.2	821	9.2	2,146	12.2	2,574	12.7	2,796	12.8
Diamonds	185	3.2	329	3.7	870	4.9	962	4.7	1,061	4.9
Watches	106	1.8	126	1.4	408	2.3	440	2.2	461	2.1
Clothing	71	1.2	218	2.4	278	1.6	364	1.8	487	2.2
Medicinal and pharmaceutical products	109	1.9	143	1.6	316	1.8	320	1.6	317	1.5
Radio, television and other audio equipment	87†	1.5	163	1.8	344	2.0	362	1.8	350	1.6
Fuels	218	3.7	269	3.0	468	2.7	596	2.9	608	2.8
Iron and steel	191	3.3	348	3.9	464	2.6	442	2.2	482	2.2
Paper and paperboard and manufactures thereof	134	2.3	203	2.3	439	2.5	498	2.5	531	2.4
Percent of total Imports		70.2		71.6		69.8		70.1		69.8
B — Sources										
Japan	942	16.1	1,551	17.3	4,188	23.8	4,926	24.3	5,045	23.2
China	1,186	20.2	2,322	25.9	2,830	16.1	3,330	16.4	3,847	17.7
United States	720	12.3	994	11.1	2,317	13.2	2,535	12.5	2,595	11.9
United Kingdom	664	11.3	962	10.7	1,517	8.6	1,593	7.9	1,437	6.6
Taiwan	124	2.1	154	1.7	820	4.7	991	4.9	1,309	6.0
West Germany	183	3.1	276	3.1	657	3.7	732	3.6	748	3.4
Percent of total Imports		65.1		69.8		70.1		69.6		68.8

*Does not include wool and wool yarn.

†Includes washing machines and refrigerators.

Sources: *Hong Kong 1964—Commerce, Industry and Finance Directory* (Hong Kong Government, Commerce and Industry Department), pp. 86-87; *Hong Kong Review of Overseas Trade in 1970*, pp. 46-47; *Hong Kong Review of Overseas Trade in 1971*, pp. 10-13, 28-29; *Hong Kong Statistics 1947-67*, pp. 94, 96, 101-104; and *Hong Kong External Trade*, December 1972, Tables 6, 15, 28.

from Taiwan large quantities of textile yarns and fabrics and electronic and electrical goods; as from the latter, it imports considerable amounts of food and industrial raw materials. Its exports to Taiwan consist mainly of electronic products and components and textiles.

Hong Kong's main surpluses are earned in trade with the United States, the United Kingdom and West Germany. Its exports and reexports to the United States total about 2 1/2 times its imports from the United States. The major categories of exports are clothing, textiles, electronic products and components, toys and other manufactured plastic and light metal consumer goods; the major imports from the United States are machinery and capital equipment, textile fibers, yarns and fabrics, fruits and vegetables, and tobacco and its products. Exports to and imports from the United Kingdom and West Germany are similar, with the exception of the last two categories.

Hong Kong's trade demonstrates an interesting relationship: the more industrialized its trading partners, the more they tend to buy from and sell to it complementary categories of goods. The city-state is an important market for yarns and fabrics—mainly synthetics and higher quality woolens, worsteds and cottons—from the United States, the United Kingdom and West Germany, as well as from Japan. Just as cheap clothing and footwear are imported from China for domestic consumption, so expensive apparel, shoes and clothing accessories of all kinds are imported from the United States and Western Europe for sale not only to tourists but also to Hong Kong's rapidly growing upper-income groups. In turn, the city-state exports clothing in the intermediate price ranges to the United States and Western Europe, and is beginning to do so to Japan. Moreover, it is developing its own high-fashion industry, which has already generated significant exports to the wealthier countries. Electronic and electrical products and components, optical goods and photographic equipment are both sold to and imported from Japan. Similarly, there is a two-way flow of electronic and electrical goods and components between Hong Kong and Taiwan.

Another interesting characteristic of Hong Kong's trade is what is called in the city-state "treading on Japan's heels." This development takes two main forms. One is Hong Kong's ability to cut into—in some cases to displace—Japanese exports of many kinds of plastic products, electronic goods and other light consumer manufactures as the city-state's productivity and technological capabilities rise while Japan's labor and other costs increase faster than its own. Another is its ability to begin to penetrate the Japanese home market with its own manufactured products, such as cameras and optical goods, that are in the price ranges desired by Japanese consumers, although this promising line of development is seriously impeded by Japan's import barriers and the discriminatory practices of its importers. Many Hong Kong government officials and businessmen anticipate that the city-state will move as rapidly as possible into the production and export of an increasing diversity of consumer and intermediate goods whose costs of production are rising in Japan; and, to that end, they are seeking to learn as much as possible about Japanese technology and marketing. Just as Hong Kong will in this way continue to tread on Japan's heels, so it expects that Taiwan, South Korea and other East Asian countries will tread on Hong Kong's heels. And, the latter development makes the former all the more necessary.

Until 1973, one major advantage that Hong Kong possessed in this competitive race was the particular character of its trade with China. Thanks to China's willingness to ship food, clothing, other consumer goods, and raw materials to the city-state at less than world market prices, Hong Kong's costs of

production were lower and its living standards were higher than they otherwise would have been. Combined with the city-state's rising productivity and low level of taxation, these benefits from trade with China have hitherto helped to keep Hong Kong's export prices competitive in world markets. In turn, Hong Kong has been the largest and easiest source of foreign-exchange earnings for China. Unofficial sources in Hong Kong estimate that more than 40 percent of China's total foreign-exchange earnings are derived from its exports to the city-state, from the activities of the Hong Kong branches of China's banks and insurance companies, and from immigrants' remittances. The recent rise in China's export prices will be discussed in a later section.

Balance of Payments

Under Hong Kong's currency and banking system described in a later section, the government has felt no compelling need to publish a balance-of-payments accounting. In the absence of such figures, the state of Hong Kong's external transactions can only be conjectured.

Hong Kong normally has a deficit in its merchandise trade. In 1972, imports totaled nearly HK\$21.8 billion and exports and reexports HK\$19.4 billion, leaving a trade deficit of almost HK\$2.4 billion, or 11 percent of imports. The long-term trend of the merchandise deficit as a percent of total imports has been downward, although the proportion has sometimes temporarily moved upward. Thus, the deficit was 33.8 percent of imports in 1959 and less than a third of that in 1972.

A closer approximation to a current-account balance for Hong Kong can be obtained from the estimates of the city-state's GDP. There, the net deficit with respect to the import and export of goods and services was shown as HK\$1.5 billion in 1966, falling to a low of HK\$59 million in 1970 and rising again to HK\$1.1 billion in 1971. (No figures for 1972 are available at this writing.) The major item in the services account is tourism, which produces a large net surplus for Hong Kong. In 1972, tourist expenditures in the city-state were estimated to have been HK\$2 billion compared with slightly less than HK\$1.8 billion in 1971. No official estimates have been published of other significant items in the current account, especially of remitted earnings on foreign investments in the city-state and on Hong Kong's investments abroad, and of immigrants' remittances to relatives in China. The first could well be a net deficit. Although Hong Kong's entrepreneurs have been making larger investments in other parts of East Asia in recent years, investments in Hong Kong by American, European and other foreign companies and overseas Chinese have also been increasing and their earnings have been rising, as have the sizable profits obtained in the city-state and remitted to China by the Peking-owned banks, insurance companies and retail establishments. The second item—immigrants' remittances—is, of course, negative and is quite substantial.

Thus, it is likely that Hong Kong's apparent overall balance-of-payments surplus is owed to net inflows of short- and long-term capital. The city-state is Asia's largest financial center after Tokyo, and funds can flow into and out of Hong Kong much more freely than anywhere else in Asia. Unofficial estimates indicate that perhaps as much as half of the deposits in the city-state's banks are owned by nonresidents, especially overseas Chinese who have always regarded

Hong Kong as a safehaven. Also, in recent years, foreign long-term investment in manufacturing, real estate, banking, insurance, and other activities has been increasing. Thus, it is likely that the city-state has a surplus on capital account large enough to exceed significantly the possible current-account deficit.

Evidence that Hong Kong has had such an overall balance-of-payments surplus in most years is provided by the substantial growth of its foreign-exchange assets. Hong Kong's total sterling assets were stated to have been £350 million at the time of the British devaluation in November 1967, £643 million at the end of 1971, and £768 million or HK\$11.2 billion (US\$2 billion) at the beginning of April 1972.² True, these foreign assets of the government and the banks subsequently dropped in value because of international monetary changes and the decline in the market value of gilt-edged sterling securities, as explained in a later section. Nonetheless, the ability under Hong Kong's currency system to transfer and hold abroad reserves of such magnitudes in all probability reflects a persisting surplus in the city-state's overall balance of payments.

Public Finance

Hong Kong's budget covers recurrent and capital expenditures and both categories have hitherto been financed by revenues and other income. So far, the government has never borrowed domestically even to finance capital expenditures and, as explained below, its foreign borrowing has been very small. The government distinguishes between recurrent revenue—that is, income from taxes, fees, fines, etc.—and capital revenue—that is, income from the sale of leaseholds, the premiums on leasehold renewals, etc. Normally, the government allocates all of its income on capital account and about 30 percent of its income on recurrent account to capital expenditures.

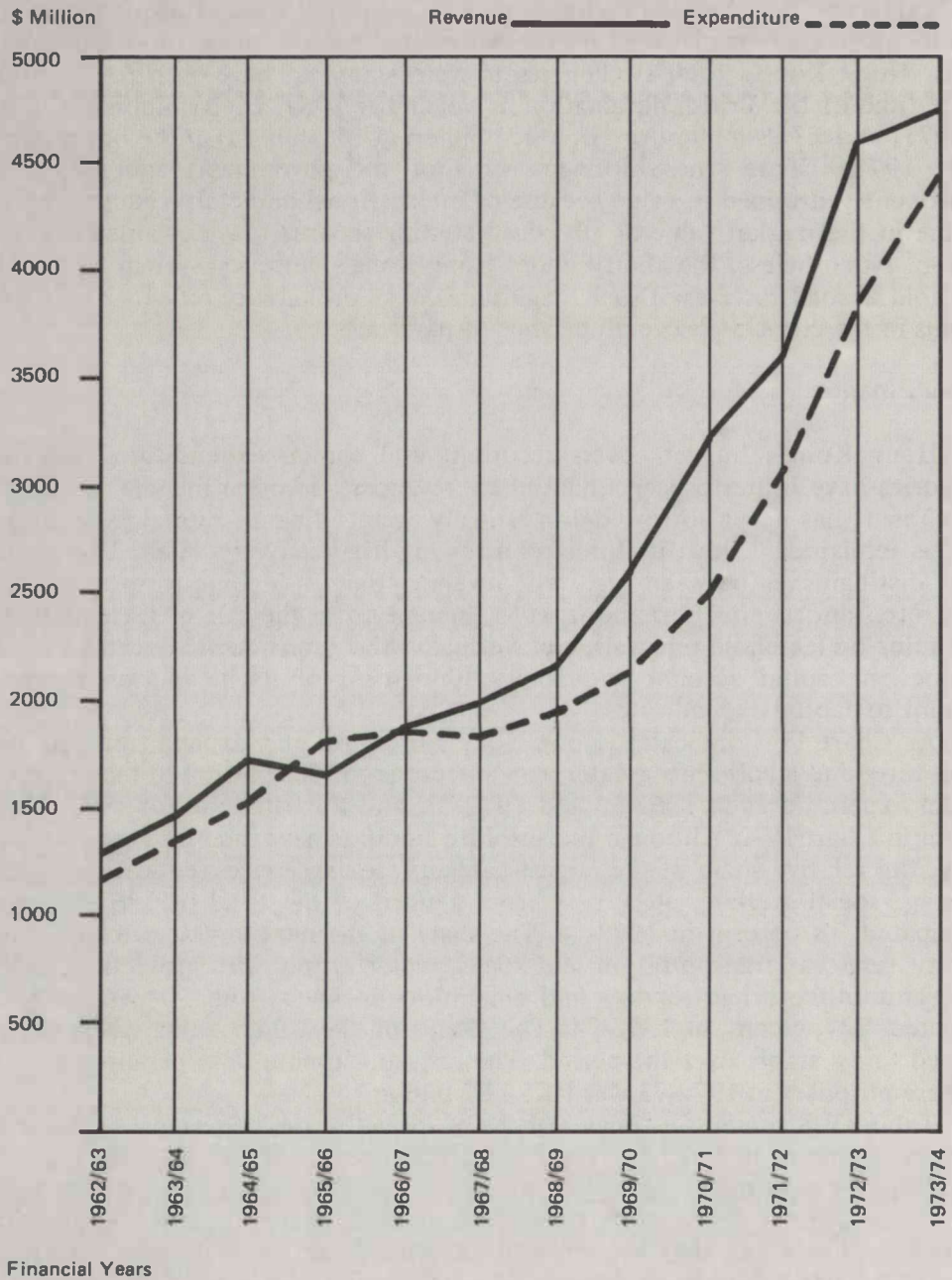
As Chart IV-1 indicates, Hong Kong's revenues and expenditures are now about three and a half times greater than a decade ago. The pattern of recurrent and capital expenditures in 1962-63 and 1972-73, and the estimates for 1973-74, are shown in Chart IV-2. Although the absolute amounts have increased very substantially, the relative share of the largest category, social services (education, health, housing, social welfare, etc.), rose from a third of the total in 1962-63 to an anticipated 38 percent in 1973-74. The share of the next largest category, community services (transportation and roads, water supply, fire protection, sanitation, and other urban services and amenities) declined from 30 percent to an expected 27 percent in 1973-74. The shares of the other major categories remained fairly stable over the period. The revised estimate of expenditures for all of these purposes in 1972-73 was HK\$3.87 billion.

Table IV-8 presents estimates of the major categories of revenue of the Hong Kong government in 1972-73. The revised estimate of total revenues in that year was HK\$4.59 billion.

Hong Kong levies separate taxes on four kinds of income: profits, property, interest, and salaries. They are set with reference to a "standard rate" of a maximum of 15 percent of gross income. The net profits arising from business activities in Hong Kong are taxed at a flat rate of 15 percent; however, dividends of Hong Kong companies subject to profits tax are exempt from further tax. The

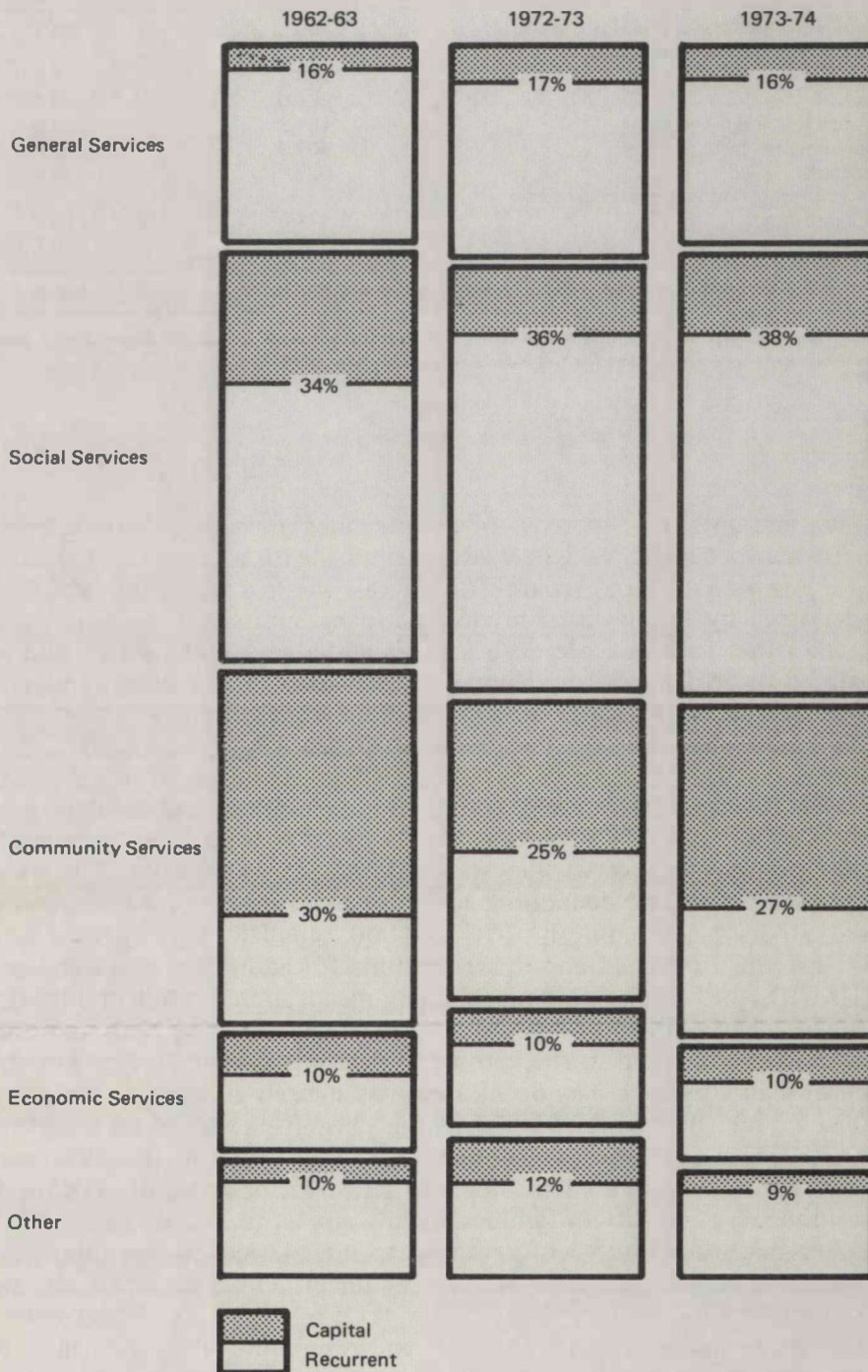
²*Hong Kong 1971*, p. 50; Financial Secretary's Speech to the Legislative Council of January 5, 1972; and the Financial Secretary's Budget Speech of February 28, 1973.

Chart IV-1. Growth of Revenue and Expenditure, 1962/63 - 1973/74



Source: *The 1973-1974 Budget: A Graphic Guide* (Hong Kong Government Information Services), February 28, 1973.

Chart IV-2. Distribution of Expenditure between Groups of Services
(percentage of total expenditure)



Source: *The 1973-1974 Budget: A Graphic Guide* (Hong Kong Government Information Services), February 28, 1973.

Table IV-8. Major Categories of Revenue, 1972-73

Category	Amount (HK\$ million)	Percent of Total
Internal revenue (income taxes, stamp tax, etc.)	1,750.9	38.2
Rates (levies on rental value of land and buildings)	383.5	8.4
Excise duties	461.0	10.0
Licenses, franchises, fees, fines, etc.	484.3	10.6
Revenue from interest, land, rents, etc.	402.9	8.8
Sale of leaseholds	623.6	13.6
Other revenues (post office, water rates, airport services, railroad, etc.)	474.8	10.3
Contributions	6.6	0.1
Total	4,587.6	100.0

Source: Hong Kong Government, *Supporting Financial Statements and Statistical Appendices from the Estimates of Revenue and Expenditure for the Year Ending 31st March 1974*.

property tax amounts to 15 percent of the net rateable value of urban land and buildings (owner-occupied residences are exempt), with a 20 percent deduction allowed for maintenance and repair. The interest tax is a withholding tax of 15 percent deducted by the payer of interest on loans, mortgages, time and savings deposits, and other forms of interest-bearing indebtedness. Only profits and other income earned in or derived from Hong Kong are taxed. Those arising outside the city-state are not taxed, regardless of whether they are remitted.

In his 1973 Budget Speech, the Financial Secretary proposed certain changes in the salaries tax. It is to be levied at graduated rates ranging from 5 percent on the first HK\$10,000 of salaries and wages, after exemptions and deductions, to a maximum marginal rate of 30 percent on the portion of taxable income above HK\$50,000 but not to exceed the standard rate of 15 percent. The existing substantial exemptions and deductions are to be modified: each wage earner is to be allowed a personal exemption of HK\$10,000, plus HK\$10,000 for a spouse; HK\$3,000 for the first child and lesser amounts for additional children up to a total of HK\$10,500 for all children (including incapacitated adult children); and deductions for charitable contributions and for expenses, other than domestic or private, exclusively incurred in the earning of wages and salaries. For example, a family of husband, wife and two children would need to earn a minimum of HK\$25,000 a year (or over US\$4,900 at the current exchange rate) before its income from wages or salaries would be taxable. According to the 1971 census, the median monthly household income was HK\$672, or not quite HK\$8,100 a year. Thus, the great majority of families are not subject to salaries tax.

Another important source of revenue are rates levied on the annual rental value of land and buildings, and payable by the tenant. Other economically significant taxes are the estate duty (inheritance tax); a stamp tax modeled on the British system; gambling and betting, hotel and restaurant taxes, a business registration tax, and a motor vehicle registration tax. Like the various earnings and income taxes, all are moderate. In addition, excise duties are levied on tobacco products, vehicle and aviation fuels and alcoholic beverages imported or produced within the city-state. There are no other import and export duties of any kind.

Revenues from the sale of leaseholds (called land sales) and from the rent thereon arise from the fact that all land, including that reclaimed from the sea, is regarded as owned by the Crown. Private organizations and persons do not own freeholds but have leaseholds. Except for educational, charitable, religious, and certain other nonprofit institutions, rent must be paid by the leaseholders to the government. The leases are usually long-term, ranging up to 75 years; some granted in the early decades of British rule were for 999 years. In addition, the leases for previously unleased land and for new land reclaimed from the sea are periodically sold at public auction, and premiums are charged for the renewal of expiring leases. Many long-term leases on land now used for business and private residential purposes expire in 1973, and the government proposed to increase the rents and renewal premiums very substantially. This caused strong opposition from the business firms and others who would have been adversely affected, as well as from manufacturers who feared that their costs would thereby be raised. After considerable negotiation, the government finally agreed to make much more moderate increases.

Despite low rates of taxation and steadily rising expenditures, Hong Kong's budget has consistently been in surplus, except for 1965-66, with the actual amounts each year generally larger than those projected. About a quarter of this accumulated surplus is usually deposited in Hong Kong banks; the remainder is invested in foreign assets, mainly sterling securities. As of April 1, 1972, these fiscal reserves held in the city-state and abroad (including also the excess foreign-asset holdings of the Exchange Fund above the 105 percent legal minimum backing for the currency) were over HK\$3.8 billion, or about equal to the total estimated budgetary expenditures for the fiscal year 1972-73. Owing to the foreign-asset losses explained in the next section, however, the accumulated surplus fell to a little over HK\$2.8 billion as of March 1, 1973, or 64 percent of estimated budgetary expenditures of HK\$4.4 billion for the fiscal year 1973-74.

Compared to its large local and foreign holdings, the city-state's public debt is small. Until 1972, it consisted of the HK\$46 million due on the Rehabilitation Loan of 1947-48 and the HK\$12 million due on a loan from the British government for the expansion and modernization of Hong Kong's airport. In 1972, the city-state obtained its first loan of US\$21.5 million from the Asian Development Bank to cover part of the cost of the giant seawater desalination plant.

The lack of significant government borrowing abroad or at home is the obverse of the fact that capital expenditures have hitherto been funded from current revenues. The government finances capital expenditures directly; through loans to public bodies, such as the Housing Authority, for construction purposes; and through loans and subventions to private organizations for building and equipping schools, hospitals and other social and community-service facilities. Hitherto, the largest projects directly funded by the government have been for water supply: the Plover Cove Reservoir and the High Island Reservoir, both involving the construction of extensive dikes to wall off large inlets of the sea that are then allowed to fill with fresh water, and the new desalination plant. The Cross-Harbor Tunnel for motor vehicles, completed in 1972, was financed by a private consortium, with the government purchasing 25 percent of the equity capital. In the next few years, the largest partly government financed capital project will be the recently approved Metro system of rapid transit, whose cost is estimated as from HK\$7 to 10 billion. The cash equity is to be subscribed by both the government and private investors, with the former providing two-thirds

(HK\$1 billion) during the early stages of construction. Suppliers' credits will be relied upon to finance the balance of the early stages. For the later stages, the Metro company will need to resort to long-term foreign and domestic borrowing, which may require a government guarantee.

Finally, it should be noted that, just as the government contributes to the cost of capital projects constructed by private organizations, so too does it receive contributions from private sources for similar use. During the four years from 1969 through 1972, such contributions received by the government totaled over HK\$48 million and were used for specified construction projects in technical education, health, recreation and other purposes explained in Chapter V.

Money and Banking

Hong Kong has no central bank and, except for its government-issued metallic coinage and small amount of one dollar notes, its currency consists of banknotes issued by three commercial banks. As of the end of 1972, 79.8 percent of the total notes in circulation was issued by the Hongkong and Shanghai Banking Corporation, 12.6 percent by the Chartered Bank, 0.8 percent by the Mercantile Bank (owned by the Hongkong and Shanghai Banking Corporation), and 6.7 percent by the government. Total notes and coins in circulation rose from HK\$984 million at the end of 1960 to HK\$3,378 million at the end of 1972.

The Exchange Fund, a government agency, regulates the note issue. Until the U.K. pound was floated in June 1972, the three banks deposited sterling with the Fund in exchange for noninterest-bearing certificates of deposit, denominated in Hong Kong dollars, which could not total less than their outstanding banknotes. The Fund invested its sterling receipts in London and used a portion of the income to cover the cost of printing the banknotes. Under the Basle Agreement of 1968 and subsequent arrangements with the United Kingdom, 89 percent of Hong Kong's official sterling assets was guaranteed against loss by devaluation of the pound. However, since sterling was floated in June 1972, the Fund has been accepting U.S. dollars and other currencies and has been diversifying its assets. The Fund is legally required to maintain a foreign-asset backing of at least 105 percent of the currency in circulation. At the beginning of 1972, the foreign-asset cover was 139 percent of the currency in circulation, due to the market-value appreciation of and the reinvested interest earned on the sterling securities held by the Fund. But, in various ways, losses resulting from subsequent changes in exchange rates and the weakening of the gilt-edged securities market in London wiped out the whole of the excess by March 1973.

In order to explain the reasons for the loss in the Exchange Fund's foreign assets, as well as in the Hong Kong government's other foreign-held assets, it is necessary to survey the changes in exchange rates affecting the Hong Kong dollar. With its value tied to that of sterling, the Hong Kong dollar was devalued in 1967 by the same proportion as sterling—14.3 percent. However, owing principally to the threatened offsetting increase by China in the prices of its low-cost food and raw material exports to Hong Kong, the city-state revalued its dollar a few days later by 10 percent, resulting in a net devaluation of only 5.7 percent. A similar situation arose in June 1972, when the United Kingdom floated the pound and its value dropped. Hong Kong then untied its dollar from sterling and, instead, denominated it in U.S. dollars at a rate of HK\$5.65 to US\$1. Hong Kong's refusal to follow sterling downward in mid-1972 reflected not only the importance of its

low-cost imports from China, as in 1967, but also its desire to avoid increasing the competitiveness of its exports and so antagonizing the United States at a time when the latter was endeavoring to reduce its deficit in merchandise trade. For the same reasons, when the U.S. dollar was floated in February 1973 and its exchange rate declined, the Hong Kong government did not devalue the HK dollar accordingly, but maintained the link at the new higher rate of HK\$5.085 to US\$1.

In effect, Hong Kong has two categories of official reserves: those held by the Exchange Fund as the legal minimum and the excess backing for the currency in circulation, and those accumulated by the Hong Kong government principally from its persisting budgetary surpluses and the reinvested income therefrom. All of the Exchange Fund's holdings and about three-quarters of the other official reserves are normally invested abroad and the remainder of the latter is usually deposited in commercial banks in Hong Kong, which in turn invest corresponding amounts of their own funds abroad. The fall of sterling security prices resulted in a decline in the total value of the sterling securities in which the Exchange Fund and other official reserves were invested. More important, the Hong Kong banks holding official reserves had been guaranteed by the Exchange Fund against any losses in terms of Hong Kong dollars of their corresponding sterling investments. This guarantee was activated by the decline of sterling after it was floated in June 1972 and the whole of the excess reserve (after compensating for the fall in the value of the foreign assets held as the legal minimum reserve) of the Exchange Fund was required to meet it. More recently, the reserves have again been increasing in value.

Hong Kong has an uncontrolled foreign-exchange market, and funds can be freely transferred into and out of the city-state by both residents and nonresidents. In consequence, along with New York, Zurich and Beirut, it is one of the world's four major foreign-exchange markets, and it is East Asia's largest financial center after Tokyo.

At the end of 1972, Hong Kong had 74 licensed banks with a total of 478 banking offices throughout the city-state, an increase of 47 offices in the course of the year. Of these banks, 30-odd are European, American, Japanese, and other foreign owned, about a dozen are owned by or are believed to be affiliated with China, and the remainder are owned by Hong Kong or overseas Chinese investors. In addition, 44 foreign banks have representative offices in Hong Kong.

Table IV-9 presents the growth of the liabilities and assets of Hong Kong's banking system. Until the end of 1971, the dramatic rise in deposits reflected and, in turn, helped to foster the extraordinary growth of Hong Kong's economy since the mid-1950s. (In the course of 1972, the figures were increasingly distorted by the runaway stock-market boom discussed at the end of this section.) Of particular interest were the increasing proportions of time and savings deposits relative to demand deposits. The fact that these interest-bearing deposits grew, despite the 15 percent withholding tax to which income on them is liable, indicates the saving propensity of Hong Kong's population, the relatively liquid position of many Hong Kong businesses and wealthy individuals, and the attractiveness of the city-state's safehaven for the overseas Chinese and other East Asians. High proportions of time and savings deposits have been especially characteristic of the Chinese-owned banks, which compete vigorously for them through advertising, prizes and other means, and thereby further encourage the propensity to save.

Hong Kong's banks are supervised by the Commissioner of Banking, by whom they are licensed and who has the power to inspect their accounts and

Table IV-9. Growth of Hong Kong's Money and Banking System, 1955-72

(HK\$ million)

Year End	Notes and Coins in Circulation	Bank Deposits		
		Demand	Time	Savings
1955	772	852	152	133
1960	984	1,393	752	537
1965	1,740	2,532	3,099	1,620
1970	2,578	4,326	6,407	4,222
1971	2,932	5,317	7,395	6,073
1972	3,378	8,500	7,807	8,306

Year End	Selected Banking Assets			
	Cash	Net Balances with Other Banks in Hong Kong and with Banks Abroad	Loans and Advances	Investments
1955	144	459	632	96
1960	136	930	1,720	166
1965	221	2,133	5,038	527
1970	356	4,895	9,670	856
1971	358	6,408	11,836	1,081
1972	466	5,189	17,726	1,550

Sources: *Hong Kong 1971*, pp. 290-291; and *Hong Kong 1973*, pp. 35, 225.

Index of Deposits End 1955 = 100				
Total	Demand	Time	Savings	Total
1,137	100	100	100	100
2,682	163	495	404	236
7,251	297	2,039	1,218	638
14,955	508	4,215	3,174	1,315
18,785	624	4,865	4,566	1,652
24,613	998	5,136	6,245	2,165

Index of Loans and Advances End 1955 = 100	Ratios	
	Liquidity (Cash and Net Balances as Percent of Deposits)	Loans, Advances and Investments as Percent of Deposits
100	53.3%	64.0%
272	39.7%	70.3%
797	32.5%	76.7%
1,530	35.1%	70.4%
1,873	36.0%	68.8%
2,805	23.0%	78.3%

records. The Commissioner may order a bank to take remedial action whenever it is deemed to be operating to the detriment of its depositors or creditors. The Commissioner also enforces the statutory liquidity requirement under which the banks must have net liquid assets—that is, cash, demand deposits and short-term call money with other banks, bills of exchange, and approved foreign-government treasury bills and gilt-edged securities—equal to 25 percent of their total deposit liabilities. Although the statutory liquidity ratio has been falling largely in consequence of the stock-market boom, it was still 46 percent at the end of 1972, well above the minimum requirement. As Table IV-9 indicates, however, the traditional liquidity ratio, defined as the proportion of cash and net balances to total deposits, fell below 25 percent in 1972.

Loans can generally be obtained by borrowers with good credit ratings on longer terms and for a wider variety of purposes than are customarily granted by commercial banks in North America and Great Britain. For example, as explained in the preceding chapter, it is not difficult for known borrowers to get three- to five-year loans for factory construction and capital equipment. Another indication of the plentifulness of capital in Hong Kong is the fact that, while loans and advances increased by about 135 percent from 1965 through 1971, net balances held abroad rose by over 200 percent. (Again, the 1972 figures are distorted by the stock-market boom.)

As elsewhere in the world, the exceptions to the generalization about the ease of obtaining loans are new or small businessmen who have not yet established their reliability as borrowers. In consequence, there was rising pressure in recent years, especially from the Chinese Manufacturers Association and other businessmen's organizations, for a government-financed small-industry loan program. In 1972, the government introduced a pilot scheme of HK\$30 million, under which firms employing 200 workers or less and with not more than HK\$600,000 of proprietors' funds would be eligible to borrow up to HK\$250,000 for the purchase of machinery and equipment. After appraisal by the Productivity Centre, the loans are made through the banking system with a guarantee from the government fund.

Table IV-10 shows the patterns of loans and advances by Hong Kong banks at the end of 1971 and of 1972. The importance of manufacturing in the lending operations of Hong Kong's banks is substantially greater than the 16.7 percent of the total indicated in the table for 1971. A good proportion of the 35.4 percent for general commercial purposes was, in fact, related to manufacturing because many of the loans in this category financed either the import of the raw materials needed by Hong Kong's industry or the export of the products it makes. Nevertheless, there has been a decline in recent years in the percentage of bank loans to the manufacturing sector, a trend that may be reversed as Hong Kong industry moves increasingly into the higher-technology activities envisaged for the future (as discussed in the last section of this chapter). The 1972 lending pattern is distorted by the rise of loans in the miscellaneous category, much of which was for stock-market speculation and investment in the booming real-estate market.

The Chinese banks tend to invest more heavily than the foreign-owned banks in consumer credit and real estate—except for large construction projects—either directly or through affiliated finance companies. Also, they play a bigger and more active role in Hong Kong's foreign-exchange market than do the others, and their commercial financing relates mostly to trade with other East and South

Asian countries, in which the overseas Chinese are important elements. In contrast, the local British and foreign-owned banks largely finance Hong Kong's trade with their home countries and regions, and they also tend to provide loans for manufacturing activities, sizable construction projects, and the needs of American, European and Japanese companies both in the city-state and elsewhere in East and South Asia.

In his 1973 Budget Speech, the Financial Secretary announced that the city-state's financial services are to be broadened by the establishment of a secondary market for commercial paper and certificates of deposit and of facilities for holding deposits and making loans in foreign currencies, that is, a so-called Asiadollar market. Both of these developments involve exemption from the tax on income from interest, which is normally withheld by the borrower and remitted to the government, and the adoption of rules and regulations for the banks and finance companies active in these new markets. As of present writing, the measures for implementing these intentions have not been announced.

After Tokyo, Hong Kong has Asia's largest capital market. Seven stock exchanges are registered to operate in the city-state and four are active. This multiplicity results both from the rivalries among different groups of businessmen and from the opportunities for profit in stock trading that developed in recent years as the stock-market boom depicted in Table IV-11 gained momentum.

Table IV-10. Bank Loans and Advances

Activity	As of December 31, 1971		As of December 31, 1972	
	Value (HK\$ million)	Percent of Total	Value (HK\$ million)	Percent of Total
Manufacturing	1,979	16.7	2,233	12.6
Textiles	765		786	
Clothing and footwear	315		424	
Electrical and electronic	213		269	
Metal products & engineering	161		191	
Rubber, plastics & chemicals	159		156	
Printing & publishing	61		61	
Food	43		36	
Shipbuilding & repair	36		50	
Beverages and tobacco	28		43	
Miscellaneous	197		218	
Agriculture and Fisheries	5	—	8	—
Transport and Equipment	1,439	12.2	2,063	11.6
Electricity, Gas and Telephone	144	1.2	197	1.1
Building and Construction	723	6.1	1,090	6.2
General Commerce	4,189	35.4	5,110	28.8
Import, export & wholesale	3,961		4,770	
Retail	228		340	
Mining and Quarrying	1	—	16	0.1
Miscellaneous	3,356	28.4	7,010	39.5
Hotels & restaurants	102		230	
Financial concerns	535		1,259	
Stockbrokers	249		736	
Professional & private individuals	1,862		3,746	
All others	608		1,039	
Total	11,836	100.0	17,726	100.0

Source: *Hong Kong Monthly Digest of Statistics*, March 1973, p. 43.

Table IV-11. Hong Kong's Stock-Market Boom

Year/Month	Total Turnover (HK\$ million)	Hang Seng Index of Share Prices (July 31, 1964 = 100)
		At end of month
1969	2,546	130*
1970	5,989	187*
1971	14,793	282*
1972	43,758	489*
1972 March	1,525	355
June	3,987	440
September	2,709	497
December	6,255	843
1973 January	9,433	972
February	9,701	1,626
March	9,391	1,301
April	2,986	735
May	3,819	764

*Monthly average.

Sources: *Hong Kong Monthly Digest of Statistics*, March 1973, p. 46; and May 1973, p. 46.

Until mid-1971, the rise in share prices and trading volume largely reflected the rapid economic growth of the city-state and its favorable prospects. Thereafter, however, the upward movement increasingly acquired the characteristics of a runaway speculative boom. Along with big investors and speculators, more and more small businessmen, salaried employees and workers entered the market. Capital was transferred from some small and medium enterprises, savings drawn upon, and bank loans pyramided on rising share prices to finance speculative stock purchases. The number of stockbrokers multiplied, and so did the credit extended to them by the banks. During 1972, new stock issues proliferated as many companies owned by individuals, families and small groups sold portions of their equity to the public. During the first quarter of 1973, when the boom peaked, most share prices bore little, if any, reasonable relationship to earnings or asset values. Then, prices declined drastically.

In accordance with its market-oriented philosophy, the government did not attempt to suppress the speculative boom but only to restrain its exuberance and to discourage frauds. At the beginning of 1973, a Securities Commissioner and a Securities Advisory Council were appointed to devise and administer more stringent regulations governing new issues and share trading. The government also asked the banks to restrain their lending to financial institutions, stockbrokers and individual speculators.

At present writing, the boom appears to be over but it is impossible to say how far the decline will go, and how serious the adverse effects will be. On the one hand, the boom has certainly enhanced Hong Kong's status as a major capital market, increased the number and variety of traded securities, and improved the capabilities of the city-state's institutions to provide sophisticated financial services. On the other hand, it has diverted capital and savings into speculative activities, and a continuing decline in share prices will cause hardship for increasing

numbers of small speculators, whose life savings are wiped out and who may be saddled with debts requiring years of sacrifice to pay off.

The Macro-Adjustment Process

Hong Kong's economy is almost completely dependent upon foreign trade and its monetary system is based upon the accumulation of foreign assets. In these circumstances, the scope for an independent macroeconomic-management policy is much smaller than in countries where these two characteristics do not exist. Moreover, the Hong Kong government has held to the view that the self-equilibrating mechanisms inherent in the city-state's free-market economy provide more effective means for advancing Hong Kong's welfare under expansionary conditions and for minimizing the damage to it under recessionary conditions than would efforts at active macro management. This is the main reason why the Hong Kong government has hitherto refused to equip itself with those instrumentalities for macro management that are exercised in other countries by central banks or equivalent agencies. With one minor exception noted below, the Hong Kong government has not attempted to intervene in the macro-adjustment process which, in consequence, is very largely determined by the interactions of external and internal market forces.

How does the macro-adjustment process operate in the Hong Kong economy? The money supply—essentially currency in circulation and demand deposits—mainly depends on the city-state's net balance-of-payments position. Exports of goods and services and capital inflows generate foreign-exchange earnings, which can be exchanged by or through the three banknote-issuing banks for Hong Kong dollars, thereby increasing the demand deposits that serve as the basis for multiple credit extension. This gross increase in the money supply is offset by outpayments for imports of goods and services and capital outflows, which reduce demand deposits and increase the banks' need for foreign exchange. In Hong Kong, the most volatile variable is the movement of short-term capital, which flows abroad when the banks are reluctant to lend to domestic borrowers or the latter's demand for credit is insufficient, and flows into the city-state when the converse conditions exist or when foreigners move funds into Hong Kong for higher earnings or greater security. Although the total volume of short-term capital invested abroad has grown, the annual outflow is apparently more than offset by the inflow of short- and long-term funds and the positive items in the current-account balance, as explained in an earlier section. Thus, the net balance of payments has generally been in surplus and there has been a continuing net increase in the currency in circulation and in demand deposits.

The money supply is also influenced by purely internal activities. But, except temporarily as during the stock-market boom, the state of the domestic economy is dependent, directly and indirectly, upon Hong Kong's external trade. Hence, it is not an independent variable; it, too, tends to expand and contract as exports and imports of goods, services and capital increase or decrease.³

³Hong Kong is one of the last remaining examples on the planet of what economists call the specie-flow adjustment mechanism. In Hong Kong, it operates to maintain full employment and real income under all conditions of world trade thanks to the city-state's high mobility of productive resources but provided increased restrictionism in its major importing markets does not affect its terms of trade too adversely.

Nor is the government budget nearly as important in an economy like Hong Kong's as it is in countries much less dependent on foreign trade and with fiduciary currency systems and a monetized national debt. For, in the Hong Kong economy, a budgetary deficit would simply represent a transfer of resources from the private sector to the public sector if it were financed by internal borrowing.⁴ Only if it were financed by external borrowing or by the return of funds held abroad by Hong Kong residents would it constitute a net addition of demand to the economy. Conversely, if a budgetary surplus were to be deposited by the government in Hong Kong banks, it would not reduce demand (unless these funds were sterilized). A budgetary surplus would have this effect only to the extent that it were invested abroad. And, in fact, this has so far been the only exception to the government's passive macro-management policy. In most years, Hong Kong's budget has been planned to yield a surplus and these funds—usually larger than anticipated—have been invested abroad, thereby serving as a mild restraint on economic expansion, as well as a reserve against adverse contingencies.

In addition, there are other means—in most countries usually applied by central banks or equivalent institutions—by which the government could influence the effective money supply. A mandatory cash reserve could be required of the commercial banks and finance companies, and its size could be increased or decreased depending on how the government wished to influence their lending. However, the Hong Kong government has refrained from imposing a specific cash-reserve requirement within the mandatory 25 percent official liquidity ratio. The government does not offer a rediscount facility by which interest rates could be influenced. In the absence of significant internal official borrowing, the government does not engage in "open-market" operations or in other ways affect the amounts of government securities held by the banks and other financial institutions and hence the volume of their lending to the private sector. Finally, the government does not encourage or discourage banks and business firms from investing abroad or repatriating funds but leaves such capital movements to be determined by market forces.

So far, Hong Kong's macro-adjustment process has operated only in external and internal conditions conducive to the city-state's economic growth. How would it behave under the opposite conditions? There are essentially two kinds of possible variables that would reverse the nature of the conditions hitherto prevailing. The first type would consist of developments in the world economy wholly or largely beyond Hong Kong's control, such as a serious recession in world trade, especially if accompanied by severe protectionist policies in its major foreign markets. The second type would be possible developments inside the city-state that would lead to a decline in the competitiveness of its exports in world markets, such as disproportionate increases in its costs and prices or inadequate adaptation to changing market demands. Both kinds of adverse changes would contract the money supply and substantially reduce employment and incomes both directly and indirectly. True, imports would decline along with the fall in exports as less raw materials, components, fuels, and capital equipment would have to be bought abroad. But, the elasticity of demand is not the same for all types of imports—the need for food and certain other products would not decline

⁴Of course, such transfers could affect the relationships between saving and consumption. However, as explained below, the scope for expansionary Keynesian policies to counteract growing unemployment is quite small because increases in capital investment and consumption are soon reflected in increased imports. Any resulting balance-of-payments deficit would have an offsetting effect on the money supply.

as much as for manufacturing inputs. Also, in a world recession or if Hong Kong's costs and prices rose disproportionately to those of its competitors, tourism and long-term investment in the city-state would fall. These changes would contribute to a deficit in the net balance-of-payments position, thereby leading to a contraction of demand deposits and of the money supply.

In such recessionary conditions, however, the self-equilibrating mechanisms of Hong Kong's macro-adjustment process would operate to minimize the decline of income and employment and to hasten the recovery. With growing unemployment and idle production facilities, costs and prices would tend to drop. If the increased unemployment of labor and capital resulted primarily from a loss of competitiveness of Hong Kong's products, falling costs and prices would help to restore the city-state's export capabilities. Indeed, even if Hong Kong's plight resulted from a world trade recession, the reduction of its costs and prices might be large and rapid enough to keep its exports from declining as much or as fast as those of its competitors. The reasons are the very high mobility of capital and labor in Hong Kong and the fact that its wages and prices are not likely to be as inflexible on the down side as they are in North America and Western Europe, and even in Japan and some of Hong Kong's other Asian competitors where market forces do not operate as freely. Nonetheless, despite these offsetting factors, Hong Kong's people would suffer losses of employment and real incomes if its terms of trade were adversely affected by increased barriers to its exports imposed by importing countries during a world economic recession or at other times.

The high mobility of productive resources within the Hong Kong economy is the essential private complement to the government's passive macro-management policy in making the self-equilibrating mechanisms of the macro-adjustment process effective not only under the as yet hypothetical circumstances of recession but also under the expansionary conditions that have hitherto prevailed. As Hong Kong's comparative advantage or market opportunity for specific products declines or disappears and new possibilities arise, both capital and labor flow quite readily out of the former and into the latter. For one thing, inefficient enterprises and obsolete industries are not maintained in Hong Kong by tariffs and quotas, export subsidies, tax concessions, or other devices. For another, there are positive factors encouraging resource shifts to more promising existing and new activities. Hong Kong's industries are light manufacturing operations, which do not require massive capital investment—even though many of them are becoming more capital intensive—and credit has been readily available to help with the purchase of new machinery. Hence, it has often been possible for entrepreneurs to sell the equipment for making products no longer in demand and to use the proceeds for the down payments on machinery for producing a new or improved export, with the rest of the purchase price financed by a bank loan. And, until now, the technology for new activities has been neither too difficult nor too time consuming for them to master. Hong Kong's entrepreneurs have not been held back by fear of risk taking, lack of self-confidence, unwillingness to innovate, or indolence. Hong Kong workers, too, have been eager to change jobs in response to even small wage differentials and improvements in working conditions and fringe benefits, and they are quite willing to learn new technologies and methods.

The factors that have made resources so mobile under expansionary conditions, and thereby contributed importantly to sustain growth, are also likely to keep them sufficiently mobile under world recessionary conditions to prevent

large-scale, continuing unemployment and loss of real income in the city-state (provided importing countries do not impose substantially greater trade barriers in the course of the recession). In accordance with the traditional Chinese attitudes analyzed in Chapter II, entrepreneurs tend to accept stoically the adverse consequences of their own deficiencies, as well as those of unfavorable changes in economic conditions, and to seek doggedly and ingeniously to restore their fortunes. Similar attitudes characterize workers who lose their jobs. Both groups naturally seek government help in overcoming their difficulties, as well as in advancing their interests. Yet, unlike in many other societies, they do not regard the state as having the paramount responsibility for initiating remedial actions and providing the necessary ideas and resources, nor do they lose heart when the government does not behave in this manner. True, the influence of Western values and attitudes and the modern characteristics of Hong Kong's economy have undoubtedly weakened the power of these traditional attitudes. But, as yet, they are not basically impaired.

Nor, despite its largely passive macro-management policy to date, would Hong Kong's government be likely to be indifferent or inactive in the event of serious unemployment of labor and facilities. Nevertheless, the city-state's very high dependence on foreign trade and its foreign-asset monetary system impose much narrower limits on the counterrecessionary measures that could be taken under any form of government compared with those available in relatively more self-sufficient economies. One immediate and obvious step would certainly be the use of the accumulated official reserves to maintain government expenditures despite falling revenues—a contingency that the government has always said is the main justification for budgetary surpluses in periods of growth. Some of the funds transferred from abroad would undoubtedly be spent to assist the unemployed through public works, cash and commodity payments, and the stimulation of private economic activities in the domestic economy that would have a low marginal elasticity of import demand, directly and indirectly. Otherwise, in the face of declining exports, tourism and private capital inflows, the expansion of internal demand would increase imports and produce a net balance-of-payments deficit, and the resulting contraction of the money supply would offset all or much of the expansionary effect of larger internal government spending.

How effective such measures would be in minimizing Hong Kong's suffering would largely depend upon how restrictive world trade became during the recession and how long it lasted. So far in the decades since World War II, none of the recessions has been drastic enough or sufficiently prolonged to result in an absolute annual decline in the level of world trade—they have merely reduced its rate of growth—and in much greater restrictionism. The chances are that a really severe world economic depression would not be provoked simply by cyclical swings aggravated by economic ignorance or mismanagement. Rather, such a development is more likely to eventuate from intensification of the tendencies toward economic nationalism and protectionism that have become evident in the last few years. However, long before they led to a serious world trade recession, these restrictive developments could have adverse effects on Hong Kong's economy. Similarly, internal changes in the city-state affecting the competitiveness of its exports also are more probable threats to its future well-being than is a world trade recession *per se*. These possibilities and the steps being taken by Hong Kong's government and private sector to ward them off are discussed in the next two sections.

Protectionist Threats to Hong Kong's Exports

Since the start of Hong Kong's industrial development in the early postwar years, the need to deal with restrictions of one kind or another affecting the city-state's manufactured exports to major importing countries has gradually become more pressing.

As noted in the preceding chapter, import quotas had to be obtained at the very beginning from the United Kingdom, owing to the rigid controls imposed to cope with Britain's immediate postwar balance-of-payments difficulties. And, even when these restrictions were lifted in the mid-1950s, Hong Kong's textile exports were soon subjected to new quotas, despite their eligibility for Commonwealth tariff preferences, in consequence of pressure from the United Kingdom's own textile producers. These restrictions have persisted ever since. Indeed, they were reinforced at the beginning of 1972 by the U.K.'s application of tariffs, as well as quotas, to certain textile and clothing imports from Hong Kong, and again at the beginning of 1973 when Britain became a member of the European Community.

This experience was repeated in one form or another as Hong Kong's other major export markets for textiles were developed in the late 1950s and 1960s. The United States insisted on negotiating agreements covering cotton textiles (1961) and woolen and man-made textiles (1971) that are implemented by bilateral arrangements with each exporting nation, including Hong Kong, under which it imposes "voluntary" restraints on its exports of these products to the United States. The European Community, other European countries, Canada, and Australia have their own restrictions on textile and clothing imports from Hong Kong and other exporting countries. Although in some cases the volume or value of permitted imports from Hong Kong is fixed, in others provision is made for gradual growth, albeit small. This feature is embodied in the arrangements with the United States, which allow a 5 percent yearly growth rate for cotton goods, 1 percent for woolen goods, and 7 or 7.5 percent for goods of man-made fibers depending on the item.

Although textiles and clothing are by far the most important of Hong Kong's exports affected by trade restrictions, other manufactured products also face limitations of various kinds. For example, stainless steel flatware imports are subjected to tariff quotas in the United States that effectively limit the quantities that Hong Kong and others can sell there. In addition to the tariff, quota or tariff-quota restrictions maintained by the United States and other developed countries, all of these nations—especially Japan—have a wide variety of so-called nontariff barriers and discriminatory practices that to a greater or lesser extent affect the ability of Hong Kong and others to export to them. At the same time, many developing countries in Asia, Africa and Latin America that are potential markets for Hong Kong goods have substantial tariffs and quantitative restrictions designed to protect their own domestic industries or to ease their balance-of-payments problems.

Because of their importance as markets for Hong Kong's exports, most attention is usually devoted to American and European restrictions. However, Japanese protectionism has hitherto severely limited the growth of imports from the city-state and could well become a more serious deterrent to Hong Kong's foreign trade in the future. Japanese restrictions are manifested much less in explicit tariffs and quotas and much more in nontariff barriers of various kinds and in

deliberate discrimination by importers in favor of products manufactured in foreign plants wholly or partly owned by Japanese companies. Despite these practices, Hong Kong's low- and medium-priced consumer goods have already begun to penetrate the Japanese market, and these exports could undoubtedly increase substantially if Japanese restrictions were relaxed or abolished. Such a development would also reduce Hong Kong's very large trade deficit with Japan. Conversely, continued Japanese restrictions and discrimination could have increasingly adverse consequences for Hong Kong in the future. Because of full employment, the city-state has not been attracting as much Japanese industrial investment as South Korea, Taiwan, Thailand, Malaysia, and Indonesia, where labor is plentiful. Persistent Japanese discrimination in favor of imports from Japanese-owned factories in the latter countries would not only debar Hong Kong from a promising market but might also permit such plants to achieve economies of scale that could enable them to displace Hong Kong's exports to other markets.

To what extent Hong Kong will benefit from the tariff concessions available to developing nations under the scheme for generalized one-way preferences remains to be seen. Under this arrangement, lower tariff rates are imposed by the developed nations on the manufactured exports of the developing countries, while the latter do not have to make reciprocal concessions. So far, measures to implement the scheme have been adopted by the members of the European Community and Japan; the major importing nation that has not yet put the arrangement into effect is the United States. However, the former countries have limited the scope of the preferential rates by means of quota and tariff-quota safeguards designed to protect their domestic producers. More important from Hong Kong's point of view is the fact that the European Community and Japan do not accord the city-state as favorable treatment under the generalized preference scheme as they do other developing countries.

For the foreseeable future, the probability is greater that trade restrictions and limitations of various kinds will increase than that they will be substantially reduced or abolished. As explained in Chapter I, two related trends have become manifest in recent years that are fostering such a development: the rising economic nationalism that reflects the predominant concern in all of the developed countries with domestic welfare goals in the broadest sense of the term, and the movement toward tripolarization of the noncommunist world economy. The resulting increased protectionism and discriminatory arrangements would lead to adverse changes in Hong Kong's terms of trade, the one external development conducive to unemployment and declining income that could not be adequately counteracted by the high mobility of resources within the city-state. Moreover, any attempt by Hong Kong to retaliate or to use preferential access to its own market as leverage to obtain similar benefits in other countries would mean abrogation of its free-trade policy—a step that would sooner or later reduce resource mobility and raise costs and prices. Nor since the United Kingdom joined the European Community does the city-state any longer have a powerful protector with sufficient freedom to act as effectively on its behalf as in the past.

In any event, the conditions under which Hong Kong will have to seek to expand its trade are likely to be more rigorous, competitive and uncertain than those with which it has coped since the mid-1950s. These trends and possibilities mean that Hong Kong will have to devote even more attention in the future than it has in the past to maintaining its cost and price advantages, to diversifying

products and markets, to intensifying selling efforts, and to preserving the mobility of capital and labor. Greater productivity, willingness to innovate, adaptability, and ingenuity will be required. Hitherto, Hong Kong's performance in these respects has been outstanding. Will it continue to be so in the future?

Productivity and Competitiveness

Although proper statistical series on productivity have not yet been published, a very rough indication can be obtained by using the new GDP estimates and the size of the total labor force derived from the by-census of 1966 and the census of 1971. According to this calculation, output per worker rose from HK\$7,777 in 1966 to HK\$12,381 in 1971 at market prices, or at an average annual rate of 9.7 percent. In real terms, this rate would be lower, possibly around half.

As explained in the first section of this chapter, much of the growth of Hong Kong's productivity results from its high rate of capital formation, which—except for 1968 and 1969—ranged from 20 to 25 percent of GDP from 1966 to 1972. The large volume of capital investment was not only for capital broadening, that is, the establishment of new enterprises, but also for capital deepening, that is, the increase in the intensity of capital, or of capital employed per worker. Two interrelated factors contributed importantly to the capital-deepening process.

The first is the city-state's persisting tight labor situation, which has been conducive to increased mechanization and automation even in labor-intensive industries and services. However, this could be significantly mitigated in the coming years. Because of the high birth rate of the 1950s and early 1960s, substantial numbers of young people will be entering the economically active portion of the population. The Census and Statistics Department estimates that the number of people over the age of 15 in 1976 will be over half a million larger than that recorded in the 1971 census. Assuming continuation of the labor participation rate of 64 percent, this would add well over 300,000 people to the labor force. Thus, labor shortages could be eased and the upward pressure on wages and related costs reduced. Indeed, until the industrial and service sectors of the economy expanded sufficiently, Hong Kong could again face periods of temporary unemployment in the next few years.

The second factor conducive to capital deepening is the effect of both increased competition and growing restrictionism in Hong Kong's export markets. As explained in Chapter III, these pressures have been largely responsible for the steady upgrading of the city-state's manufactures into higher-quality, higher-priced products in textiles, clothing, plastic goods, electronic and electrical goods, and others. They have also led to recurrent investment in successively newer and more efficient machinery and equipment so as to compensate for the city-state's rising wage and other costs. Thereby, Hong Kong's manufacturers have been able to meet the competition of newer, lower-wage producers in other East Asian countries and to sell their products at low enough prices to offset the tariffs in several of their export markets.

The complete openness of the city-state's economy has made it inevitable that Hong Kong would feel the effects of the worldwide upsurge in inflation during 1972 and early 1973. On the one hand, rapidly rising prices in its major markets not only help the city-state's exporters to meet the competition of other low-cost producers and surmount tariff barriers but also enable Hong Kong manufacturers to maintain—in some cases to increase—their rate of profit despite their

own higher costs. On the other hand, world inflation has accelerated price rises within the city-state. With 1964 as the base, Hong Kong's general consumer price index rose to a monthly average of 118.1 in 1969 and further to 130.8 in 1971. But, by May 1973, it reached 157, and the impact of price increases has undoubtedly been greater than this number indicates as the weighting of the index is out of date.

In large measure, rapidly rising prices in the city-state reflect the increased cost of imports of food, consumer goods and raw materials from China, as well as from other sources. Since the easing of its political and economic relations with the United States, Japan, the West European nations, and other countries, China has naturally been bringing its export prices more into line with those in the world economy, and it recently raised the exchange rate of its currency. Hence, Hong Kong no longer has the benefit of the unusually low prices it paid for imports from China in the past. Sky-rocketing rents for office space and privately owned housing, especially for middle- and upper-income groups, have also been important manifestations of inflation within the city-state. However, the adverse effect of rent increases on manufacturing costs has not been great because factory rents have not risen nearly as much as residential and office rents due in large part to the numerous flatted factories constructed by the government in recent years. Also, the 46 percent of Hong Kong's population living in low-cost government or government-assisted housing has experienced only some moderate rent increases, as explained in Chapter V.

Hitherto, despite full employment and rising wage rates and other costs, Hong Kong's productivity has grown rapidly enough and its mobility of resources has remained high enough for it to continue to achieve steady increases in manufactured exports and hence in its overall economic growth. Moreover, the city-state's increasing costs and prices should not be viewed in isolation but in relation to those in its major markets and to those of its leading competitors, both of which have also been experiencing more or less severe inflationary pressures. Although comparative data on production costs and export prices for Hong Kong and its main competitors are lacking, it is safe to conclude that, had the city-state been noncompetitive in these respects, its exports would have suffered accordingly. True, the rate of increase of exports has not been as great in the last two years as in those preceding. But, the base on which the percentage is computed is now very much bigger than it was 5 or 10 years ago, and maintenance of the same rate of growth would necessitate increasingly large annual increments—in other words, an even more spectacularly improved export performance.

Diversification and the Longer-Term Economic Prospect

As shown in Table IV-5, 50.3 percent of Hong Kong's exports of domestic manufactures in 1972 consisted of textiles and clothing, a proportion only slightly less than the 54.5 percent of 1960. Moreover, nearly 80 percent of the city-state's 1972 exports went to nine countries, compared with 62 percent in 1960. Of total exports in 1972, 64.6 percent went to three countries alone—the United States, the United Kingdom and Germany. This heavy concentration on certain products and markets, on the one hand, reflects Hong Kong's continuing success in realizing its comparative advantages and, on the other, the city-state's potential vulnerability to adverse changes beyond its control. Both the competition of newly industrializing countries and the discriminatory and protective

trends in the developed nations combine to make product and market diversification an increasingly urgent goal for Hong Kong. At the same time, the possibilities open to Hong Kong for developing a broader and more varied range of more capital-intensive intermediate and finished consumer and capital goods are already numerous, and they increase each year as technology advances and world demand evolves. There can be no doubt about the awareness of the government and of the leaders of the private sector as to the required pattern and pace of development. The frequent repetition of the desirability of "treading on Japan's heels" and the often-expressed concern about protectionism in the city-state's existing major markets are indicative of their recognition of this need. The question is: will Hong Kong be able to take advantage of these proliferating opportunities to a sufficient degree?

One important impediment to diversification into technologically more advanced industries is the fact that the great majority of Hong Kong's companies are still transitional family firms. As explained in Chapter II, this form of business organization has advantages for the development of *indigenous enterprise* during the early stages of economic modernization in transitional societies as compared with the impersonal, monofunctional, professionalized Western corporate form. The family firm can more readily provide on the management side the strongly personalized profit incentive, the centralized decision making, and the vigilance in detecting inefficiency and waste, and on the workers' side the multifaceted relationships and satisfactions that, to each, are economically necessary and psychologically expected in these societies. However, if Hong Kong's industries are to develop beyond the use of relatively simple, labor-intensive technologies, they will have to move from family-type firms to more complex forms of business organization, in which responsibility can be effectively delegated and adequate income and status incentives given to professionally trained managers and technicians unrelated to the owners. For, the family firm is deficient in precisely those middle levels of management essential for decentralized initiative and decision making in increasingly complex organizations, and in the engineering and other technical personnel who alone can design more advanced and higher-quality products and efficiently operate more complicated production processes. In recent years, market pressures and opportunities have been impelling the larger Hong Kong companies—especially those that have been establishing subsidiaries in Singapore, Taiwan, South Korea, and other East Asian countries—to hire increasing numbers of professionally trained managers and technicians, to delegate greater responsibilities to them, and to allow them to share in policy making and even ownership. Such developments need also to become widespread among the city-state's other Chinese firms in the years to come.

Even though Hong Kong's business organizations become more complex, professionalized and technically versatile, however, there are limits to the technological sophistication of the new products they will be able to develop. For, the great science-based industries—chemicals, basic electronics, aerospace, etc.—requiring massive research and development are likely to be beyond the city-state's capabilities for the foreseeable future unless brought to it by the big American, European and Japanese multinational companies. Nevertheless, there are many less demanding but technologically more advanced products and services into which Hong Kong's indigenous firms could diversify in the foreseeable future. Granted the necessary improvements in their organization, staffing and technical capabilities, there is a reasonable probability that an increasing number of

the city-state's Chinese producers will be able to make the admittedly difficult transition into more diversified and higher-technology manufacturing. Unlike the indigenous enterprises in other developing countries, Hong Kong's larger business firms already have a demonstrated capability for dynamic innovation and aggressive exporting. They have long experience—half a century or more in the case of some Shanghainese companies—of repeated adaptations of their manufacturing activities to changing world market conditions. They already have or know how to develop the merchandising and marketing relationships required to export an increasing diversity of products. Capital and credit are readily available in the city-state. Some of Hong Kong's Chinese business leaders by now have the reputations and the connections in the United States, Western Europe and Japan necessary to obtain licenses to use more sophisticated technologies. Finally, if the city-state presses ahead vigorously with the development of the new Polytechnic and its secondary technical and vocational institutes, it should have the engineers, technicians and skilled workers needed to design and manufacture the new products.

Both the government and the leaders of the private sector recognize Hong Kong's needs and capabilities for moving into the production of an increasingly diversified range of more sophisticated exports. They have been coordinating their efforts to overcome the city-state's deficiencies primarily through several official, quasi-official and private organizations. These endeavor to provide the funds and ideas, the technical knowledge and assistance, and the laboratory and training facilities needed to broaden the horizons and raise the managerial capabilities of Hong Kong's entrepreneurs, to expand the city-state's ability to design and manufacture more diverse and sophisticated products, and to improve its capacity for opening up new foreign markets.

The oldest organization of this type—one that has played an important part in the formation of the others—is the Federation of Hong Kong Industries. Established by ordinance in 1960, the Federation's membership, as its name implies, embraces most of the chambers of commerce and trade associations in the different branches of industry, as well as individual enterprises. Its officers and directors are leading Chinese and other members of Hong Kong's business and professional community, and it is supported by both a government subvention and private contributions. Since its inception, the Federation has played a unique role in educating the government and the private sector to the prospective problems and needs of Hong Kong's economy, in planning new public and private policies and programs for dealing with them, and in pressuring officials and businessmen to carry out necessary implementation measures. To help achieve its objectives, the Federation has organized several independent but related private institutions, such as the Hong Kong Management Association, the Hong Kong Shippers Council, the Industrial Design Council and Centre, and the Sir Sik-nin Chau Foundation for Industrial Development, named in honor of the Federation's dedicated and forward-looking first Chairman. In the last few years, the Federation has been stressing the need for technological advancement and improved quality of products. As explained by Susan Yuen—an executive of the Federation and one of the city-state's most dynamic and far-sighted modernizers—"Hong Kong has hitherto been selling its productive capacity; now we must also sell our design and technical capabilities." To that end, the Federation has been pressuring the government and the private sector to expand and upgrade the city-state's facilities for technical education and training and for research and development. In addition to these

innovative and developmental activities, the Federation carries on various functions for the business community generally, such as devising product standards, providing testing services and technical assistance in product design and packaging, channeling trade inquiries, facilitating joint ventures between Hong Kong and foreign business firms, and organizing overseas trade and technical study missions.

Unlike the Federation, whose officers and staff are private persons, the other organizations formed in recent years to foster Hong Kong's productivity, competitiveness and diversification have mixed public and private governing bodies, their staffs are civil servants, and they are supported by public funds. Three are of particular importance: the Trade Development Council and the Export Credit Insurance Corporation founded in 1966, and the Productivity Council and Centre set up in 1967.

With offices in 15 major cities throughout the world in 1972, the Trade Development Council carries on a very vigorous and imaginative program to publicize Hong Kong's products and its export manufacturing potentials. Among other activities, the Council arranges for Hong Kong's producers to participate in international trade fairs and exhibitions, conducts overseas market surveys, sponsors special promotions in department stores and other retail establishments abroad, organizes trade missions to and from Hong Kong, and publishes and widely distributes in other countries quality magazines devoted to the city-state's major export products and informational brochures on Hong Kong and its economic development prospects. The Council has taken the lead in fostering world recognition of Hong Kong's growing capabilities for designing and producing more technologically advanced products, and as a source of high-quality and high-fashion goods.

The Export Credit Insurance Corporation was established to enable Hong Kong exporters to offer credit terms comparable to those of its major competitors. The Corporation does so by providing insurance to Hong Kong enterprises against the failure of their overseas customers to meet commercial credit obligations in consequence of insolvency, unduly long delays in payments, and economic or political developments beyond their control. The Corporation's maximum authorized liability at any one time is HK\$1 billion. Since its inception in 1966, it has insured exports of over HK\$4 billion.

Under the general direction of the Productivity Council, the Productivity Centre carries on research, technical assistance and training designed to improve the efficiency and upgrade the capabilities of Hong Kong's entrepreneurs, managers, technicians, and workers. A growing staff that numbered more than 60 people at the end of 1971 had by early 1972 conducted courses and workshops on various aspects of productivity for more than 7,000 participants, and had undertaken a variety of studies and surveys, both in Hong Kong and abroad, on specific industry and technical problems. It is anticipated that the Centre's activities will continue to expand.

In addition to these newer organizations, the long established chambers of commerce and trade associations in the different branches of industry, trade and finance also carry on activities that contribute to Hong Kong's productivity, competitiveness and diversification. Of particular significance is the work of the Chinese Manufacturers' Association in seeking to promote exports, improve marketing techniques, and develop home demand for Hong Kong's manufactured goods through its popular annual fair and in other ways. The latter objective attests to the fact that, as Hong Kong's people have become more prosperous,

they provide a growing market for many of the consumer products that the city-state manufactures for sale in the high-income countries of North America and Western Europe.

In sum, over the foreseeable future, markets abroad are likely to become more restrictive and more difficult to develop than in the past, and Hong Kong's trading rivals are likely to provide it with more extensive and rigorous competition than they have before. Yet, for reasons explained in this and the next two chapters, the probability is considerably greater that Hong Kong will be able to meet these challenges with reasonable success than that it will not. For, in Hong Kong, the macro-adjustment process can operate more freely to assist in achieving this end than anywhere else in the world. At the same time, both the government and the leaders of the private sector are alert to the prospective dangers and opportunities. They are already undertaking measures intended to foster productivity and diversification without significantly impairing entrepreneurial incentives, reducing the mobility of resources, or interfering with the beneficial constraints of market forces. They are also aware not only of the social costs of a freely operating macro-adjustment process and of the need to cushion or offset them, but also of the absolute necessity of assuring that a substantial share of the fruits of economic growth continue, as in recent years, to accrue to Hong Kong's people generally. These considerations encourage an optimistic view of the city-state's economic prospects despite the clouds looming on the international economic horizon. And, if these clouds were to dissipate, Hong Kong's economic future would, of course, be even brighter. Hence, as explained in Chapter VI, we believe that the major uncertainty regarding Hong Kong's future is political, not economic.

V.

The Fruits of Economic Growth

It is a truism of contemporary social policy that economic growth is not an end in itself but only a means to expanding and improving the satisfactions that a society can provide to its members. And, it is a cliché of contemporary social criticism that, in pursuing economic growth, societies far too often come to regard it as the preferred objective and postpone or neglect providing their people with the benefits it could bring. Yet, there are no simple tests for determining when and how it would be desirable and prudent to give a higher priority to improving living standards or distributing income more equitably than to fostering economic growth. Nor, even if there were, would it be easy to bring about the requisite reallocations of resources in the face of the competing interest groups and the conflicting values and attitudes inevitably involved.

Arguments over these issues arose in Hong Kong in the course of the 1960s, stimulated both by the city-state's rapid economic growth and by the riots in 1966 and 1967 described in the next chapter. On the one side, the government was giving highest priority to its two overriding concerns: maintaining free-market conditions conducive to self-sustaining economic growth through manufacturing for export to competitive world markets, and accumulating sufficient reserves to meet possible external contingencies that could have a severely adverse effect on Hong Kong's economy. On the other side, the critics were insisting that resources were already large enough to allocate much greater amounts to improving popular welfare without endangering the city-state's well-being. And, even as the argument intensified in the late 1960s, Hong Kong's people were reaping at an accelerated rate the fruits of their 20 years of hard work, abstinence and thrift. For, although their condition steadily improved even during the 1950s and the first half of the 1960s, their benefits have been more dramatically broadened and increased during the past five or six years.

In large part, the austerity of the earlier period and the rapidly rising living standards of recent years reflect the situational constraints on the government's policies. From the outset, it had both the actual burden and the potential advantage of the enormous influx of refugees in the immediate postwar years. At all times, it recognized the imperative necessity of keeping Hong Kong's newly developing manufactured exports competitive in foreign markets, and the importance of attracting to and keeping in the city-state the capital investment, technical knowledge and marketing capabilities required for economic growth and efficiency. Guided by the preference of its Chinese subjects for and its own commitment to private enterprise and market determination, the government sought to meet these requirements in part by keeping taxes low, which meant that its expenditures would also have to be restricted. Hence, with respect to housing, medical care, education, public assistance to the needy, recreation, and other forms of popular welfare, the government did as much as revenues permitted rather than the maximum that would have been possible, at least for a time, under a policy of higher taxes and public borrowing at home and abroad. Despite

criticism, the government stuck to this approach and, by the late 1960s, continued economic growth yielded much more ample resources for raising welfare and related expenditures. Also, in 1966, a modest increase was made in the standard rate of tax from 12 1/2 percent to 15 percent. In 1972, the government felt that resources were large enough for it to announce major new goals for housing, education, medical care, public assistance to the needy, and other aspects of social welfare.

There is no way after the fact of definitively settling the question of whether this approach was justified or whether, a decade earlier, a different way of managing economic growth and the stability of the economy would have permitted much higher taxes, large internal and external borrowing, and greater welfare expenditures without impairing Hong Kong's dynamism, efficiency and competitiveness. Further discussion of this issue is reserved for the next chapter where the government's role as a whole is assessed. This chapter describes what has been accomplished for the welfare of Hong Kong's people by the policy actually followed by the government.

Living Standards

In the absence of the required statistics, it is not possible to give a comprehensive and systematic account of the growth of real income, of its changing distribution among different groups in the population, and of the levels of living thereby made possible. The only directly relevant statistical series published by the Hong Kong government are contained in the new GDP estimates for 1966-71 and in the index of average real daily wages for industrial workers available since 1964.

Private consumption expenditure at market prices by Hong Kong residents grew from HK\$8,869 million in 1966 to HK\$14,723 million in 1971 or, using mid-year population figures, from HK\$2,443 per capita in 1966 to HK\$3,640 in 1971. This represents an increase in per capita expenditure at market prices of 50 percent or possibly half this figure in real terms. Table V-1 presents the changing composition of private consumption expenditure from 1966 to 1970, the most recent year for which details have been published. As line 14 of the Table indicates, the commodity-group and service estimates include expenditure by nonresidents, which amounted to almost 15 percent of the total in 1970, a substantial proportion. Because the impact of expenditure by nonresidents would vary among the different commodity groups and services, it is impossible to determine how much of the increased proportionate share in 1970 of expenditure on, for example, clothing or household equipment was owed to the much larger number of tourists and other nonresidents in that year and how much to the bigger incomes of Hong Kong's inhabitants. (It is interesting to note that, according to an official estimate, nearly 80 percent of Hong Kong's households had television sets at the end of 1972.) The lower proportion of expenditure on food in 1970 compared with 1966, however, would be likely to reflect—as it has in countries with rising household incomes—the city-state's higher living standards. In any event, Hong Kong's people achieved a quite substantial real increase in their per capita private consumption expenditures in the brief period of four years covered in Table V-1.

A better measure of the improved levels of living of Hong Kong's working population than increases in per capita private consumption expenditure is the

Table V-1. Composition of Private Consumption Expenditure, 1966 and 1970

Commodity Group or Service	1966		1970		Percent Increase 1966 to 1970*
	HK\$ million	Percentage of Total Expenditure in the Domestic Market	HK\$ million	Percentage of Total Expenditure in the Domestic Market	
1. Food	3,101	32.3	4,631	31.2	49.3
2. Beverages	255	2.7	454	3.1	77.8
3. Tobacco	264	2.7	336	2.3	27.6
4. Clothing and other personal effects	1,248	13.0	2,203	14.8	76.5
5. Rent and water charges	1,276	13.3	1,707	11.5	33.7
6. Fuel and light	196	2.0	284	1.9	45.0
7. Furniture, furnishings and household equipment	633	6.6	1,062	7.1	67.9
8. Household operation	126	1.3	245	1.6	94.1
9. Personal care and health expenses					
a. Personal care	227	2.4	333	2.2	46.8
b. Health expenses	469	4.9	632	4.3	34.6
10. Transport and communication	695	7.2	1,180	7.9	69.8
11. Recreation and entertainment	611	6.4	907	6.1	48.5
12. Miscellaneous services					
a. Education and research	196	2.0	279	1.9	42.5
b. Financial and other services (including wages and salaries paid by private nonprofit institutions)	316	3.3	610	4.1	93.3
Consumption expenditure of goods and services in the domestic market	9,614	100.0	14,864	100.0	54.6
13. Expenditure of residents abroad	375		465		24.0
14. Less expenditure of nonresidents in the domestic market	1,120		2,224		98.6
Consumption expenditure of households and private nonprofit institutions	8,869		13,105		47.8

*Calculated in unrounded figures in thousands.

Source: *Estimates of Gross Domestic Product 1966-71*, p. 18.

Table V-2. Index of Average Real Daily Wages
for Industrial Workers, 1964-72*

As of March		As of March	
1964	100	1969	120
1965	108	1970	131
1966	111	1971	143
1967	115	1972	153
1968	115	1973	158

*Includes fringe benefits.

Sources: *Annual Departmental Reports 1969-70* (Hong Kong: Labour Department, 1971), p. 134; and *Hong Kong Monthly Digest of Statistics*, May 1973 (Hong Kong: Census and Statistics Department), p. 11.

substantial growth of real wages shown in Table V-2. From March 1964 through March 1973, real wages of industrial workers rose by 58 percent. As the city-state had full employment throughout the period, the wages and salaries of other types of employed persons would be likely to have increased proportionately. Thus, rapidly rising real wages have probably been enjoyed in recent years by a substantial majority of Hong Kong's families—that is, by those with one or more employed members.

Nevertheless, although the real incomes of most of Hong Kong's inhabitants have been steadily rising for the past decade, there is still a sizable proportion of poor families at low levels of living. Table V-3 shows the distribution of monthly household income in 1971. In that year, 16.6 percent of the city-state's households had monthly incomes of less than HK\$400 and received only 4.5 percent of total household income. Most families in this category subsist on small incomes earned in unskilled and low-skilled occupations and in traditional petty trade—

Table V-3. Distribution of Monthly Household Income in 1971*

Income Group (HK\$)	Domestic Households		Percent Distribution of Income
	No.	Percent Distri- bution	
<399	141,065	16.6	4.5
400 - 599	218,845	25.8	14.1
600 - 799	175,980	20.8	15.9
800 - 999	86,154	10.2	10.0
1,000-1,199	81,879	9.7	11.6
1,200-1,499	40,926	4.8	7.1
1,500-1,999	36,980	4.4	8.3
2,000+	64,841	7.7	28.5
Total	846,670	100.0	100.0

*A domestic household includes the related family members and unrelated persons if any, such as friends, servants or hired hands, who live together under the same roof and share the household food.

Source: Hong Kong Government.

that is, by selling food, clothing, household goods, and religious supplies or performing repair services as street hawkers (peddlers) or in their quarters in the public-housing estates, private tenements, squatter settlements, and boat-dweller communities. The remainder are families with certain disabilities—illness, old age, drug addiction, lack of a full-time adult wage earner, and other problems—that prevent them from sharing in the fruits of economic growth and for whom the recently expanded public-assistance and other social-welfare programs are specifically intended.

Considerably better off than the lowest category are the 46.6 percent of households with monthly incomes between HK\$400 and HK\$800 that accounted for 30 percent of total household income. Nearly 30 percent of the households had incomes between HK\$800 and HK\$2,000 a month, receiving 37 percent of total income. Finally, the upper-income group comprising 7.7 percent of the households obtained 28.5 percent of total income—representing in large part the rewards in Hong Kong's free economy for the dynamic entrepreneurship that has played so essential a role in the city-state's economic growth. No historical series have been published that would directly indicate the changes in income distribution over time. However, as shown in the remainder of this chapter, there has been a substantial redistribution of the city-state's total income in favor of the lower-income groups in the forms of the large low-rent government and government-assisted housing estates, universal primary education, low-cost medical services, increased recreational facilities, and other benefits available free or at subsidized prices to the people. Before describing these programs, however, the relevant data will be presented on another important aspect of the welfare of Hong Kong's inhabitants—their working conditions and the nature of the city-state's trade-union movement.

Labor Conditions and Trade Unions

Modeled on those of the family household described in Chapter II, traditional Chinese employer-employee relationships were authoritarian and paternalistic, and these characteristics are largely perpetuated in the innumerable small workshops and retail and other service establishments in which a substantial number of Hong Kong's workers are employed. As in the case of the head of a household, the employer's word is law and his decisions are accorded unquestioning obedience; he has a personal relationship with each employee; and, in theory at least, he is responsible for the latter's behavior and welfare. In turn, the employee is expected to be loyal and to promote his employer's interest. Hours of work are long and, despite the regulations described below, not necessarily fixed in many small workshops and in retailing and other service trades. Physical working conditions may be cramped, airless, dirty, noisy, and even dangerous—again, despite the efforts of the Labour Department's inspectors. But, the employer usually shares these hours and conditions, working alongside his employees. The work situation is multifaceted, providing a variety of noneconomic satisfactions. There is a great deal of talking and eating in the work place and of people coming and going to bring news and gossip. Wages are only as high as the employer has to pay to obtain workers with the necessary qualifications; in addition, however, he may often provide them with meals and lodging of one kind or another. In general, the smaller the enterprise and the less sophisticated the activity in which

it is engaged, the more its internal conditions tend to resemble those just sketched.

The larger Chinese-owned and -managed companies, especially those headed by the more experienced Shanghainese, conduct their relationships with employees more in accord with modern industrial standards. In most cases, their wage and hour policies follow the principles of sound management, and they endeavor to discourage conversational interplay that interferes with productive efficiency. Nevertheless, their own attitudes and their workers' expectations incline them to be authoritarian and paternalistic, and to provide many traditional-type benefits. In this way, too, they seek to avoid the expense of high rates of turnover and absenteeism and to attract and hold skilled and conscientious employees. However reluctantly, they are prepared to deal with trade unions, where they exist. But, they hope to discourage unionization, as well as to meet their traditionalistic obligations, by the provision of extensive nonmonetary benefits. These include some or all of the following: subsidized food and meals; housing, especially in dormitories for single workers; medical services; transportation to and from work, usually for the nighttime shifts; educational benefits for workers' children; recreational facilities and other amenities. In addition, the Chinese practice of paying a bonus of at least one month's wages at the lunar New Year is widely observed by large and small firms alike, as well as by non-Chinese firms. In fact, the bigger Chinese and Western companies usually give several months pay as a New Year's bonus and, in some industries, provide good attendance bonuses of up to six days a month and efficiency bonuses of as much as 20 percent of wages. Relationships with employees in the Western-owned firms tend to resemble those in the large Chinese companies, although they are usually much more impersonal and professionalized.

The most important developments in the official regulation of hours and conditions of work were initiated in 1967 and involved a phased set of changes that were completed in 1971. Under these regulations, children are prohibited from industrial employment until after age 14, when for the next two years they are permitted to work eight hours during the daytime only, with a one-hour rest period. Young people aged 16 and 17 and all adult women workers are limited to an 8-hour day and a 48-hour week, which cannot be at night. Overtime for this group of workers is limited to 2 hours a day and 270 hours a year and may not extend beyond 9 p.m., and they must have a rest day at least once a week. There are no restrictions on the hours of adult male workers, who generally work from 8 to 10 hours a day in industrial jobs. However, where men and women work on the same shift, their hours tend to be governed by the limitation on the employment of adult women. Virtually all workers must be given not less than 4 rest days a month, at least 6 paid holidays a year, and up to 12 days a year of sick leave at half pay. Labour Department inspectors make numerous visits to enforce these regulations.

Workmen's compensation legislation, broadened in 1969, defines the responsibilities and financial obligations of employers for workers killed or injured on the job. Laws regulate safety and health conditions in factories and other places of work. These regulations are also enforced by Labour Department inspectors. In addition, laws protect workers' right to prompt payment of wages, require at least one week's pay in lieu of a dismissal notice, and provide maternity leave for women.

Hong Kong's trade-union and labor-relations legislation follows that of the United Kingdom. The freedom to organize, strike and picket peacefully is guaranteed. However, government employees are prohibited from striking, and certain types of strikes and lockouts are defined as illegal. To enjoy these rights, trade unions must register with the government; their members must be residents of Hong Kong and habitually engaged in the particular trade; they cannot finance political activities; nor can they affiliate with any organization outside the city-state except with the Governor's permission. The Labour Department operates a conciliation service available to employers, unions and individual workers, and it may refer a dispute to arbitration with the agreement of both parties. In addition, a Labour Tribunal was established early in 1973 to provide a simple, rapid and inexpensive means of settling monetary claims under the city-state's various laws and regulations on working conditions.

Despite their substantial freedom of action, Hong Kong's trade unions have not become a major power in the economy. At the end of 1972, union membership was reported to the Registry of Trade Unions as 222,000 out of a total employment of over 1.6 million, but effective union membership was probably 20,000 or 30,000 less. Hong Kong's trade unions are generally divided into three types. The largest in terms of membership are the 89 unions affiliated with or friendly toward the Federation of Trade Unions, which is communist-dominated and largely concentrated in public utilities, transportation, shipyards, and the big textile mills. The second consists of the 99 unions affiliated with or friendly toward the Trades Union Council, which is oriented toward the Nationalist regime in Taiwan and is a member of the International Confederation of Free Trade Unions. Its main strength is in the building trades, restaurants and other service establishments. The third group, consisting of 89 unaffiliated unions, has in recent years been the fastest growing.

One reason for the relative weakness of Hong Kong's trade unions is the fact that membership is divided among a large number of separate organizations—277 unions were registered at the end of 1972, some of which were inactive. In part, this fragmentation results from the legal requirement that members of a union must be habitually engaged in the particular trade. In part, it reflects the traditional Chinese behavioral norms of seeking—although not always successfully—to avoid direct interpersonal confrontations and of not pressing the issues involved to a final resolution. Hence, when a serious dispute arises within a union, it is often settled by a split and the formation of two separate organizations.

Another reason why Hong Kong's trade-union movement is not a major economic force is its traditionalistic multifaceted conception of the purposes it serves. Although the improvement of wages and working conditions are important objectives, many unions give equal, and sometimes greater, priority to the direct provision of welfare benefits to their members. In other words, many Hong Kong unions are really like benevolent societies, operating dormitories, canteens, cooperative stores, schools, and even businesses for the benefit of their members. In addition, many unions use their funds to provide cash payments to members for unemployment, accidents, sickness, maternity, funerals, and marriages. They also carry on extensive recreational activities such as parties, picnics, sports, and gambling. These characteristics are found in communist unions as well as in the others. Most unions are run by paid full-time clerks, whose major duties relate to the management of these welfare activities rather than to increasing the union's membership and its power *vis-à-vis* the employers.

Indeed, the reluctance to engage in direct personal confrontations, especially with superiors, also affects trade-union/management relationships. No machinery exists in most enterprises for directly handling grievances. Instead, trade unions and individual workers will often avail themselves of the Labour Department's arbitration and conciliation services, which handled 4,524 disputes in 1972. The Department is, in effect, the traditional Chinese third-party "go-between" who enables two disputants to save face. Despite the tendency to avoid direct confrontations, however, strikes and work stoppages do occur, although they are less frequent and of shorter duration than in most other countries with comparable freedom for trade-union activity. During 1972, there were only 46 strikes involving loss of 41,834 mandays.

Housing and Town Planning

By the end of 1972, nearly 1.9 million people—about 46 percent of Hong Kong's population—were living in low-rent residential blocks constructed by the government or by government-assisted bodies. A somewhat smaller percentage were housed in privately owned accommodations, the majority of them constructed since World War II. Of the remainder, well over a quarter of a million were still squatters and around 75,000 have traditionally been boat-dwellers.

Hong Kong's housing achievement has to be assessed in terms of the changing needs and priorities that its policy has been designed to serve. In the late 1940s and early 1950s, the city-state was struggling to cope with an enormous inpouring of refugees, a rapid rate of natural population increase, and the devastation resulting from World War II. It is well to recall that Hong Kong's population grew from under 600,000 in 1945 to 2 million in 1951, 2.6 million in 1956, 3.2 million in 1961, and 3.6 million in 1966. During the 1950s, therefore, the government's primary objective was to house as many people as possible as quickly as possible. To this end, a standard housing block was designed that provided a minimum of floor space per person and common water and sanitary facilities for the households on each floor, and did not include built-in cooking facilities or electricity in the units. By the early 1960s, the pressure to construct as fast and cheaply as possible was relaxed, and the government could give higher priority to raising the standards of the new construction. Meantime, however, the original housing estates were becoming increasingly overcrowded as family size grew and rooms were subdivided to accommodate new members and, despite the regulations, to provide rental space for tenants so as to augment household incomes. In consequence, the originally barely adequate facilities of the older housing blocks deteriorated into slums. Hence, for the past decade, the Hong Kong government has also been giving a high priority to the gradual reconstruction of the older housing blocks to conform to the standards of the new construction.

Until 1973, there have been four kinds of government and government-assisted housing.

The largest category consists of the high-rise Resettlement Estates, in which preference is given to squatters, tenants in grossly overcrowded public accommodations, victims of fires and natural disasters, and others living in the worst housing conditions. By the end of 1972, over 1.2 million people—30 percent of the population—were residents in Resettlement Estates. As noted, in the older blocks constructed between 1954 and 1964, families were initially assigned one room at the rate of 25 square feet for each adult and half that amount per child; the residents of each floor shared common washing and sanitary facilities; they

had to use the outside access balconies for cooking; and electricity was installed only if they paid for it. The Resettlement Estates constructed since 1964, which already house over 55 percent of the total, provide each family with its own toilet, water tap, refuse chute, and private balcony for cooking and other purposes, and have built-in electricity. Rents are low and vary depending on the size of the accommodation. In the older blocks, the standard unit of 120 square feet rents for HK\$18 a month, with higher rents paid for the small number of bigger units. In the newer blocks, the monthly rent for the standard unit of 140 square feet is HK\$38, and there are a larger number of bigger units for which the rent is higher. Of the total of nearly HK\$81 million due in rents during 1971, only about .03 percent had to be written off as unrecoverable arrears.

The second type is Government Low-Cost Housing. With over 331,000 residents at the end of 1972, these high-rise blocks are similar to the newer Resettlement Estates, provide the same space and facilities, and charge comparable rents. In most estates, they are intended for initial occupancy by families of four or more persons with monthly incomes not over HK\$500 who do not qualify under the eligibility requirements for the Resettlement Estates.¹

The level of rents in the Resettlement Estates and the Government Low-Cost Housing is sufficient to amortize capital costs (including land at concessionary prices) over 40 years at 3.5 percent interest. In the case of the Low-Cost Housing, the income from rents covers maintenance and administrative costs as well. It does not in the Resettlement Estates, and the government provides an annual subsidy toward meeting the cost of maintenance and administration. In the 1973-74 Budget, HK\$64 million is allocated for this purpose and also to cover the Housing Department's expenditures for squatter clearance and control and for certain other activities.

The third type of housing is provided by the Housing Authority, an autonomous body established by ordinance in 1954. Its high-rise blocks housed over 218,000 people at the end of 1972, and current construction will accommodate an additional 46,000 residents. The Housing Authority's facilities are superior to those of the two preceding types and provide the standard to which they will sooner or later be made to conform through a reconstruction program already underway. Its accommodations consist of completely self-contained flats with a minimum of 35 square feet per person. Each flat has a private kitchen, flush toilet, shower, and balcony. These units are intended for families with monthly incomes from HK\$400 to HK\$1,250, and the rents charged take an average of 13 percent of the household incomes of the tenants. Because of rising costs, the Authority increases rents by 10 percent every two years in older blocks and every four years in its newer estates. Although its rents are lower than for comparable flats in privately owned housing, the Authority's rental income not only covers amortization, interest, maintenance, and administrative costs but also yields a small surplus to help finance future construction. The government provides land for the Authority's housing estates at one-third the estimated market value of the ground rent; and, by the end of 1972, had made loans and grants to the Authority of HK\$252 million for its capital costs, with an additional HK\$110 million allocated for these purposes from the Authority's accumulated net income.

¹Family income for housing eligibility purposes is defined as the main earnings of the principal earner plus 50 percent of his or her supplementary earnings and of the earnings of other coresident family members.

The fourth type of government-assisted housing is provided by private non-profit organizations, of which the largest is the Housing Society. They receive government help similar to that granted to the Housing Authority. By the end of 1972, nearly 125,000 people were housed in such high-rise blocks, which conform to the higher standards of the Housing Authority.

The accommodations of the approximately 45 percent of the population housed in privately owned dwelling units vary enormously. At one extreme are the so-called tenement floors. These are large floors subdivided into tiny cubicles by partial partitions and with grossly inadequate common sanitary, washing and cooking facilities. They are notorious for their lack of light, air and cleanliness and for their high rents relative to the space and amenities provided. At the other extreme are the private mansions and blocks of luxury flats dramatically perched on the upper levels of the Island's spectacular mountainsides.

Although some of the worst crowding occurs in the tenement floors, there are on the average more persons per 1,000 square feet in the Resettlement Estates than in private tenement housing. In contrast, the average number of families sharing the same accommodation is less in public housing than in private housing. These differences have arisen because additional space is rarely available in the older Resettlement Estates to resident families as their size increases and because units in the newer Estates are mainly allocated to house additional families.

The major complaint of low- and middle-income families living in privately owned housing is the rapid rise of rents in the last few years. This situation reflects, on the one hand, the comparatively low rate of private housing construction in the late 1960s in consequence largely of the political uncertainties engendered by the riots in Hong Kong and the Cultural Revolution in China and, on the other hand, the continuing rise in real incomes and hence in demand for better housing. Under existing ordinances, the government has certain controls over rents in privately owned housing. Tenants are guaranteed security of tenure for two years after each rent increase, which must be specifically approved by the Commissioner of Rating and Valuation. Appeals from his decisions may be taken by landlords or tenants to the District Courts. Although these measures provided some protection for tenants, they were regarded as inadequate to deal with the rent problem, especially by increasingly hard-pressed middle-income families. The government was reluctant to impose more stringent rent controls lest such measures discourage the new housing construction that could alleviate the pressure of demand. However, in June 1973, the government finally instituted a six-month rent freeze, which it plans to follow with permanent measures for regulating the rate and frequency of rent increases.

As in transitional societies generally, there are significant numbers of Hong Kong people who prefer the freedom, sociability and traditional norms of horizontal living, as well as the low cost, in squatter communities to the greater constraints and unfamiliar conventions of vertical living in high-rise blocks. Hence, despite the declining influx of refugees and the lowering of the birth rate in the course of the 1960s, the squatter population continued to grow, reaching just under half a million people in 1965. Since then, it has been falling, but the number of squatters was still well over a quarter of a million at the end of 1972.

The government has been criticized for its hostile attitude toward the squatters, especially for its refusal to permit them to make substantial additions and improvements to their dwellings, and its reluctance to provide more than a bare minimum of water and sanitary facilities or to pave more than a few streets and

footpaths. For its part, the government believes that it should not appear to sanction the illegal occupancy of land or to encourage the squatters to regard as permanent their flimsily built communities, which are in many cases dangerously exposed to typhoons and prone to disastrous fires and landslides. There are valid humanitarian and sociological considerations on one side and understandable legal and social responsibilities on the other. Sooner or later, these conflicting concerns are likely to be resolved by the increasing availability and improving quality of low-cost government housing and by the eventual adoption of a program for fostering family ownership of housing units in suitably designed village-type communities.

In 1972, the government announced a more ambitious public housing target—to provide new accommodations for 1.8 million people within 10 years. Conforming to higher standards of space and amenities, these facilities will be occupied both by families now badly housed in private-rental dwellings and squatter communities and by those suffering from overcrowding in the existing public-housing estates. Much of this government-financed housing will be constructed in new towns to be developed in the New Territories and connected to the existing urban areas by new highways and improved transportation facilities. The cost of this expanded housing program, including infrastructure, is estimated at HK\$8.5 billion at present prices. Of this total, about HK\$3.2 billion would be for the housing blocks themselves; the remaining HK\$5.3 billion would finance construction of streets and highways, water, sewage and other infrastructure facilities, and schools, hospitals, clinics, parks and playgrounds, police and fire stations, community centers and other urban amenities, as well as the preparation of sites for private commercial development.

A new Housing Department has been established to coordinate all housing, town construction, slum clearance, squatter control, and other housing-related activities. Concurrently, the scope of the Housing Authority has been broadened to include the planning, construction and maintenance of all types of government-financed and -assisted housing.

Hong Kong's physical development is governed by the Colony Outline Plan, a comprehensive guide to land use and zoning, urban renewal and improvement, the construction of new towns, and the provision of infrastructure and recreation and conservation facilities. The newer government housing estates not only contain shops, schools and other community facilities but also have low-rent, government-constructed flatted factories contiguous to them. Four carefully planned new towns are in various stages of construction and others are projected under the expanded housing program on sites in the New Territories.

The city-state has the immense advantage of its beautiful natural setting of sea, islands and mountains. Although the scarcity of level space increases the cost of construction and infrastructure, the upward vertical articulations of the land and the broad marine vistas confer a scenic interest on all types of buildings, regardless of their intrinsic architectural merits or state of repair. Even the ugliest factories and offices appear dramatic when seen across the water, and the repetitive rows of giant housing blocks are dwarfed by the mountains along whose ledges and defiles they are ranged. And, following Singapore's successful example, Hong Kong's inauguration in 1972 of a continuing "clean-up" campaign has already produced a notable diminution of the litter and rubbish that formerly clogged city streets, market places and the courtyards of many housing estates. As the real incomes of more and more of the city-state's people rise to a level where

they can begin to enjoy the quality of life, they can take pleasure in the traditional Chinese appreciation of the harmony of man and nature in Hong Kong's unrivaled physical setting.

Education

For the school year 1972-73, over 1,285,000 pupils were enrolled in Hong Kong's schools, colleges and other educational institutions, and about 12,000 additional students were studying abroad, mostly in the United Kingdom and the United States. This impressive total attests to the high value placed on education by the Chinese and to the efforts both of the government and of the private community to meet this demand.

As in housing and other forms of welfare, a mixed system of governmental and government-aided private institutions exists. All preprimary facilities—i.e., day nurseries and kindergartens—with a total enrollment of over 130,000 children, are operated by private organizations that receive government help in the forms of free land or free space in housing blocks, teacher training, equipment, and technical assistance. Of the more than 748,000 pupils attending institutions at the primary level, an estimated 75 percent were in government and government-aided schools and 25 percent in wholly privately financed schools. Of the 323,000 students enrolled in secondary institutions, about 30 percent were in government and government-aided schools.

At the level of higher education, Hong Kong's two universities, accommodating over 6,500 undergraduate and graduate students, and its new Polytechnic are largely government financed.

Government assistance to private primary and secondary schools consists of grants or subsidies to cover the differences between their incomes from fees and other revenues and their approved budgets. In addition, these institutions are eligible for grants equal to 80 percent of the cost of new buildings and equipment and of major repairs to existing installations. Whether aided by the government or not, most types of private schools are subject to the supervision of the Director of Education.

Since September 1971, all Hong Kong children have been guaranteed free primary education in a government or government-assisted school. At the same time, the Director of Education received the power to enforce compulsory primary school attendance, except in cases where he determines that parents have good reasons for withholding their children. The government has also adopted the goal of providing three years of secondary education in a government or government-assisted school for all children of 12 through 14 desiring postprimary schooling. Under the current program, it is expected that 50 percent of the children in this age group will be accommodated in such secondary schools by 1976 and the remainder at a rapid rate thereafter. Also, it is intended to offer an additional two years of secondary education to increasing numbers of older children.

In the great majority of primary schools, instruction is in Cantonese, with English taught as a second language after the first year. The practice is reversed in most secondary schools, where English is the language of instruction. However, there are Chinese secondary schools for those wishing to be taught in that language.

The University of Hong Kong, with instruction in English, was established in 1911, and its qualifications and degrees are equivalent to those of British universities. Founded in 1963, the Chinese University of Hong Kong provides instruction mostly in Chinese, and not only offers the conventional arts and sciences degrees but also has graduate schools of business administration and education. A program of government grants and interest-free loans to university students was introduced in 1969. Both universities have large extramural departments providing a wide variety of nondegree courses for adults both during the day and at night.

In response to the rising pressure from the private sector, the government undertook in 1971 to expand the existing Technical College into a full-scale Polytechnic providing professional-level degrees in the various engineering fields and in related technical, industrial and economic subjects. Now in its first year, the Polytechnic has 1,800 full-time students, 942 part-time day students, and over 10,000 evening students. The target is an enrollment of 8,000 full-time and 20,000 part-time students by 1978. In 1970, a separate vocationally oriented Technical Institute—built and equipped with a donation of HK\$7 million from the Royal Hong Kong Jockey Club—was inaugurated to train technicians of various kinds specifically to meet the needs of Hong Kong's industries and service trades. Two more technical institutes are planned for completion by 1975 and an additional four by 1980. Three colleges of education for the training of teachers also exist.

Public libraries maintained by the Urban Council contained over 467,000 volumes in Chinese and English at the end of 1972, as well as 521 current newspapers and periodicals from all over the world. In addition, the Community and Social Centers in the various districts have their own libraries of light literature.

Health and Recreation

As of the end of 1972, Hong Kong had over 16,700 hospital beds, or 4.1 per 1,000 people. Actually, the bed capacity is considerably greater, as this figure states the normal rating of the hospitals and does not include the substantial number of temporary beds that can be added to wards or put elsewhere as need requires. All but about 2,000 beds are in government or government-assisted hospitals, mostly built since World War II. These hospitals are equipped to treat all types of illnesses, mental as well as physiological. There are seven hospital schools of nursing, one of which provides psychiatric training. Hospital maintenance and treatment fees are waived for poor patients; others pay from HK\$2 to HK\$6 per day in the general wards depending on diet and treatment.

In addition, there are nearly 500 outpatient clinics throughout the city-state, as well as mobile clinics, floating clinics serving boat-dwellers, and a flying doctor service for remote villages in the New Territories. The 49 government clinics are the largest and best equipped. However, many private clinics receive government assistance and all are supervised by the Medical and Health Department. Over 99 percent of Hong Kong's babies are now born in hospital maternity wards or in supervised maternity homes. Free maternal and child care is provided at 35 government centers expressly built for this purpose. No charges are levied at the floating clinics and those serving outlying areas, or for the treatment of tuberculosis, venereal diseases, leprosy, and quarantinable diseases. For all other types of treatment in government clinics and centers, a charge of HK\$1 is made for each

visit, which includes the cost of medicines, tests and X-rays, and this fee may be waived for poor families. During 1971, more than 12 million visits were made to clinics and hospitals, an average of over 3 per inhabitant.

The most important private health facilities in Hong Kong are those operated by the Tung Wah, the city-state's largest and most prestigious charitable organization. They include three hospitals totaling over 2,200 beds, and a convalescent hospital of more than 500 beds. The operating expenses of these facilities are largely covered by a government subvention but construction, equipment and other costs are financed by private contributions to the Tung Wah and by its other fund-raising activities.

As the incomes of Hong Kong's people have risen, they have become more interested in recreation. More important, half the city-state's population is under the age of 22. Hence, in recent years, increased attention and funds have been devoted to expanding and improving the public recreational facilities. Parks, playgrounds and sportsgrounds are being constructed or enlarged, and the extensive public beaches are now being protected and maintained as sea and sun bathing have become increasingly popular. There are six large multipool swimming complexes, one heated for year-round use, and three additional complexes are being built. Maintained by the government, several of these pools were constructed with funds donated by the Royal Hong Kong Jockey Club.

Hong Kong's City Hall—really a city center—completed in 1962 has facilities for indoor and outdoor exhibits and for musical and theatrical performances, as well as a museum and art gallery. It is always crowded with family groups on weekends and holidays. In addition, the government and the Urban Council sponsor sporting events, art exhibits, festivals, and celebrations of various kinds. The largest is the biennial Festival of Hong Kong—10 days and nights of government and privately sponsored concerts, dances, sports, fireworks, exhibitions, and parades.

In 1972, some 900,000 children and adolescents participated in the city-state's summer vacation program. This large-scale cooperative effort of recreational, cultural and community-service activities is jointly undertaken by government departments and private charitable organizations, and staffed by 30,000 volunteers as well as by professionals. The program is financed by contributions of about HK\$1 million each from the government and the Royal Hong Kong Jockey Club and by numerous smaller donations from business firms, community organizations and individuals.

Social Services and Public Assistance to the Needy

As customary among the overseas Chinese, essential social services and assistance for needy and handicapped individuals and families in Hong Kong have been provided by private charities, religious and secular. Hong Kong has always had many such private organizations, in addition to the Tung Wah, for helping specific categories of people (e.g., persons from the same lineages, villages or districts in China or neighborhoods in the city-state, orphans, aged, blind, deaf, etc.) or to offer specific types of help (e.g., for resettling refugees from China, hospital care, educational assistance, supplementary food and clothing, etc.).

In times of pressing need, as during the great refugee influx of the early postwar years, the government has always supplemented these private efforts, as have foreign voluntary agencies and the relief programs of foreign governments.

Since then, the Department of Social Welfare has gradually been extending the diversity and size of the services it provides. At the District Offices, special Family Services Centres and Interview Offices, there are caseworkers available to all Hong Kong residents requiring advice or assistance on problems relating to individuals and their families. If the need is for help not directly provided by the government, the applicant is referred to an appropriate private organization. The available services include family planning, counseling on individual and family difficulties, adoption arrangements for children, day care, rehabilitation and vocational training for the physically and mentally disabled and for probationers and delinquents under 18, youth programs, recreational activities, and emergency relief after natural disasters and fires. The Department's eight Community and Social Centres have facilities for clubs and recreational groups, and they carry on programs fostering neighborliness and civic consciousness, cooperative and self-help activities, and cultural appreciation. An additional seven Centres are being operated by voluntary agencies.

Until recently, income assistance to needy individuals and families was provided by the government in the form of supplementary food rations. But, in 1971, the Hong Kong government initiated a new program of cash payments. Since April 1972, individuals who are unable to work are guaranteed an income of HK\$110 a month plus rent and transportation allowances; needy families receive HK\$80 each for the first three members, HK\$65 each for the next three, and HK\$50 for each additional member, as well as rent and transportation allowances and school fees for children. Additional allowances are provided for special diets and other unusual expenses and as incentives to encourage able-bodied members to work. During 1972, over 17,700 cases were handled, of which half were individuals and half families. Most of the applicants in the individual category are aged or ill single persons; in the family category, those with insufficient incomes or with sick, disabled or drug-addicted heads of households, widows with children, and elderly couples account for the bulk of the cases. The government plans steadily to expand the scope and improve the benefits of the public-assistance and social-welfare programs so as to help more of the families and individuals in the lowest-income categories. To implement these programs more effectively, a Social Work Training Institute is scheduled to open in 1973.

Thus, on the one hand, most of Hong Kong's people have been enjoying extraordinary gains in real incomes, both absolutely and in terms of more equitable distribution. On the other hand, much poverty and distress, as well as crowding, still remain. Admittedly, it is difficult to devise programs for coping effectively with the specific kinds of problems that characterize a large proportion of the people in the poorest and most distressed groups. Indeed, as the initial experience with the new public-assistance program showed, many of them exist in so withdrawn a manner that they are unaware of the benefits and services available to them or lack the will and energy to obtain them. Both the government and the leaders of the private sector recognize the needs of Hong Kong's poor and, in recent years, their efforts to deal with them have been not only increasing in size but also improving in understanding of the means required.

VI.

Government and Policy

As a political entity, Hong Kong is neither independent nor democratic. The United Kingdom claims absolute sovereignty over Hong Kong's government, although in practice the latter is permitted substantial autonomy to manage the city-state's affairs. In turn, Hong Kong's government has absolute authority over its inhabitants, although in practice people are substantially free to pursue their own interests and the elite groups participate actively in policy making for the city-state. These political characteristics largely reflect the peculiarities of Hong Kong's situation *vis-à-vis* China, certain persisting elements of Chinese society and culture, and the particular interests of Hong Kong's British and Chinese business communities and of other influential groups.

The Structure of Government

As representative of the Queen, Hong Kong's Governor combines in his office full executive and major legislative powers. In his executive capacity, the Governor is assisted by an Executive Council comprised of 5 *ex officio* members heading the major governmental departments and, at present, one additional official member and eight unofficial members appointed by Her Majesty's Government in London. The Executive Council holds weekly meetings, at which it advises the Governor on matters he submits to it or that are brought before it by one of its members with the Governor's approval. The Governor is required to consult the Council on all important subjects, except in emergencies, but need not accept its advice. If he does not, he has to report his reasons to London.

The Governor is a voting member of the Legislative Council and also its presiding officer with the right to vote a second time to break a tie. The Legislative Council has 4 *ex officio* members and 10 official and 15 unofficial members appointed by the Governor. It passes bills that become law with the Governor's assent. In addition, laws passed by the British Parliament or made by means of Orders in Council of the Queen may be specified to take effect in Hong Kong, and London may overrule acts of the Legislative Council despite the Governor's assent to them. In practice, however, the Legislative Council has been responsible for the great majority of laws affecting the city-state and explicit intervention by London in the legislative process has been slight, especially since World War II.

Hong Kong also has its own judiciary consisting of a hierarchy of bodies ranging from magistrates courts through district courts to the Supreme Court and finally the Full Court, as well as coroners courts and other special judicial institutions. Appeals may be taken from the Full Court to the Judicial Committee of the Privy Council in London.

There are two types of governmental bodies whose members are partly or wholly elected. The first is the Urban Council with 24 members, 12 appointed by the Governor and 12 elected on a limited franchise based on educational qualifications. The Urban Council establishes policies for and makes specific decisions

regarding many urban services, such as sanitation and hygiene; and the licensing, inspection and control of food premises and factories, hawkers, bathhouses, laundries, funeral parlors, cemeteries and crematoria, car parks, advertising signs, playgrounds, and places of recreation. Also, it oversees the management of re-settlement estates and their associated community centers and flatted factories. The second type of representative body serves the rural areas of the New Territories. Choosing over 900 village representatives, the 600-odd villages are grouped under 27 Rural Committees. The village representatives elect an executive committee for each Rural Committee every two years. The Rural Committees carry out minor public-works projects; mediate village, lineage and family disputes; and act as spokesmen for local opinion in their respective regions. The chairmen and vice chairmen of the Rural Committees, the justices of the peace in the New Territories, and 21 special councillors elected every two years constitute an overall Rural Consultative Council that advises the central government on matters affecting the New Territories.

After the Governor, the principal officials are the Colonial Secretary, who is the Governor's chief adviser and has general coordinating responsibilities over all of the government departments; the Financial Secretary in charge of economic policy and financial and fiscal affairs; the Defense Secretary, who advises on security matters and commands the British and local forces in the city-state; the Secretary for Home Affairs, whose departmental functions are described below; the Attorney General, or chief legal officer; the Establishment Secretary supervising the civil service; and the Political Adviser, seconded from the Foreign Office in London, who advises the Governor on the external relations of the city-state. The *ex officio* members of the Executive and Legislative Councils are drawn from this group of top officials, who also administer the major governmental departments.

There are about 40 administrative departments and other agencies organized largely on a functional basis. Those not headed by one of the major secretaries are administered by officials of lesser grade. The civil service—or, as it is called, the Establishment—totals about 105,000, of whom around 60 percent are skilled, semiskilled and unskilled workers employed in medical and health activities, urban services and public works. Less than 2,000 are overseas officers, mostly from the United Kingdom.

Two government departments having most direct relationships with the people of the city-state and the greatest responsibility for their day-to-day welfare are the Secretariat for Home Affairs, with jurisdiction over the urban areas, and the New Territories Administration, with jurisdiction over the predominantly rural areas. Each has its group of District Officers, whose duties are to serve as communication links between the government and the governed, informing officials of the changing concerns of the inhabitants of each district, usually expressed through the neighborhood, lineage, charitable and other popular organizations described in a later section, and interpreting to the people the civic obligations that they must meet and the benefits available to them from the city-state's varied public services. To carry out these responsibilities, numerous district offices and suboffices have been established throughout the urban and rural areas in shop-type premises, to which people have convenient access, where their inquiries regarding available benefits can be answered and their complaints and grievances can be ascertained and transmitted to the appropriate government departments. The latter, in turn, draw on the information and experience of the district officers and their staffs to evaluate the probable effects of proposed policies and programs. In addition, the Urban Services Department in the Secretariat for Home

Affairs performs staff functions for the Urban Council and carries out its decisions regarding the numerous public services and supervisory responsibilities within its jurisdiction.

The Questions of Political Status and Democratization

With its more than four million inhabitants and high and rising per capita income, Hong Kong is more populous than some independent countries in Africa, Latin America and the Caribbean, and more developed economically than most in those regions, as well as in Asia. Indeed, if Hong Kong were situated anywhere but on territory that was formerly an integral part of China, it would undoubtedly be independent today. In large part, Hong Kong's location and history determine both its political status and the nature and extent of popular participation in government and policy making.

In Britain's view, the 29 square miles of the island of Hong Kong were ceded to it in perpetuity by China in the Treaty of Nanking of 1842, as were also the 3 3/4 square miles of the Kowloon peninsula on the mainland in the Convention of Peking of 1860. The remaining 365 3/4 square miles of the mainland and of the 230-odd contiguous islands constituting the New Territories were leased in 1898 by China to the United Kingdom for a period of 99 years, which will end on July 1, 1997. Thus, according to the British, the United Kingdom owns the island of Hong Kong and the Kowloon peninsula, while China owns the remainder of the colony but will not exercise effective sovereignty over it until the New Territories lease expires.

To China, the status of the city-state is quite different. The agreements under which the island and the peninsula were ceded to the British were "unequal treaties" extorted by force from a weakened China incapable of defending its territory. Moreover, no integral part of the Chinese sociocultural area can ever be alienated, especially if it continues to be inhabited overwhelmingly by ethnic Chinese whose society and culture still recognizably belong to Chinese civilization. Hence, the island and the peninsula, as well as the New Territories, are inalienably parts of China. Although, like other Chinese provinces and areas in the past and today, they may be temporarily removed from China's effective jurisdiction, its active sovereignty will sooner or later be reestablished over them. China's position was strongly stated at the United Nations in March 1972, when the Chinese representative on the General Assembly's Special Committee on Independence for Colonial Countries and Peoples insisted:

Hong Kong and Macau are part of Chinese territory occupied by the British and Portuguese authorities. The settlement of the questions of Hong Kong and Macau is entirely within China's sovereign right and does not fall under the ordinary category of "Colonial Territories." Consequently, they should not be included in the list of colonial territories covered by the [UN] Declaration on the Granting of Independence to Colonial Territories and Peoples. With regard to the questions of Hong Kong and Macau, the Chinese Government has consistently held that they should be settled in an appropriate way when conditions are ripe. The United Nations has no right to discuss these questions.

By not granting independence to Hong Kong, the British have in effect recognized the Chinese position. For, the implication of Hong Kong's continuing

colonial status is that the only change in it can be reversion to China. Moreover, this situation in large part reflects the capabilities of China's existing government. If China were today governed by a weak and corrupt regime, like that of the decaying imperial system in the 19th century, or divided into more or less autonomous provincial regimes torn by civil wars as during the interwar period, it is possible that the United Kingdom would have granted independence to Hong Kong despite Chinese protest. For all its internal problems, China's communist regime has been able to exercise reasonably effective control over most of its historical territory and, more important, has been demonstrably capable of preventing by force any British decision affecting Hong Kong of which it did not explicitly or implicitly approve. Thus, the attitudes and capabilities of the present Chinese regime are in large part responsible for Hong Kong's persisting status as a colony.

These considerations also provide much of the answer to the converse question: why have the British not returned Hong Kong to China? To the United Kingdom, both humanitarian and financial concerns have been involved. Much of Hong Kong's present population consists of first- and second-generation refugees who, it was believed, would have sacrificed the fruits of their hard work and dynamic entrepreneurship and probably suffered punishments of various kinds if Hong Kong had been placed under communist rule. In such circumstances, too, China's present regime would very likely have transformed Hong Kong's economic system, abolishing private ownership and management of industrial, financial and other enterprises and drastically altering the nature of Hong Kong's relationships with the international economy. These changes would have substantially reduced—very likely put an end to—the profits earned by British and other foreign-owned companies in Hong Kong, as well as those indirectly accruing to business interests abroad through Hong Kong's highly effective participation in international trade and investment. For these reasons, the United Kingdom has had no incentive voluntarily to return Hong Kong to China. Conceivably, in keeping with the great decolonization movement of the postwar period, the British might have done so if the Chinese had developed a regime that was not inimical to private enterprise, foreign investment and the market system and that was decisively more effective and concerned for the welfare of the people, as well as less corrupt, than that of the Kuomintang in the 1940s.

Hong Kong's relationship with China also in large part explains why the city-state does not have a democratic form of government. First, as the sketch of China's history in Chapter II indicates, the Chinese have had no significant experience of Western-type representative government. Although the forms of such a regime were adopted after the overthrow of the imperial system, they were more nominal than real even during the few relatively peaceful years of the Kuomintang administration in the early 1930s, and they became wholly so under the stress of the war with Japan and the subsequent ineffective resistance to communist conquest. Today, China's existing communist regime perpetuates under different institutional forms the traditional relationships and tensions between the universalistic authoritarianism of the central government and the particularistic autonomy of local groups. These customary Chinese patterns of authority and subordination are incompatible with the spirit, if not the forms, of Western representative democracy, with its basis in the self-responsibility of the individual and his willingness to restrain the pursuit of self-interest for the sake of the universalistic values expressed both in the legal system and in a broad consensus on the goals of his society. This does not necessarily mean that ethnic

Chinese cannot successfully govern themselves under democratic institutions—although, as will be seen in Part III, even Singapore, the outstanding contemporary example, tends markedly toward authoritarianism. It does, however, mean that the Chinese communist regime, anticipating the eventual return of Hong Kong to its rule, would probably have objected to the implantation in the city-state of political institutions and popular behavioral norms incompatible with those of China and hence bound to cause serious difficulties when reunification occurs.

Second, the granting of responsible self-government under representative institutions would have been interpreted both by Hong Kong's inhabitants and by China's government as a move toward political independence. In fact, independence has been the next step after representative institutions throughout the former European colonial empires, except in those few remaining island possessions too small or poor to sustain it. The fact that independence has not been a practicable alternative to Hong Kong's present status has helped to prevent the further expansion and strengthening of Hong Kong's very modest representative institutions described in the preceding section.

Hong Kong's Political Future

What then of Hong Kong's future? If the city-state is unlikely to become independent, will it remain under British rule until 1997 when the New Territories' lease expires—and even thereafter as some in the city-state hope? Or, is the probability greater that Hong Kong will revert to China, peacefully or by force, before the end of the century? The answers to these questions depend in greatest measure upon the future development of China and its role in the international political and economic system.

There are essentially two courses of development for China that would determine Hong Kong's future status. One is that China will continue for the remainder of the century to be united under a politically strong and economically effective government. The other is that, as repeatedly in the past, the tendencies toward provincial and local autonomy will reassert themselves while the central administration would be too weakened by partisan rivalries and economic difficulties to enforce its authority. Under either possibility, there would be factors working both for and against continued British rule of Hong Kong.

Under the first course of development, China's policy toward Hong Kong would very likely be determined largely by considerations of rational interest—that is, of the net balance of costs and benefits in economic and political terms. In present circumstances, China obtains between a third and a half of its foreign-exchange earnings by selling agricultural products, industrial raw materials, low-priced clothing and other consumer goods, and traditional Chinese commodities to Hong Kong, and from capital and various invisible transactions in and through Hong Kong. In turn, Hong Kong is able to pay for these imports in foreign exchange only because it can export its own products to the rest of the world. China's foreign-exchange earnings from Hong Kong provide it with the means for importing the machinery, equipment and technology essential for its own development.

Would China's economic interests be beneficially or adversely affected by taking over Hong Kong? The city-state's economy specializes in the production of

consumer goods and intermediate products for export, and most of its facilities could be readily adapted to producing the lower-priced types of similar manufactures that China now makes for its own consumption. But, if Hong Kong were converted into a supplier to China's domestic market, a substantial proportion of China's foreign-exchange earnings would have to be forgone. Alternatively, China could try to maintain Hong Kong as an export manufacturing center. However, the important contribution to Hong Kong's exports made by the dynamism of its private entrepreneurs would be lost. Also, it is possible that a China-ruled Hong Kong might not continue to enjoy the foreign-market access for the kinds of commodities it produces that it now has under British control. Although China will probably soon receive most-favored-nation status from the United States, business and labor groups in the United States, as well as those in the European Community and other major importing countries, might find it easier to obtain increased protection against competing imports from a communist Hong Kong than they do now against those from an economically self-supporting city-state under the sovereignty of a NATO ally or a fellow member of the European Community. Hong Kong might also lose some of its income from banking, insurance and shipping services if it were to become part of China. Thus, in the shorter term, economic cost-benefit considerations would on balance appear to favor a continuation of Hong Kong's existing status as the most advantageous for China.

Would China be likely to move against Hong Kong for political, if not for economic, reasons? One political reason might be the presumed gain in international prestige that might result from the expulsion of the British—although such a move would undoubtedly frighten the neighboring independent Asian nations. Another might be the gain in domestic prestige that might accrue to a particular party faction in a struggle for leadership after Mao's retirement or death. However, on the first assumption—that is, that China retains a strong and effective central government despite leadership rivalries—such dubious political benefits of taking over Hong Kong are not likely to be regarded as outweighing the economic costs.

Over the longer term—say, in the mid-1980s or later—the cost-benefit calculation could change if the international system were to be increasingly characterized by large discriminatory trading blocs and the shifting political alignments and maneuverings of a world balance-of-power system. Assuming that China were to be the center of one such politicoeconomic bloc, three kinds of developments, singly or in combination, could substantially reduce the economic disadvantages of a Chinese takeover of Hong Kong. These possibilities are that increasing inter-bloc discrimination and protectionism could drastically curtail Hong Kong's export capabilities even under continued British rule; that sufficient export opportunities would become available to it within a Chinese-dominated bloc or externally through trade agreements between China and other blocs; or that China itself might be able to earn enough additional foreign exchange to compensate for the loss of Hong Kong's export income after reunification. However, even if such developments were to occur, China might conclude that there would be significant benefits in agreeing to certain concessions and exemptions when control over Hong Kong reverted to it. These might include, for example, assumption of the public debt, which the city-state is likely to incur for the Metro and other major new investment projects, and permission for some indigenous and foreign business firms to continue operations provided their production were exported. Thus, on the assumption that China continues to be strong, the prospects for

Hong Kong to remain under British rule are good for the shorter term but would become increasingly uncertain over the longer term as China developed into a more important participant in a world of large, discriminatory economic blocs and shifting balance-of-power alignments among them.

The second possible course of development is that a process of sociopolitical disintegration would recur in China, characterized by rising provincial and local autonomy, mounting economic difficulties, and increasingly enervating factional struggles in the central administration. In such circumstances, rational cost-benefit considerations would become of decreasing determinative importance, and Hong Kong's fate would depend essentially upon political contingencies. Contending Chinese party factions or provincial regimes might be impelled to seize Hong Kong in hope of immediate political gains or of economic plunder or ransom regardless of the military costs and the eventual economic losses. Thus, under the assumption of Chinese weakness and disintegration, Hong Kong's situation would be precarious, subject to the contingencies of Chinese political struggles and international rivalries.

On balance, then, the chances seem quite good that, in the shorter term—the next 10 or 15 years—Hong Kong's political status will remain unchanged under either set of assumptions. And, the continued investment in the city-state by its inhabitants and by foreigners certainly validates this judgment. For the longer term—from the mid 1980s on—the political outlook becomes increasingly uncertain under both possibilities since it depends upon developments in China and in the world political and economic system that cannot be forecast so far into the future with a high degree of probability. Indeed, the longer the time span of a projection, the greater the probability that unforeseeable events will substantially affect the nature of the outcome. In the case of Hong Kong, one such presently unforeseeable development could be the emergence of some form of intermediate status combining the economic autonomy of the British colony with the political sovereignty of China.

The Problem of Popular Participation

Would internal changes in Hong Kong rather than China's course of development be likely to determine the city-state's future? The probability is that, by themselves, they would not, even though neither the people generally nor the elite groups might be particularly enthusiastic over the continuation of British rule. Just as the communist regime in China and the British administration in Hong Kong perpetuate in different forms the essence of China's traditional centralized authoritarianism, so are they both confronted with China's age-old problem of making their control effective while enlisting at least the acquiescence, and if possible the active support, of the local elite groups and the great mass of the people. And, naturally, they have sought to deal with this perplexity in different ways. The problem of popular participation in Hong Kong is discussed in this section; that of elite-group participation in the next.

As in all transitional societies, the factors affecting popular attitudes and expectations are complex and interdependent, and they are often ambivalent in their effects. The sociocultural determinants were analyzed in Chapter II and only their specific application to the peculiar circumstances of Hong Kong are discussed here.

A basic consideration is the fact that a substantial proportion of Hong Kong's population are refugees from South China, predominantly from the rural areas and market towns of Kwangtung. A minority were wealthy landowners, manufacturers and other businessmen who feared not only the confiscation of their property by the communists but also for their freedom, if not their lives. Many more were small and middle landlords, small wholesale and retail merchants, and skilled artisans who also were convinced that their interests would suffer under communist rule. Many others were peasants and workers in the villages and towns, motivated by the characteristic Chinese urge for economic advancement, who felt that their chances would be better under a private-enterprise market system than under a communist regime. And, probably the largest group of refugees were simply people driven by hunger or panicked by the flight of their neighbors and the rumors of real or imagined communist atrocities.

Regardless of their specific motivations, the great majority of first-generation refugees were eager to make a new beginning in the security of Hong Kong and to take advantage of the economic opportunities it increasingly provided. Hence, they tended to be law abiding, hard working, intent on self and family advancement, and—as traditionally in China—disinclined to involve themselves in the larger activities of government and politics so long as their condition was not deteriorating drastically. These attitudes were sanctioned by the Confucianist doctrine that government was the concern of the elites, not of the people, whose proper activities were limited to fulfilling their economic and other obligations to their families. Insofar as these family and individual interests were affected by official policies and actions, both the refugees and Hong Kong's older inhabitants looked to the many kinds of Chinese organizations, traditional and modern, religious and secular, economic and social, already in existence or newly established, to deal with the city-state government. They included particularly the lineage and other traditional associations that have always been widely prevalent in South China; the *Kaifongs* or neighborhood associations in the urban areas; the more specialized kinds of charitable organizations ubiquitous among the overseas Chinese; the benevolent-society type of trade unions described in the preceding chapter; and Buddhist, Taoist and Christian devotional and educational institutions. As in imperial China and in the transitional Chinese societies throughout the Nanyang, the leadership of most of these organizations naturally fell into the hands of the local elite groups—in Hong Kong's case, mostly businessmen and professionals.

Most first-generation refugees retained a strong sense of their lineage and village ties, and their affiliation with organizations based on these relationships helped to maintain their sense of identity, as well as to serve their specific interests. At the same time, the fact of British rule and their exposure, on a scale not hitherto experienced, to Western ways of living and working generated a much more conscious and emotionally charged sense of Chinese identity than had been the case in their native towns and villages. Thus, they were conscious of China in a deeply ambivalent way: on the one hand, as a country from whose regime they had fled and to which they feared to return; and, on the other, as a national society from which they derived their deepest sense of identity and toward which they felt the greatest loyalty and pride.

The children of the first-generation refugees, either born in Hong Kong or brought there when quite young, tend to have somewhat different attitudes, formed largely by their greater and more intense exposure to Western institutions, values and norms during the most important years of personality formation in

childhood and adolescence. Nurtured within a transitional Chinese family, which their parents strove to keep as traditional as possible, they were subjected to the changes, described in Chapter II, that substantially reduced the all-encompassing scope of the household, fostered their self-consciousness, and reinforced their customary willingness to work hard and to strive for economic advancement and social prestige. But, other Confucianist values and norms—which, in the countryside of South China, had still in their parents' time held in check and channeled into other activities the hostilities and resentments inherent in the traditional Chinese family—were less and less effective in the transitional households of uprooted refugees in the Westernized environment of Hong Kong. This weakening—although by no means disappearance—of traditional restraints and transformational processes and the pushing back of authority tensions into adolescence permitted the direct and overt expression of intergenerational conflicts. The members of the second generation, exposed through education and the communications media—as well as by direct contact with Western businessmen and tourists—to Western life-styles and self-conceptions, were inclined to expect earlier and easier achievement of rising living standards and greater scope for individual expression and self-indulgence than their parents had sought for themselves or were willing to concede to their children.

Hence, too, the second generation's attitude toward China tended to differ from that of their parents. Some young people have become communists by conviction, although few are strongly enough motivated to give up the material benefits and personal freedom of Hong Kong for the austerity and unanimism of China. Most, however, without becoming communists or even sympathizers, identify with China's struggles and take pride in China's economic and social progress and increasing importance in world affairs. However, these feelings are complicated by their own cultural ambiguity. The second generation lacks the basic sense of identity inculcated into their parents by the latter's personality formation in the villages and towns of rural China, and there is little, if any, sense of Hong Kong identity to take its place.

The city-state is politically but not socioculturally part of the United Kingdom; conversely, it is socioculturally but not politically part of China. Moreover, as a separate, autonomous social entity solely in the economic sense, Hong Kong is too monodimensional to serve as a powerful focus for loyalty and identification. For, without independence, domestic politics or a self-determining role in world affairs, Hong Kong lacks the processes that, in the contemporary world, mainly stimulate national consciousness and concern. Nor has it become a creative intellectual, scientific, literary, or artistic center; and, hence, it does not generate distinctive modes of perceiving and interpreting physical and social realities. The resulting tendency toward *anomie* of the second generation is held in check or relieved by their identification with and pride in China. But, their rejection of communism and unwillingness to live under the Chinese communist regime prevent this sense of identity and loyalty from removing their underlying ambiguity.

Such feelings in adolescence tend to intensify self-concern and contribute to the high rates of absenteeism and turnover among young workers of both sexes. However, after they marry and have children, the basic pattern of family loyalties and responsibilities in most cases reasserts itself, especially in the absence of a competing national focus for identification. Thus, as adults, most second-generation Chinese become hard-working participants in Hong Kong's economy, seeking their own and their family's advancement with an intense drive, albeit also

with considerably more nervous tension than their parents appear to have felt. These adult attitudes are bound to affect the personality formation of the third-generation children in the years to come.

In two successive years during the 1960s, the attitudes sketched in the foregoing paragraphs contributed to violent episodes on the part of Hong Kong's normally peaceful and acquiescing population. The so-called Star Ferry riots of 1966 were apparently in large part an expression of youthful ambiguity and projection of authority resentment onto the company involved and the government. The event that triggered them—a rumored increase in the first-class fare of the leading passenger ferry service between Hong Kong island and Kowloon—had largely symbolic significance as a grievance for the young people participating in the demonstrations and two nights of rioting in April of that year. Conceivably, some other event could have served as the occasion for a violent release of resentments and anxieties. The subsequent hearings of the Commission of Inquiry revealed a serious gap of information and understanding regarding the fare question between the people, on the one hand, and the Hong Kong government and the Star Ferry Company, on the other.

The much more alarming disturbances of 1967 were in essence a form of participation by Hong Kong's communists and sympathizers in China's Cultural Revolution, then at its height. In the spring of that year, labor disputes led by communist unions were escalated into strikes, street demonstrations and riots that continued with increasing violence into the summer. These actions, however, failed to generate much popular support; in fact, the great bulk of the population, as well as the neighborhood Kaifongs and other influential noncommunist Chinese organizations, supported the government's efforts to control the violence and to keep the economy functioning as normally as possible. During the summer and fall, the riots were succeeded by indiscriminate bombings, which further alienated Hong Kong's people. Moreover, although Peking newspapers had initially approved the communist demonstrations and several border incidents had occurred, there was no sustained encouragement and help from China. Hence, by the end of 1967, vigorous action by the Hong Kong government, actively or passively supported by most of the population, brought the disturbances to an end.

The outbreaks of 1966 and 1967 led to efforts to improve two-way communication between Hong Kong's government and people. The most important development was the establishment in 1968 of the system of urban district officers and local offices and suboffices described in the first section of this chapter. These institutional innovations have been facilitating better relationships between the government and the people. During 1972, for example, the urban district offices and suboffices handled about 1.9 million inquiries from individuals regarding their personal and family problems and the governmental services available to them. For its part, the Hong Kong government has been using these facilities to keep in closer touch with popular opinion, needs and complaints and to test the likely reactions to policy changes and proposed new programs. The riots also helped importantly to spur on the expansion of social-welfare activities made possible since the mid-1960s by Hong Kong's increasing resources.

So far, the great majority of Hong Kong's population have not sought to participate actively in the city-state's government. Indeed, only a small percentage of those eligible to register for the Urban Council franchise do so, and an even smaller percentage actually vote. To some extent, this lack of interest may be owed to the fact that the Council's functions are not of critical economic importance, although they do significantly affect the daily lives of the people, and to

the absence of the stimulus and momentum of partisan politics. In more important degree, however, it reflects the attitudes and restraining considerations sketched in the preceding pages.

How much longer is this general popular passivity likely to persist? As the Star Ferry riots of 1966 prefigured, the expectations and behavior of the age groups reaching maturity in the 1970s will differ from those of their parents. On the one hand, the new generation may be willing, like the old, to forgo political participation for the sake of personal security and economic improvement. On the other, the weakening of the restraints of the Chinese family and of the Confucianist ethic, combined with the effects of better education and increased familiarity with Western values and behavioral norms, may make them responsive to the efforts to organize them for political action. World economic developments adversely affecting employment and real incomes in Hong Kong would additionally foster such a development. However, even in the latter event, the extent and forms of popular political activity are likely to be limited to those regarded by China as consistent with its own. Hence, unless rising popular pressures for political participation are deliberately provoked by China as a prelude to taking over the city-state, greater involvement of Hong Kong's people in the political process would probably not change fundamentally the nature and policy orientation of its governmental system.

Elite-Group Participation in Policy Making

By their nature, the elite groups of a transitional society are predisposed to participate in policy making much earlier and more actively than is the great mass of the people. Their interests are more directly and substantially affected by government actions; they are better educated and more articulate; and the norms of behavior inculcated by their occupational experiences in modern-type manufacturing and financial activities incline them toward mutual cooperation for common purposes, thereby helping to counteract their particularistic rivalries. Hong Kong's elite groups are mainly comprised of business and professional people—owners, managers and specialists of industrial, commercial, financial, and service enterprises; lawyers, doctors, architects, engineers, journalists, writers, artists, and executives and performers in the motion picture, TV and radio industries; and higher-level civil servants, teachers and university faculty members. A small but very influential minority are Westerners, mainly British, led by the powerful "taipans," the heads of the long-established British-owned banks and mercantile and financial houses. The great majority are Chinese. And, again expressing the predominantly economic orientation of Hong Kong's society, the most important elites are those whose capacity to affect policy making derives from their economic interests and activities. However, the influence of many Chinese businessmen and professionals is reinforced by their leadership of lineage, neighborhood, charitable, and religious organizations even though they are not primarily economic in nature.

Members of Hong Kong's elite groups participate in public policy making and implementation in several ways: directly through membership on governmental bodies and advisory committees and personal relationships with governmental officials; through their opinion-molding influence on their employees, clients and customers; and through their participation in chambers of commerce, trade associations, professional societies, and the other types of organizations that

represent aggregations of economic and social power. Unlike in other transitional societies, however, there is no political process in which they can make their influence felt as voters, party members, financial contributors, and supporters of particular politicians and factions. Hence, in Hong Kong, the other means of participation in policy making have become correspondingly more significant.

The business and professional elites have more actively and directly sought to influence policy making as their economic activities have expanded and diversified in the decades since World War II. In turn, the government has endeavored to facilitate and regularize their participation in two ways. The first has been by stimulating the chambers of commerce, trade associations and other business and professional organizations to play more significant roles. The second has been by establishing a formal network of advisory committees and commissions specifically designed to involve elites from the private sector in the process of policy making and execution. Many individuals are motivated by a sense of social responsibility to participate in these organizations, and their activities are given wide publicity in the Chinese and English press. For its part, the government recognizes the outstanding services of constructive supporters of the colonial regime by conferring knighthoods and other honors on them. In turn, their involvement in policy making enhances their status as leaders in the Chinese community.

With respect to the first way by which elite-group participation has been fostered, Hong Kong has a full complement of conventional business and professional organizations. The oldest and one of the most important is the Hong Kong General Chamber of Commerce, founded in 1861 and still largely under the leadership of the long-established British banking, commercial and financial firms. The chambers of commerce for Chinese businessmen are separated into one oriented toward China and the other favoring the Nationalist regime in Taiwan. There are also several chambers of commerce for foreign nationals. The industrial sector is represented by the Chinese Manufacturers' Association, founded in 1934, and by trade or professional associations for each of the major branches of industry. And, as explained in Chapter IV, the Federation of Hong Kong Industries and the various organizations associated with it have played major roles in policy making, especially in dealing with the present and prospective problems that Hong Kong faces in the world economy.

The second category of organizations for involving the elite groups in policy making includes over 130 advisory committees to government departments and agencies. In the main, they are organized on a functional basis for dealing with specific branches of the economy and particular welfare and service activities of the government. Their members are drawn from people active in or knowledgeable about each operation, and their membership is periodically rotated to assure wide participation from the elite groups. In addition to providing technical information and assistance to their respective government departments, these committees review and make recommendations regarding proposed policy and program changes, and suggest new measures for official consideration. Virtually all of the innovations and modifications in government policies and activities during the past decade or so have been discussed in these advisory bodies. The objective, and in most cases the actual result, has been to achieve a consensus among the elites most directly and substantially affected and the government agency concerned regarding the proposed changes in policies and programs.

Also in this category are the commissions from time to time appointed by the government to advise on the need and desirability for new activities or for major changes in existing policies and programs. Wholly or partly composed of elite-group members, these bodies usually make more comprehensive and detailed studies of their assigned subjects and draw up more fully developed plans for dealing with them than the advisory committees are able to do.

Hong Kong's unique system of elite-group participation in policy making and execution operates through discussion and consensus. By its nature, the system works slowly, and the process of moving from original suggestion to final decision and implementation usually takes several years. It is significant to note that the essential characteristics of Hong Kong's arrangement for elite-group participation in policy making are analogous to those by which this result was achieved in traditional Chinese society. As in the latter, the government in contemporary Hong Kong is in theory absolute and in practice authoritarian, yet it cannot rule effectively without at least the acquiescence of the majority of elites. In both, the required consensus is reached through a lengthy process of discussion and negotiation. True, it was elaborately formal and personalistic in imperial China and is largely matter of fact and impersonal in Hong Kong today. But, the city-state's elite groups find the system sufficiently congenial to their inherited expectations and norms to participate willingly and effectively in it.

This does not mean that Hong Kong's British-dominated government and its numerically preponderant Chinese elites are always in agreement. The former is often under pressure from the latter to provide greater help in one way or another to the private sector than the government believes is consistent with the best interests of the city-state as a whole, and to abandon or postpone proposed measures for the same reason. The controversy over increased rent for leaseholds is a case in point. Conversely, the Chinese elites tend to be critical of the government for its slowness and caution not only in assisting the private sector but also in undertaking programs in the broader interest of the city-state as a whole. But, with the exception noted below, these are differences over methods, amounts and timing, not basic disagreements over principles and goals. Like the high-minded mandarins in the imperial system, individual Chinese and even British unofficial members of the Legislative Council and the advisory committees are from time to time critical of government actions and failures to act. But, there is no place in Hong Kong's government for a responsible opposition on the British parliamentary model—for an organized group that systematically and as a matter of principle subjects official proposals and activities to searching scrutiny and devises and presses alternative policies and programs. Nor do most Hong Kong elites seem to wish to play such a role.

Other than the communists, the only articulate dissenters from Hong Kong's consensus system among the elite groups were encountered by the authors among the academic and other intellectuals, both Chinese and Western. These critics object to the lack of responsible representative institutions and to the government's related refusal to follow economic and social policies conducive to much greater equality in income distribution. Without seeking either independence or a completely democratic form of self-government, these dissenters would favor the popular election of the unofficial members of the Legislative Council and the formation of a responsible opposition, which would mean the establishment and free operation of political parties. They urge governmental policies designed to mobilize greater resources through the public sector and to allocate them for

bigger and more diversified social-welfare programs. So far, however, the individuals expressing these views are unorganized and do not appear to be seeking, much less obtaining, support for them more broadly within the elite groups or among the people generally.

On the whole, Hong Kong's elite groups are tolerably well satisfied with their condition. At all levels, they have been enjoying unprecedented increases in incomes and wealth and wide-open opportunities for individual advancement. Most Chinese elites fully recognize the political restrictions imposed by Hong Kong's relationship with China. Although they would certainly like to exercise the political power that, in other countries, their economic interests and social prestige would enable them to grasp, they are resigned to forgoing it for the sake of preserving Hong Kong's independence of communist China. Naturally, most Chinese elites resent in some degree the inevitably closer ties that exist between the British government officials and the British taipans and other British businessmen and hence the latter's greater influence on the former. But, because their own sense of cultural identity and superiority is so strong, this resentment is generally no more than an undertone or nuance of their feelings. It is like the jealousy of the more favored normally felt by the less favored among the elites in any society rather than like the gnawing resentment of more successful Westerners experienced by many nationalistic elites in other transitional countries, where the sense of cultural identity and the confidence in one's society and self are weaker.

In fact, the relationships between the Chinese and the British and other Western elites have been changing in two related ways. First, over the decades since World War II, the relative power and influence of the Chinese elites have been steadily growing. Today, they constitute the great majority of the members of the various types of organizations through which the elites participate in policy making. More important, their representation in the Legislative Council has increased substantially and is now about equal to that of the taipans and other British elites, and they hold a quarter of the higher-level civil service positions. Second, both reflecting and strengthening the first trend, business and social relationships between the culturally different elites have been becoming steadily closer, easier and more trustful. In part, too, this trend expresses the increasing Westernization of the Chinese and the declining cultural chauvinism of the Westerners. Joint ventures are becoming more frequent; the important British- and other Western-owned banks and business firms have Chinese officers and directors, and *vice versa*; and, although the people generally still prefer to keep their savings in Chinese financial institutions, Chinese and Western businessmen seek the best banking services regardless of ownership.

In sum, despite their lack of explicitly political roles, the great majority of Chinese elites are more or less active supporters of Hong Kong's existing regime. They are content with their situation not only negatively, because the alternative to it would mean the loss of their wealth and power, but also positively, because it provides them with realizable opportunities to earn rising incomes and enjoy improving living standards. And, the unique system through which they participate in policy making assures that their influence will steadily grow even though it is exercised in nonpolitical forms.

The Government's Role

Among those who observe Hong Kong from afar or who visit it briefly as businessmen, writers or tourists, it is customary to characterize the city-state as

the world's last practitioner of the pure 19th-century *laissez-faire* doctrine. If the essence of the classical ideal was that the responsibilities of government should be restricted to the maintenance of security and order, the administration of justice, and the levying of the minimum taxes needed to carry on these functions, Hong Kong may have been a reasonable approximation of it as late as the 1930s. But, it is no longer so today: under the pressure of developments since World War II, the scope, diversity and intensity of the government's activities have increased far beyond the austerity and passivity of the 19th-century ideal.

Nevertheless, not simply by comparison with the economies of North America and Western Europe but even in 19th-century terms, Hong Kong can be said to have the freest economic system on the planet. This can be seen not simply in its freedom of trade and capital movements. More relevant to contemporary expectations and problems is its declared general policy of keeping the public sector and the government's role as small as possible and giving the private sector the maximum latitude to carry on its activities in accordance with external and internal market forces and consistent with the security and welfare of the city-state. Whatever can be done with reasonable efficiency by private enterprise is left to private initiative and market determination; whatever the private sector can't do is undertaken by the government provided its cost in terms of increased taxes or of other benefits forgone is significantly less than its contribution to the growth of the economy and the well-being of Hong Kong's people. True, this philosophy is generally professed in a number of other countries with private-enterprise market economies—the United States and Switzerland, for example. But, in Hong Kong, it has been more rigorously and consistently applied than anywhere else. At the same time, although in these respects Hong Kong's policy resembles the classical *laissez-faire* ideal, the government does not accept the related 19th-century doctrine that "the greatest good for the greatest number" would automatically and inevitably result. In place of 19th-century liberalism's prescription of a withdrawn, uninvolved and passive role for government, Hong Kong's administration is open, alert and concerned, and it deliberately seeks to achieve certain economic and social-welfare objectives even though it does not engage in directive economic planning and active macroeconomic management.

On the one hand, Hong Kong practices free trade and substantial freedom of capital movements; permits easy and equal entry into business for both domestic and foreign entrepreneurs; enjoys extremely low corporate and personal tax rates; maintains one of the world's soundest currencies, which is issued by private banks and is fully backed by foreign-exchange reserves; has a budgetary surplus in most years; and leaves all public utilities, except water supply and its portion of the Kowloon-Canton railway, in the private sector. On the other hand, it anticipates the economy's needs for new and expanded infrastructure facilities and furnishes them if the private sector appears unlikely to do so; it is actively engaged in promoting Hong Kong's exports and foreign investment in the city-state; it builds and rents factories; it provides export credit insurance, loans to small industry, technical education and training, and assistance for improving productivity and technological advancement; it encourages the diversification of industry; and it is even beginning to adopt antipollution measures. At the same time, however, the government endeavors to avoid detailed or burdensome regulations and tries not to get in the way of the operation and expansion of the private sector. In addition, through the unique system of elite-group participation in policy making, the

government encourages the private sector to take the initiative in proposing many policy and program innovations, and it may from time to time informally stimulate private leaders to do so.

Moreover, as explained in the preceding chapter, by 20th-century standards of government-sponsored social welfare, Hong Kong ranks among the highest in Asia and Latin America, let alone in Africa. Hong Kong's government is carrying out one of the largest resettlement and low-rent housing programs in the world; already guarantees free primary education to every child and plans soon to offer three years of secondary education to all as well; regulates hours of work; operates hospitals and clinics; furnishes increasing public assistance to the needy; provides recreational facilities; and even organizes festivals and public entertainments. These activities would hardly have been sanctioned under the pure 19th-century doctrine.

In theory, the danger in Hong Kong's kind of modernized *laissez-faire* approach in a society without democratic controls is that the government might become wholly or largely subservient to the powerful and dynamic private interests. That this possibility has been avoided in Hong Kong is owed, once again, to its peculiar status as a British colony. From the Governor down, Hong Kong's British officials are British civil servants, members of one of the least corruptible and most dedicated public services in the world. As such, their own judgmental standard tends to resemble that of the high-minded mandarins, who sought to achieve the Confucianist ideal of disinterested administration and paternalistic concern for the welfare of the society. Most British officials are true believers in Hong Kong's modernized version of *laissez-faire*—indeed, they take credit for it—and they are admiring of and sympathetic with Hong Kong's enterprising Chinese businessmen and naturally have close affinities with the taipans, with whom they share a common sociocultural background. But, despite such attitudes, they are not docile handmaidens of the Chinese and British business communities. To as great an extent as the civil service of any other contemporary government, they are consciously aware of their wider social responsibilities and endeavor to make decisions as objectively as possible and in terms of the welfare to the city-state as a whole. Their example inevitably affects the attitudes and behavior of their Chinese colleagues in the administration. Thus, Hong Kong's colonial status substitutes in significant measure for democratic institutions in preserving the requisite degree of governmental independence, disinterestedness and honesty.

This is not to say that bribery and corruption are nonexistent in Hong Kong. Quite the contrary. Hong Kong has a severe drug problem and its share of other types of crime—and the corruption of some of the police and other officials that goes with them. Bribery occurs in other areas as well. But, characteristically, much of it reflects Hong Kong's economic dynamism. Even though the city-state's bureaucratic procedures are comparatively free of red tape, they are sometimes not fast enough for a real-estate syndicate waiting for a building permit to start construction or for a manufacturer waiting for an occupancy permit to start production—time is as much money in Hong Kong as in the United States, Europe or Japan. And, regardless of how prevalent bribery and corruption may be in Hong Kong, their extent in the city-state is minor compared with their volume and pervasiveness in imperial or Kuomintang China, in all other contemporary developing Asian countries except Singapore—and, for that matter, in certain large American cities.

Should Hong Kong's Government Be Doing More?

Knowledgeable and responsible critics in the city-state and abroad do not stress dishonesty, indifference or incompetence on the part of Hong Kong's government. Their main concern is that the government has spent too little and too late on education, health, public assistance to the needy, and other social-welfare purposes. The critics maintain that greater resources could be made available for such programs if the government would either borrow or increase taxes or both.

The question of whether the Hong Kong government should borrow domestically or abroad has been much debated in the city-state since the mid-1960s. The critics claim that the government should issue bonds to pay for some or all of its capital projects, which would release more of its current revenues to finance its recurrent expenditures for social-welfare and community services. In this way, the size and scope of these programs could be substantially increased without reducing the expenditures on capital projects that are necessary for continued economic growth. The arguments for and against this proposal are technical but they basically involve a major policy issue.

The government's position has been essentially as follows. Hong Kong's banks would be willing and able to invest in government bonds provided that, by doing so, they would not significantly reduce their ability to lend money at higher interest rates to meet the needs of the private sector. This would mean that the banks would have to be permitted to count their government bond holdings as part of their liquid assets—which, in the absence of a secondary market for government obligations in Hong Kong, would require a government guarantee to repurchase the bonds at any time prior to maturity. In turn, such a guarantee would necessitate the accumulation from current revenue of a reserve fund to meet this contingency because, under Hong Kong's currency system, the government could not simply print money to do so. But, if the reserve were equal to 100 percent of the guarantee, there would be no net increase in governmental expenditures. And, if the reserve were only partial, the resulting increase in the money supply would not reflect the growth of exports and, hence, would tend to be inflationary and might adversely affect the balance of payments. As to borrowing abroad instead of at home, the government was doubtful in the past that there would be an adequate market for Hong Kong's securities—although it probably could have qualified for World Bank loans. In any event, until 1972 when it borrowed from the Asian Development Bank, the government was unwilling to assume substantial external interest obligations constituting net resource transfers abroad and repayment obligations that might come due under conditions of stagnation or recession in world trade and, hence, would aggravate the deflationary pressure on the economy.

The critics maintain that the government has had too narrow and inflexible a view of what could be done under an automatic currency system like that of Hong Kong. They are pleased that, at long last, the government is now beginning to realize Hong Kong's potentialities for obtaining development loans abroad. But, the critics believe that domestic borrowing, too, would be both practicable and desirable. They point to Singapore (see Chapter VIII) as an example of an equally export-dependent city-state that has a similarly sound currency backed more than 100 percent by foreign assets but whose government nevertheless carries on substantial short- and long-term domestic borrowing—albeit mainly through forced savings and mandatory reserve requirements for the banks and other financial institutions.

However, to engage in domestic borrowing under Hong Kong's currency system without incurring the self-defeating or adverse effects feared by the government would mean that the determination of the money supply could not be left solely to the state of the balance-of-payments. In addition to the automatic currency mechanism, the government would have to intervene—intermittently if not continuously—to expand or contract the volume of demand-deposit creation by the banks through the issuance or repurchase of government securities, the adjustment of the liquidity ratio, and the imposition and modification of cash-reserve requirements of various kinds.¹ This is essentially the practice followed in Singapore, where these and other monetary functions have in the past been carried on by different government agencies and are now in process of being consolidated into a central bank.

At bottom, therefore, the technical arguments depend upon a basic policy issue: should the macro-adjustment process be determined by freely operating market forces or by an active management policy? Hong Kong has hitherto been following the first, Singapore the second, as explained in Chapter VIII. Either method is practicable but each has its own prerequisites, costs and benefits.

Having chosen so far to base its adjustment process essentially upon market forces, Hong Kong's government has had to refrain from restricting them, except as deemed necessary in the ways described in Chapters IV and V. For, all other things being equal, the more freely market forces are permitted to operate, the more effectively will they keep the city-state's costs and prices in line with those in the world economy and allocate its resources of capital and labor to the most productive activities. Conversely, if Hong Kong were now to shift to the method of active macroeconomic management, the government would have to equip itself with substantially more central-banking powers. More problematical, it would also have to be capable, politically and administratively, of enforcing measures specifically designed to prevent wage and other costs from rising too fast relative to those of its competitors, as Singapore has been doing.

The question of whether Hong Kong could carry out wage and related policies similar or analogous to those of Singapore cannot, of course, be settled before the fact. However, certain differences between political systems, governmental roles and popular attitudes in the two city-states would have important effects on the outcome and can be briefly noted. Both governments are authoritarian, but Singapore's is popularly elected and that city-state has an active, if controlled, political life, sovereign independence, and a developing sense of national identity and purpose, as explained in Chapter X. In the absence of these integrating and loyalty-generating factors, it is questionable whether Hong Kong's government could successfully enforce specific controls over wages and incomes on both the elites and the people. For, the effectiveness and security of this alien government's authoritarianism depend upon not pushing its regulatory practices too far—that is, on allowing Hong Kong's elites and people the widest possible autonomy for pursuing their own and their families' interests in accordance with their inherited expectations. Inadequate controls would be worse than useless, for they would be unlikely to prevent rising costs and prices while discouraging local and

¹The government would probably also have to require insurance companies and other institutional investors to hold specified amounts of government bonds, which they would otherwise be unlikely to do because they could earn higher rates of return by investing in other types of assets in Hong Kong or abroad. Such restrictions, it is feared, might adversely affect Hong Kong's status as the regional insurance center.

foreign investment in the city-state and diminishing the ability of market forces to bring about the rapid adjustments in resource allocations that are necessary pre-conditions for Hong Kong's exports to remain competitive and conform to changing opportunities abroad. At the popular level, efforts to enforce wage and income controls could provoke political disturbances more serious than those of the mid-1960s and thereby put an end to the tacit understanding with China regarding continuation of Hong Kong's existing status.

Instead of running the economic and political risks of trying to apply specific controls, therefore, Hong Kong's government would probably be constrained to rely only upon generalized monetary and fiscal measures for inhibiting inflationary tendencies and keeping the city-state's exports competitive. How effective such a limited approach would be is impossible to determine in advance. Nevertheless, regardless of its effectiveness, the pressure of events is impelling the government toward greater use of generalized policies than it has hitherto believed necessary or desirable. Such developments are already manifesting themselves with respect to the central-banking prerequisites of a more active macro-management policy.

Opinion in Hong Kong financial circles has been ambivalent on the issue of whether the city-state should have a central bank or its equivalent. Naturally, the big note-issuing banks have been opposed to it. Most other banks, Chinese and foreign, would like to see the note-issuing banks lose their monopoly privileges but they would be unhappy if the government were to begin to exercise other kinds of central-banking powers that would restrict their own freedom of action. Nevertheless, the government has already begun to do so in potentially significant ways. For example, having tied the Hong Kong dollar to the U.S. dollar after sterling was floated, it has had to intervene in the foreign-exchange market to prevent its currency from appreciating beyond the permitted limit whenever the U.S. dollar has been under pressure. Moreover, even though the government hopes to finance them out of current revenues, the expanded housing, education and social-welfare programs projected for the next few years and the Metro system and other new infrastructure projects could compel it to borrow domestically, as well as abroad, on an increasing scale. In turn, such a development would impel it to assume other related central-bank type of powers, especially with respect to reserve ratios and other means of influencing credit availabilities and the money supply.

Such a course of events has a reasonable probability because of the practical limits on the extent to which taxes could be raised to pay for increased social-welfare and other expenditures. For, this is a question of feasibility rather than of basic policy. At a standard rate of 15 percent, Hong Kong's taxes on personal and corporate incomes are very low. They were even lower before 1966, when they were raised from 12 1/2 percent to their present level. Taxes have been kept down primarily for two reasons: to help keep costs and prices as low as possible, and to provide incentives for continuing investment in Hong Kong. Both considerations are important, and the second is likely to be more so in the future.

The objective of the latter is not so much to attract American, European and other foreign investment to the city-state, although that is certainly intended and desirable. Rather it is to retain Chinese investment, which overwhelmingly predominates in manufacturing and constitutes a majority in the other branches of the private sector as well. Hong Kong's economic future depends essentially on its continuation as an attractive location for investment by its own Chinese businessmen and by other overseas Chinese. Hong Kong's entrepreneurs are accustomed to

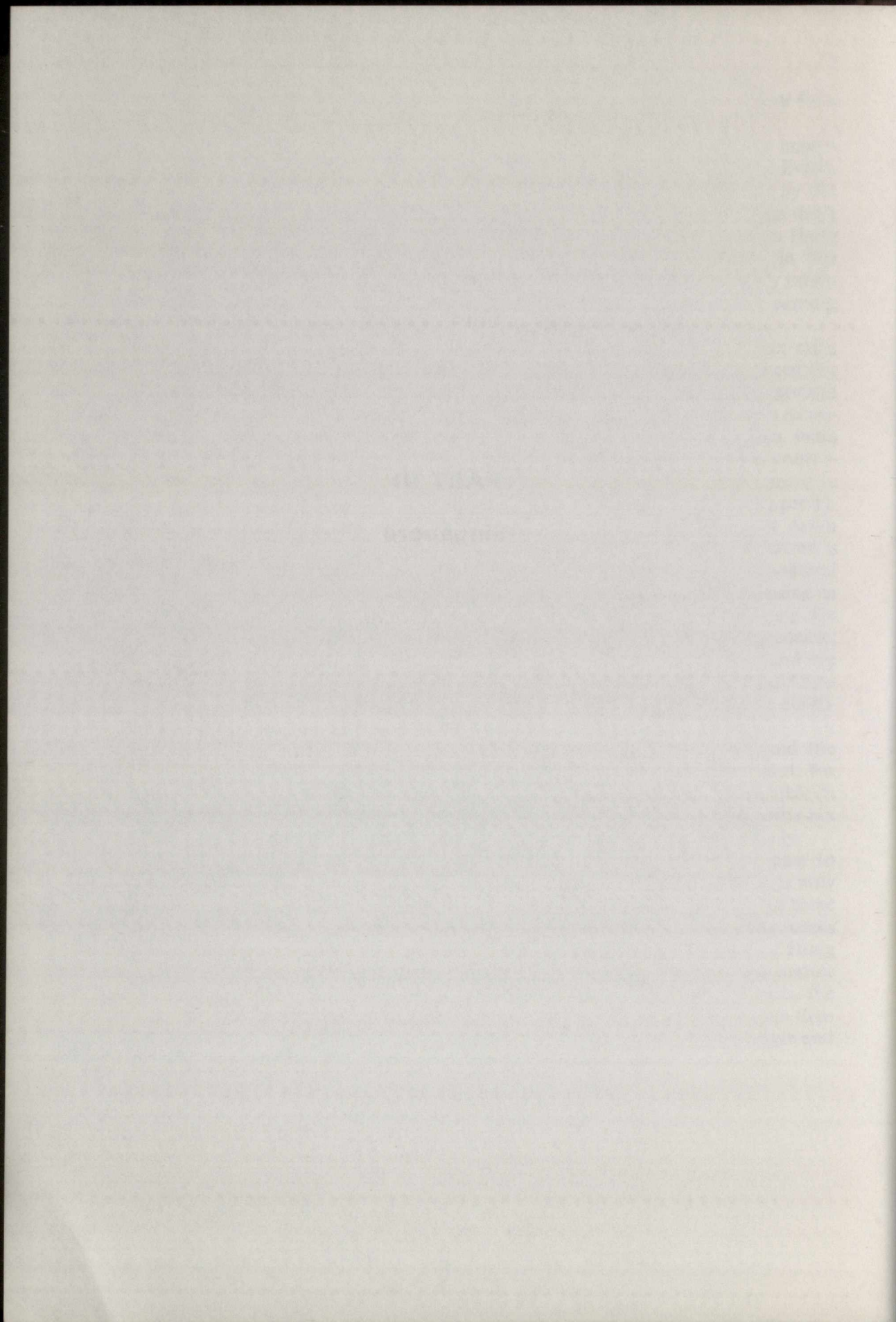
and adept at moving funds internationally, and their decisions are most importantly influenced by the profitability and security of their investments. Everywhere in East Asia and the Nanyang, these two desiderata can be realized by the overseas Chinese in varying proportions. The more there is of one, the less there need be of the other. The major threat to the security of investment in Hong Kong is the likelihood over the longer term that, as explained earlier in this chapter, the city-state will revert to China. Hence, the political uncertainty inherent in Hong Kong's existing status has to be offset by the possibility of earning and retaining attractive profits, salaries and other incomes.

This does not mean, however, that any increase above present tax rates would have significantly adverse consequences. On the one hand, the need for increases in revenue beyond those generated at existing rates by economic growth is implicit in the objectives to which the government is now committed in its announced intention to expand and improve programs in housing, education, mass transit, public assistance to the needy, and other fields. Indeed, as the controversial increases in the rents on leasehold renewals indicate, the government is already endeavoring to raise additional revenue. On the other hand, the profitability and security of Chinese investment in other East and Southeast Asian countries relative to those in Hong Kong are declining. Taiwan's political future is a great deal more uncertain in the shorter term than that of Hong Kong; political and economic conditions are deteriorating in the Philippines; costs are rising in South Korea; the kinds of new investment Singapore is now encouraging are technologically beyond the current capabilities of most Chinese entrepreneurs; although their economic outlook is good, Indonesia, Malaysia and Thailand are wary of excessive Chinese influence; and possibilities in Vietnam, Laos and Cambodia depend on the still highly doubtful prospects for peaceful and secure conditions in these countries.

In these circumstances, there would appear to be both the need and the opportunity for increasing the revenues of the Hong Kong government. But, for the reasons given, the probable raises in tax rates will be modest, comparable in proportion to those of the past. Substantial increases, especially in the profits tax as some of the more radical critics urge, would be neither expedient nor likely.

In sum, regardless of whether it should have done more in the past to improve social welfare and community services, Hong Kong's government is now pledged to doing much more in the future. Yet, it will endeavor to expand these activities by measures that will not significantly impair the role of market forces in the macro-adjustment process or reduce the comparative attractiveness of Hong Kong for Chinese and foreign investment. It is committed to the first as a matter of judgment and to the second as a matter of life or death. Within these limits, the government is already being impelled to greater flexibility and innovativeness than in the past under the pressure of changing circumstances within the city-state and abroad.

PART III
Singapore



VII.

Challenges and Responses

By East Asian standards, Singapore has always been a prosperous society, for most of the 20th century second only to Japan in per capita income. Its prosperity depended mainly on its entrepot trade, primarily with Malaya and the East Indies. These two countries, ruled until World War II by the United Kingdom and the Netherlands respectively, had stable governments and orderly societies—in contrast to China—and they produced raw materials, notably rubber and tin, that were in growing demand in the world economy, except during the depression years of the early 1930s. Thanks to its freedom of trade, locational advantages and enterprising British and Chinese businessmen, Singapore was able to obtain a substantial share of the opportunities for trade, investment, and managerial and financial services that were increasingly generated in the Malay peninsula and the East Indian archipelago during the decades before World War II.

Conquered and occupied by the Japanese during the War, Singapore faced an uncertain future after its liberation in August 1945. Indeed, in contrast to its experience of stable conditions and steady growth in the 19th and early 20th centuries, it was confronted throughout the postwar decades by a succession of internal and external threats that could have fatally impaired the bases of its economy. Yet, each in turn was sooner or later met by the political or economic measures that are sketched in this chapter.

The Period of the Emergency

Although Singapore had suffered comparatively little physical destruction in World War II, the condition of its people had steadily deteriorated during the Japanese occupation. After the Japanese conquest of Southeast Asia, Singapore's normal trade ties were severed. The functions that it performed for the Japanese war effort were insufficient to maintain its employment and income, and even these activities declined as the approaching U.S. airpower and seapower made merchant shipping in East Asian waters more and more hazardous. At the same time, the Japanese prohibited emigration to the mainland. Thus, as the War went on, Singapore's population suffered increasingly from unemployment and progressive malnutrition, and eventually from starvation.

Despite the physical weakness of its people and the disorganization of its economy, Singapore was able quickly to resume its accustomed commercial activities after the Japanese surrender. Its traditional markets in Western Europe and North America were eager for the rubber, tin, coconut oil, palm oil, spices, timber, and other natural products of the region. And, substantial quantities of several of these commodities were available in the producing countries because the Japanese had collected them during the War but had been unable to ship them out. Although merchant shipping was in short supply in the immediate postwar

years, the demand for the products Singapore could export was sufficiently great to give its trade a relatively favorable position.

Singapore's experienced merchants were able to take advantage rapidly of these opportunities. By 1947, the volume of the city's total trade (imports plus exports) exceeded the prewar level, while the value was over twice as high owing to wartime and postwar price inflation. Trade grew more slowly in 1948 and 1949 as the inception of guerrilla warfare in Malaya and the struggle for independence in the Netherlands East Indies made supplies uncertain. However, the outbreak of the Korean War in mid-1950 stimulated a boom in world trade from which Singapore profited substantially. Excluding trade with Malaya, its total imports and exports rose from under S\$2.4 billion in 1949 to over S\$7.6 billion in 1951. Demand fell in 1952, when Singapore's trade was under S\$5.4 billion. During the next 10 years, the city's total exports and imports, including trade with Malaya, were generally stagnant at around S\$7 billion. Table VII-1 presents the statistics on Singapore's trade from 1953 through 1962.¹

Table VII-1. Singapore's Foreign Trade, 1953-62
(including trade between Singapore and Federation of Malaya)
(S\$ million)

Year	Total Trade	Imports	Exports	Trade Balance
1953	5,673	3,021	2,652	-369
1954	5,705	3,024	2,681	-343
1955	7,220	3,851	3,369	-482
1956	7,358	3,929	3,429	-500
1957	7,570	4,092	3,478	-614
1958	6,880	3,740	3,140	-600
1959	7,348	3,908	3,440	-468
1960	7,555	4,078	3,477	-601
1961	7,272	3,963	3,309	-654
1962	7,453	4,036	3,417	-619

Source: State of Singapore, *Annual Report of the Trade Division of the Ministry of Finance*, 1962, p. 2.

Known as the Emergency, the guerrilla warfare in Malaya that started in 1948 and lasted for over 10 years had important repercussions for Singapore as well. Led by communists, the guerrillas were mainly Chinese, and many of them had relatives or friends in the city. In addition, there were considerable unrest and dissatisfaction in Singapore during the late 1940s and throughout the 1950s for several reasons. The disregard for the ruling authority and its prescribed procedures, which had been fostered by necessity and clandestinely encouraged by the British during the Japanese occupation, persisted after the restoration of British rule owing to shortages, rising prices and the inevitable disappointment of unrealistic expectations of peacetime benefits that were generated during the War. The Chinese population throughout the peninsula felt insecure and resentful as it became increasingly apparent that the Malays would enjoy the dominant political position in the eventually independent Federation of Malaya, steps toward which

¹Until 1962, Singapore's published trade statistics excluded direct trade between it and Malaya. In its *Annual Report* for 1962, the Trade Division of the Ministry of Finance published statistics including direct trade with Malaya back to 1953.

were already underway in the late 1940s and early 1950s. Within Singapore itself, the better economic and political opportunities open to English-educated Chinese bred growing jealousy on the part of those with a Chinese education or able to speak only their native language. At the same time, there was increasing ethnic pride in being Chinese in consequence of China's revival under communist rule, and communist prestige rose accordingly.

The persisting unrest generated by these developments was aggravated by a high rate of population growth. Singapore's population was 938,000 in the 1947 census and, including net immigration, grew at an average annual rate of 4.4 percent to reach 1,446,000 at the time of the 1957 census. In the economic field, the shortages and rising prices of the immediate postwar years and the growing unemployment resulting from the stagnation of the entrepot trade after the Korean War boom led to recurrent waves of strikes and to general labor discontent throughout the period. In the educational system, student agitation and demonstrations were endemic, especially in the Chinese-language middle schools (secondary education institutions) and in the newly founded Chinese-language Nanyang University, which opened its doors in 1956. In the political system, the colonial regime permitted a gradually increasing measure of internal self-government, which included extension of the franchise to cover the resident population and popular election of a majority of the members of the governing bodies. As these changes occurred, the locus of political power moved steadily leftward to parties pledged to socialism and the rapid termination of colonial rule. In turn, the pressures so generated hastened the movement toward increased self-government and popular participation in politics.

These trends in the economic, educational and political systems both helped to strengthen and were further stimulated by Singapore's communists, who soon obtained positions of leadership and influence in the trade unions, the student organizations, the left-wing parties, and the Chinese-language press. Although the majority of trade-union members, students and voters were not themselves communists, many tended to follow communist leaders, who were more adept in the early years than their rivals at articulating mass discontent, focusing it on specific issues, and organizing the activities for making it effective. In employing "united-front" tactics for rallying noncommunist popular support, Singapore's communists were aided by the growing pride in China and the prestige of the Chinese communists. They were often able to make common cause with some of the leaders of Chinese ethnic, charitable and educational organizations and even of the Chinese business community, whose opposition to communism as a political and economic system was more than offset by their resentment of the actual and imagined discrimination against the Chinese inhabitants of Malaya and Singapore.

Thus, the years of the Emergency until the end of the 1950s were a time of great difficulty and uncertainty for Singapore. For much of the period, there was a real danger that the guerrillas in Malaya would become strong enough to establish communist-ruled regions, like those of the communists in China in the 1930s or of the Vietcong in South Vietnam in the 1960s. And, had they been able to do so, the communist-led trade-union and political movements in Singapore might have obtained the prestige and popular support that could have given them *de facto* control of the city. In fact, neither of these possibilities materialized; the guerrillas in Malaya were suppressed and the Emergency formally ended in 1960, and the communists in Singapore were unable to achieve a dominant position in the political and economic life of the city. These defeats were owed to several

interrelated factors. The opposition of the Malays to the predominantly Chinese guerrilla movement and the latter's eventual failure to win the active support of a majority of the Chinese inhabitants of Malaya provided a favorable situation for effective military efforts and civilian control measures by the British colonial regime in cooperation with the Malay-dominated government of the emerging Federation. In Singapore, despite their importance in the left-wing political and economic organizations, the communists were never able to obtain great enough mass support in their own right to capture control of them in the face of the protective measures of the British colonial authorities and the skill of the new group of noncommunist leaders of these organizations who emerged by the end of the decade.

By the late 1950s, the most important of the left-wing political parties was the People's Action Party (PAP). The PAP was founded in late 1954 by a group of trade-union leaders, journalists, lawyers, and teachers, some of whom were communists or sympathizers. As the furthest left of Singapore's parties in the mid-1950s, it sought to attract the support of the discontented workers, students and ethnically concerned Chinese for a platform of socialism, independence and release of the political detainees imprisoned without trial by the colonial authorities under the Emergency legislation. However, as in successive elections the PAP increased its representation in Singapore's City Council and the Legislative Assembly, its leadership polarized into two roughly equal factions of moderates and communists. In the 1959 Assembly election, the PAP won 43 of the 51 seats with nearly 54 percent of the vote, and the leader of the moderate faction, the party's Secretary-General Lee Kuan Yew, became Prime Minister.² During their ensuing term of office, the moderates outmaneuvered the communists for control of the Party, from which the latter seceded in 1961. Also, the moderate PAP leaders were simultaneously able to initiate a strategy for economic and social development, described in the next section, which gained them the popular support needed to win reelection in 1963 despite opposition from the communists and other groups. Thus, Lee Kuan Yew and his moderate associates had the skill first to use communist support to achieve power and then to dispense with it—one of the few successful examples of "riding the tiger," as this tactic is called in Asia.

Membership in Malaysia and Confrontation with Indonesia

The Federation of Malaya achieved complete independence—*merdeka*—in 1957, two years before Singapore attained internal self-government. The question of Singapore's eventual status then became of central importance: would it join the Federation and, if so, on what terms; or would it become an independent city-state?

The moderate PAP leaders opted for the first alternative for both economic and political reasons. They were convinced that Singapore's economic future

²With this election, Singapore achieved a fully elected administration with control over all functions except foreign affairs and defense, which were still retained by the British colonial authorities, and internal security, which was handled by a tripartite body appointed by the British, Malayan and Singapore governments.

depended upon as complete economic integration as possible with Malaya, its major hinterland. Such a link was believed to be essential not only to preserve a substantial part of Singapore's entrepot trade but also to provide a big enough market for the development of manufacturing industry in the city. For, Lee Kuan Yew, Goh Keng Swee, the Finance Minister, and their associates recognized that Singapore could not continue indefinitely to rely solely upon entrepot activities. All of the now independent Southeast Asian countries were aiming to develop their own direct trade relationships. Indeed, the inception of such efforts by Indonesia and other Southeast Asian nations was in part responsible for the failure of Singapore's exports and imports to grow during the 1950s and for the consequent rise of unemployment as the labor force increased. Hence, the PAP leaders concluded that the future of the entrepot trade was too uncertain and that other economic activities, notably manufacturing, had to be developed to provide the needed employment and the desired growth of income. Also, they recognized that the new import-substituting industries could operate on a large enough scale to be efficient only if they had free access to a market embracing Malaya's 7 million people in addition to Singapore's 1.6 million in 1960.

Only if Singapore were politically an integral part of the Federation would such free-market access be secure. Moreover, the moderate PAP leaders—who were still riding the communist tiger after they took office in 1959—were unsure of their ability to remain in control of both the Party and the government. Hence, they favored merger with Malaya, under its strongly anticommunist government, as ultimate political insurance against their own communist allies.

For their part, however, the Malay leaders of the Federation were by no means eager for a merger with Singapore. On the one hand, they recognized the substantial benefits to Malayan development of the large net increases in tax revenues, capital and entrepreneurial skills that the accession of Singapore would bring; and they did not like the prospect of having an independent and possibly communist-controlled city-state a few hundred yards off their southern coast. On the other hand, they were adamantly opposed to the change in ethnic proportions that would result from inclusion of Singapore in the Federation. In the latter as of 1960, the Malays had slightly over 50 percent of the population, while the Chinese comprised 37 percent and the Indians 11.2 percent. Adding Singapore's population would shift the proportions to 44.2 percent for the Chinese, 43.2 percent for the Malays, and 10.8 percent for the Indians.

A way out of this dilemma was suggested by the Malayan Prime Minister Tengku Abdul Rahman in May 1961. He proposed that the British colonies of North Borneo, Sarawak and Brunei be granted independence and allowed to join the Federation along with Singapore. As the inhabitants of these northern Borneo states were predominantly Malays or kindred peoples, their numbers would more than counterbalance Singapore's large Chinese majority. Although the Sultan of Brunei chose independence, North Borneo and Sarawak voted for membership in the proposed new Federation of Malaysia, as the enlarged arrangement was called, and its resulting ethnic proportions were 46.2 percent Malay, 42.2 percent Chinese, and 9.4 percent Indian.

Once it became practicable in this way, the proposed merger with Malaya precipitated the final split in the PAP leadership and the secession of the communists in July 1961. The latter formed a new united-front party, the Barisan Sosialis, that eventually opposed membership in Malaysia and sought independence under an extreme socialist regime. In the Singapore referendum held in

September 1962 to determine popular preferences for three different forms of merger with Malaya, that favored by the PAP won 71 percent of the total, while the voters who cast blank ballots, as advocated by the Barisan Sosialis, amounted to 25 percent. More indicative of the continuing strength of the communists and their left-wing sympathizers was the fact that, in the 1963 Assembly elections, the Barisan Sosialis candidates received 37 percent of the votes in the contested seats to 47 percent for the PAP. But, the former won only 13 seats while the latter obtained 37, a decisive majority. Although with the formation of the Barisan Sosialis the PAP was no longer the most leftward party, its moderate leaders were able to retain popular support because the strategy of economic and social development adopted when they took office in 1959 was already beginning to produce some results.

The economic strategy placed primary emphasis on the development of import-substituting industries to create additional jobs first to catch up with and then to keep pace with the growth of the labor force. For, when the PAP took office in 1959, the unemployment rate had risen above the 5 percent of 1957 and was well on the way to reaching close to 9 percent in 1966.

Manufacturing activities already existed in Singapore but they consisted largely of semiprocessing the raw materials, especially rubber, comprised in the entrepot trade; producing processed foods and beverages, printed materials, and other light consumer goods; and providing metal-working, electrical and mechanical services for maintenance and repair, particularly in shipping and air transport. Motor vehicles were also assembled from imported components. These operations, however, could supply a cadre of experienced managers, technicians and skilled workers for industrial growth and diversification. In addition, Singapore had most of the other essentials for industrialization. Thanks to the entrepot trade, it already possessed an extensive infrastructure—electric power, water supply, communications, port and storage facilities, etc. For the same reason, a modern banking system was in operation that could mobilize local capital and provide credit. The substantial number of unemployed, most of them with some education and willing to adapt themselves to the disciplines of industrial work, could supply the labor force for the new factories. The required marketing network existed in the wholesale and retail facilities already distributing imported manufactured goods to Singapore's domestic market, with its comparatively high per capita income, and to the much bigger domestic market of Malaya.

The principal lack was the technologies needed for new industries. But, importing them from Western Europe, North America and Japan was not too difficult for Singapore's entrepreneurs. The best candidates for the initial phases of import substitution are such industries as building materials and paints, processed foods and beverages, soap and cleaning materials, tobacco products, household furnishings and supplies of all kinds, textiles and clothing, printing, and other light consumer goods whose technologies are relatively simple, standardized and often too old for patent protection. Assuming that the other prerequisites for industrialization are present, the services of experienced technicians from abroad for a year or two are usually sufficient to transplant the required technologies. Local entrepreneurs can obtain them by directly hiring individual technicians or the technical services of an experienced foreign producing or consulting firm, or by joint ventures with foreign companies. Alternatively, the latter can establish their own factories. In the early years of Singapore's industrialization, the bulk of the new investment in manufacturing activities was undertaken by indigenous

firms, which usually obtained the technologies they needed by direct hire of foreign technicians or of foreign producing or consulting companies.

To stimulate and assist local entrepreneurs to develop import-substituting activities, the Singapore government adopted legislation in 1959 granting approved "pioneer industries" up to five-years exemption from the 40 percent company profits tax, and generous depreciation allowances. In addition, it abandoned the principle of free trade, on which the city's entrepot economy had been based since its foundation, in favor of import tariffs and quotas to provide protection for these "infant industries."

After taking office in 1959, the PAP administration embarked on the preparation of a Development Plan, published in 1961 and covering the period 1961 through 1964. The Plan envisaged that the development of manufacturing industry would be the responsibility of the private sector, while the provision of an adequate infrastructure and of increased social services would be the responsibility of the public sector. Thus, despite their long-standing commitment to socialism, the moderate PAP leaders recognized that the government lacked the resources and skills for public ownership and management of the means of production. Instead, they opted for an active policy of government direction of and participation in the industrialization process. An Economic Development Board was established in 1961 as a semiautonomous agency within the Ministry of Finance. With an initial appropriation of S\$100 million, the Board was given wide powers to make loans to approved indigenous and foreign companies and to subscribe to their stocks, bonds and debentures; to publicize Singapore's development opportunities at home and abroad; to take the initiative in arranging for local and foreign private entrepreneurs to start manufacturing activities and to grant them the privileges of pioneer industries; and to provide technical advice and assistance to new and expanding manufacturing industries and facilitate relationships between pioneer companies and government departments. The Board was also responsible for the planning, construction and operation of the industrial estates in which the great majority of Singapore's new manufacturing activities would be located. The Board was staffed with young, energetic economists, engineers and other professional civil servants under the dynamic and far-sighted leadership of the Finance Minister, Goh Keng Swee.

The Plan itself related primarily to investments in the public sector for infrastructure, including public utilities, and for community and social services. Although most of these expenditures would be carried out by other government departments and statutory authorities, the Board had general coordinating and expediting responsibilities. The largest category of public investment was for the construction of industrial estates and the public utilities they required. Next in size were the capital expenditures for social services, notably housing, education, and sanitation and health facilities. The third largest category was for transportation and communications. During the period from 1961 to 1965, planned expenditures for these and other purposes totaled S\$871 million and actual expenditures were S\$921 million, exceeding the target by about 6 percent.

Public-sector and private-sector investments combined to give a substantial boost to construction activities during this period, thereby providing more jobs. Also, the growth of manufacturing helped to expand employment but not by as much as had been anticipated. Although employment increased, unemployment rose even faster owing primarily to the annual additions of young people to the labor force. During the period from 1957 through 1965, the labor force grew at

Table VII-2. Estimates of Labor Force and Employment, Selected Years, 1957-72*

	1957	1965	1966	1969	1972
Labor force (thousand)	480	557	575	654	751
Employed persons (thousand)	456	509	524	610	715
Unemployed persons (thousand)	24	48	51	44	36
Unemployed as percent of labor force	5%	8.7%	8.8%	6.7%	4.8%
Average annual rate of increase in labor force	1.9%	3.2%	4.4%	4.7%	
Average annual rate of increase in employment	1.4%	2.9%	5.2%	5.4%	

*1957 based on persons 10 and over, other years on persons 15-64.

Sources: 1957 from State of Singapore, *Report on the Census of Population 1957*, Table 57. Other years from Singapore Government, *Annual Budget Statement*, February 1973, Table 9.

an average annual rate of 1.9 percent, while employment increased at an average annual rate of only 1.4 percent. Table VII-2 presents estimates of employment and unemployment for selected years from 1957 to 1972. The unemployment rate, which was 5 percent in 1957, was 8.8 percent in 1966. Thereafter, it began to decline for reasons explained in the next section.

Despite the fact that unemployment increased throughout the period of the PAP's first administration, it did not adversely affect its reelection in 1963 because of the offsetting effects of the government's social development efforts. Most notable were the achievements in housing and education. Prior to 1960, public housing was the responsibility of the Singapore Improvement Trust which, over the entire postwar period, had been able to build only 21,000 dwelling units. Combined with the 2,000 units completed before the War, they housed 8.8 percent of the city's population. The PAP replaced this agency by the Housing and Development Board which, with larger appropriations and a more dynamic staff, constructed over 67,000 units for an additional 15.6 percent of the population from 1960 to 1966 alone. Moreover, in 1959, an ambitious school-building program was begun which, from 1962 on, averaged well over one new school building completed every month. Primary school enrollment rose from 267,000 in 1959 to 336,000 in 1963 and secondary school enrollment nearly doubled. By 1966, primary schooling was virtually universal, while 47 percent of the boys and 41 percent of the girls of the requisite ages were attending secondary schools or institutions of higher learning. In view of the value placed on education in Chinese culture, these increases in the number of children in school and in school construction were among the most important reasons for continued public support of the PAP. Another was the spreading public perception of Lee Kuan Yew and his associates as constituting a dynamic, efficient and honest government in contrast to the PAP's predecessors during the 1950s, who had a reputation for corruption and inability to get things done.

Popular attitudes were also deeply affected by the events following the consummation of the merger with Malaya in September 1963.³ The Indonesian

³At the same time, the United Kingdom granted full independence to Singapore as part of Malaysia. However, under an agreement with the Malaysia and Singapore governments, the British retained their naval, air and army bases in Singapore.

government, under the increasingly autocratic and eccentric domination of Sukarno, had expressed strong opposition to the formation of Malaysia, especially to the inclusion in it of the former British colonies in Borneo, which Sukarno regarded as part of Indonesia. Immediately after the merger went into effect, Sukarno activated the policy of "confrontation," under which economic relationships with Malaysia were severed, guerrilla warfare along the border with the new Borneo states was provoked and supported, and sabotage raids were initiated against Singapore and Malaya. On the one hand, confrontation was a serious blow to Singapore's entrepot trade with Indonesia. The city-state's total imports and exports declined by over 19 percent, due in large part to the severance of commercial relations with Indonesia. This reduction contributed significantly to unemployment in Singapore during the next two years. On the other hand, confrontation stimulated feelings of loyalty among Singapore's Chinese population and strengthened their support for the PAP government. Also, in accordance with their defense obligations to Malaysia, the British increased their military forces in Singapore, thereby generating greater local employment. In the absence of these British defense expenditures, unemployment would have been substantially larger.

Thus, the years from 1959 through 1965, when the prospect and then the actuality of membership in Malaysia were major influences on Singapore's politics and economic policy, were a period of difficulty and uncertainty comparable in seriousness, although different in content, to that of the Emergency of the 1950s. Some of the same worries persisted, especially the extent of popular support for the incongruous opposition coalition of communists and Chinese ethnic chauvinists. A more pressing concern was rising unemployment, which not only helped to sustain the influence of the Barisan Sosialis but also contributed to continuing labor unrest. The mandays lost in strikes were nearly 411,000 in 1961 and over 388,000 in 1963. The Indonesian confrontation was another immediate concern, threatening both Singapore's entrepot trade, still the most important activity, and its physical security. Nevertheless, as described above, these challenges were being met by vigorous and imaginative responses on the part of Singapore's government supported by a majority of its hard-working and adaptable people.

The Period of Independence

Nor were Singapore's postmerger relations with the Malaysian government without increasingly serious strains. There were continuing disagreements over economic arrangements, such as the Federal authorities' desire to obtain a larger share of Singapore's revenues than the 40 percent originally agreed upon, their failure to consult Singapore before imposing new duties and taxes in the 1965 Budget, the dispute over the allocation of Malaysia's quota for textile exports to the United Kingdom, and Singapore's feeling that the Federal authorities were unfairly trying to divert foreign investment to Malaya. Moreover, these and other economic conflicts were paralleled by political tensions, which were more directly responsible for precipitating the expulsion of Singapore from the Federation. Despite an initial tacit understanding to refrain from political activities in each other's territories, the dominant Malayan party sought to enlist support among Singapore's Malay population in opposition to the PAP, while the latter ran candidates against the former's allied Chinese party in several mainland constituencies during the 1964 Federal elections. These rising strains led to the an-

nouncement by the Malaysian government of the dissolution of the merger in August 1965.⁴

Singapore's expulsion caused consternation among the PAP leaders. Membership in the Federation of Malaysia had been the common foundation of their political and economic policies. They had counted on it politically to assure their security against external aggression (e.g., Sukarno's confrontation policy) and internal subversion, and economically to provide the enlarged domestic market required for rapid industrialization and the consequent reduction of unemployment. Nor could Singapore shift ultimate responsibility for protection and help to the United Kingdom, for it was now a fully independent, sovereign city-state. This loss of the basis of its policy was probably the severest challenge that Singapore has had to face. But, with their characteristic flexibility and pragmatism, the city-state's leaders and people wasted little time in recrimination or lamentation but turned instead to making the changes needed for their survival.

Arrangements were soon gotten underway for creating Singapore's own defense forces and for establishing diplomatic relations with other nations, as well as for joining the United Nations and other international organizations. However, the necessary changes in economic development strategy were much more difficult and would take longer to put into effect. As a member of the Federation, Singapore's major economic objective had been to foster import-substituting industries to serve the combined domestic markets of Singapore and Malaysia. But, after August 1965, the products of Singapore's manufacturing firms were subjected to the same protective tariffs and quotas as were Malaysia's other imports of these goods, thereby reducing their domestic market to Singapore alone. Moreover, the smaller scale of operations of many of Singapore's new industries necessitated more severely protective tariffs and quotas in order to prevent competition from lower-priced imports. This situation soon convinced the PAP leaders and the Economic Development Board that an import-substitution strategy was no longer a practicable means for achieving large and efficient enough industrialization to reduce unemployment and improve real income.

The only alternative industrialization strategy was one aimed at manufacturing for export to world markets. But, such an approach involved much more rigorous requirements than import substitution. Enterprises producing for export have to be efficient enough to meet competitive prices in foreign markets and must also be able to develop the requisite marketing linkages. Moreover, they need a continuous flow of information regarding changing styles and fashions if they make textiles, wearing apparel and other soft goods, and more complicated and exclusively held technologies than hitherto required if they produce electrical and electronic products, transportation equipment, and other hard consumer and capital goods. For these reasons, the responsible ministers and civil servants made the crucial decision that direct investment by qualified foreign companies would be the quickest way to meet these stringent requirements.

Since its establishment in 1961, the Economic Development Board had been endeavoring to encourage foreign investment, and its efforts were now intensified, as described in the next chapter. Fortunately, fully prepared industrial sites were

⁴Certain integrated arrangements were continued by Malaysia and Singapore after the latter's expulsion from the Federation. However, these have gradually been terminated in recent years: for example, the dissolution of Malaysia Singapore Airlines into two independent organizations in 1972, and the ending of the interchangeability of the Malaysian and Singapore dollars and the separation of the stock exchanges in 1973.

readily available due particularly to the rapid construction of the large Jurong industrial estate during the first half of the 1960s.⁵ In late 1965, companies were permitted to deduct from their taxable income double the expenses of developing export markets. The pioneer-industries legislation was supplemented in 1967 by an act granting tax concessions on profits earned from the export of manufactured goods.

More important than tax incentives in attracting foreign investors to Singapore was the basic change gradually brought about by the PAP government in labor-management relations. After the secession of the communists and their left-wing sympathizers in 1961, the moderate PAP leaders sought to break their hold on the trade unions as well. The communist-dominated central labor organization was dissolved. The noncommunist unions formed the National Trades Union Congress, a new body established by the PAP. It was officially encouraged and by mid-1966 its affiliated unions had about 75 percent of the organized workers. In addition, the government passed a law in 1966 prohibiting strikes unless approved by a majority of members in a secret ballot, requiring registration of union officials at all organizational levels, and forbidding noncitizens and people with criminal records from holding office in or working for a union.

Control over the trade unions made it possible for the government to prevent Singapore's comparatively high labor costs from rising at a rate that would have impaired the competitiveness of its manufactured exports in world markets. And, such regulation was acceptable to trade-union members and the people generally because real wages were rising as the economy grew rapidly during the second half of the 1960s. Also, as explained in Chapter IX, living standards were improving thanks in substantial measure to the government's housing, education, health, and other programs. Hence, the government was able to pass and enforce the Employment Act of 1968, more fully discussed in Chapter IX, which fixed hours of work at 44 a week; reduced the number of paid holidays; restricted the length of annual paid leave, the amount of overtime work, and the size of other benefits; and limited the annual New Year's bonuses. Additional legislation in the same year prohibited collective-bargaining agreements from granting benefits more generous than those permitted by the Employment Act.

These developments brought about a dramatic change in Singapore's labor situation. The number of mandays lost in strikes declined drastically from over 388,000 in 1963 to 46,000 in 1965, 11,000 in 1968, and 2,500 in 1970. The rate of increase of Singapore's wage rates also fell, and the gap between its wage rates—hitherto much the highest in Asia after Japan—and those of Hong Kong, Taiwan and South Korea narrowed rapidly during the second half of the decade.

Stimulated in part by these changes, private-sector capital formation rose substantially: its annual value almost tripled from S\$234 million in 1966 to S\$666 million in 1969. An indication of the importance of foreign direct investment in the growth of manufacturing industry may be seen in Table VII-3. According to Singapore's national-accounts estimates presented in the next chapter,

⁵The Jurong industrial estate, now comprising 6,000 acres including port facilities and housing areas, is by far the largest in Singapore. There are also 11 smaller industrial estates of varying size scattered throughout the city-state. All have been managed since mid-1968 by the Jurong Town Corporation, a statutory body, which is continually developing additional portions of the estates for industrial use, constructing both standard and flatted factory buildings for sale or rental, and providing housing and amenities for increasing numbers of workers employed on the estates.

Table VII-3. Paid-in Capital of Pioneer Establishments and Major Nonpioneer Establishments as of December 31, 1969
(S\$ million)

	Number of	Local		Foreign		Total Value	Fixed Assets Value
		Value	Percent	Value	Percent		
All pioneer establishments	236	222	47	250	53	472	586
Major nonpioneer establishments	269	209	66	109	34	318	356
All establishments	505	431	55	359	45	790	942

Source: *Economic Development Board, Annual Report '69*, p. 53.

the contribution of the manufacturing sector almost doubled from S\$487 million in 1966 to S\$897 million in 1969. The exports generated by this sector also nearly doubled over the period.

Not only did manufacturing industry grow substantially after 1965, but the entrepot trade entered upon a period of unexpected expansion. Unsuccessful in compelling dissolution of the Federation, Indonesia used the end of the merger with Malaysia as a reason for discontinuing its confrontation policy—a change that was reinforced by the subsequent fall of Sukarno. Trade between Singapore and the other of its two most important hinterlands once again became legal. In addition, the escalation of the Vietnam War by large-scale U.S. intervention offered opportunities for meeting rapidly expanding military and civilian demands for imports of goods and services, which Singapore's merchant houses were quick to exploit. In the late 1960s, too, oil exploration activities in the South China Sea and neighboring waters were increasing, and Singapore soon realized its potential advantages as a management headquarters and a center for producing and servicing the needed equipment. Finally, world trade experienced an extraordinary boom in the last years of the decade, of which Singapore was able to obtain a gratifying share.

Thanks to these industrial and commercial developments, and to the related growth of public-sector expenditures, construction and service activities, Singapore's unemployment at last started to decline. As Table VII-2 shows, the average annual rate of increase of employment exceeded that of the growth of the labor force from 1966 on. This welcome shift, along with the general atmosphere of buoyancy and forward movement accompanying rapid economic growth and rising living standards, contributed substantially to the PAP's victory in the parliamentary election of 1968. With the Barisan Sosialis refusing to participate, only seven seats were contested by the right-wing parties and independents. The PAP easily won them, thereby making a clean sweep of all seats in the new Parliament. The PAP again took all of the seats in the 1972 election, although the opposition won 30 percent of the votes.

Despite its extraordinary success in adjusting to its changed circumstances after separation from Malaysia, Singapore faced its next major challenge with considerable trepidation. This was the announcement in 1968 by the British Labour Government of its military withdrawal from "East of Suez." Scheduled to begin in 1969 and to be completed by the end of 1971, the expected closing down of all British army, navy and airforce installations in Singapore was modified by the subsequent Conservative Government to provide for the continued

stationing of small forces in the city-state. Nevertheless, the loss of employment and income for Singapore was bound to be substantial. Although British military expenditures had already declined by nearly S\$100 million since the ending of the Indonesian confrontation, they still amounted to S\$457 million in 1968 and provided employment, directly and indirectly, to around 50,000 people.

This challenge, too, was successfully met. The Singapore government arranged to take over the installations evacuated by the British either for use by its own growing armed forces or for conversion to nonmilitary purposes. At the same time, it sought and obtained a pledge of aid from the United Kingdom. The latter provided £50 million (one quarter as a grant, the remainder as an interest-free loan) to finance the conversion projects and other programs to provide alternative employment for people displaced by the British withdrawal. Thanks to these efforts and the boom conditions prevalent throughout the period, the British rundown resulted in no net losses of employment or income.

Thus, in the 25 years between the end of World War II and the beginning of the 1970s, Singapore faced and successfully met a series of critical internal and external problems. A failure to have responded effectively to these challenges—the Emergency, the internal communist threat, the rising unemployment, the Indonesian confrontation, the expulsion from Malaysia, the British military withdrawal—could have resulted in economic collapse, political disorder and social disintegration. Lacking a rural hinterland with the safety valve of a still functioning agrarian subsistence economy and the reserve of undeveloped natural resources, Singapore's people had nothing to fall back upon but their own energy, adaptability, intelligence, and realism. They had the good fortune to produce and the good sense to support a group of young, vigorous, efficient, and dedicated leaders. And, the latter, in turn, had the skill to outwit their opponents, the intellectual ability to understand the nature of their problems, the courage to carry out the requisite measures, and the self-control to avoid having their effectiveness nullified by factionalism and schism. In consequence, Singapore's leaders and people could look ahead to the 1970s with satisfaction in the past and confidence in the future.

VIII.

The Singapore Economy and Its Prospects

In the early 1970s, Singapore is more prosperous and its economic future is brighter than at any time since World War II. The rate of unemployment, for long its most serious economic problem, has been cut almost in half since the high point in the mid-1960s and the city-state is becoming increasingly concerned about actual and prospective labor shortages. Living standards are continuing to improve both quantitatively and qualitatively. So far in the 1970s, no dramatic new political or economic challenges have arisen comparable to those of the earlier years. This chapter analyzes the characteristics and dimensions of Singapore's current economic achievements and assesses whether and how the city-state would be able to maintain its progress under foreseeable conditions.

Economic Size, Structure and Growth Rates

In the course of the 1960s, Singapore's annual rate of population growth fell steadily from an estimated 3.5 percent in 1960 to 1.7 percent in 1972. According to the census of 1970, Singapore had 2,075,000 people in June of that year, and the estimated total for mid-1972 was 2,147,000, reflecting the decline of the birth rate from the high of 41.1 per thousand in 1958 to 23.0 per thousand in 1972. Net immigration has been quite small in recent years. The ethnic composition of the population has remained steady at approximately 76 percent Chinese, 15 percent Malay, 7 percent Indian, and 2 percent people of other origins.

Singapore's national accounts are published in current prices and hence do not measure the real rates of growth. However, as indicated by the consumer price index, Singapore's price increase has been comparatively small since 1960, with the index rising from 100 in that year to 121.7 in January 1973. The average annual rate of growth of gross domestic product (GDP) at factor cost in current prices from 1960 to 1972 was 11.2 percent, but for Singapore's years of independence from 1966 to 1972 it was even higher—13.9 percent. Table VIII-1 presents the pertinent data on GDP from 1960 to 1972.

Since 1966, construction has been the fastest growing sector at an average annual rate of 27.5 percent, followed by manufacturing at 23.4 percent. In the services sector, which as a whole grew only at an average annual rate of 11 percent, the most rapid increases were achieved by tourism at 29.7 percent, ownership of dwellings at 16.9 percent, and banking and insurance at 16.2 percent.

The changing structure of Singapore's economy is also shown in Table VIII-1. Whereas in 1960 the entrepot trade comprised 18.6 percent of GDP, its relative share had declined to 9.5 percent in 1972. Conversely, the manufacturing sector, which contributed only 9.2 percent in 1960, grew to 23.5 percent in 1972. Construction almost quadrupled its relative share over the period, from 2 percent to 7.5 percent, while that of agriculture and fishing was cut more than in half, from 6.1 percent to 2.8 percent. Domestic trade increased its proportion from

Table VIII-1. Value, Percentage Shares and Growth Rates of Gross Domestic Product by Major Sectors, Selected Years, 1960-72
(S\$ million at current prices)

	1960		1966		1970		1972 Prelim.		Average Annual Rate of Growth		
	Amount	Percent of GDP	Amount	Percent of GDP	Amount	Percent of GDP	Amount	Percent of GDP	1960-66	1966-72	1960-72
Gross domestic product at factor cost	2,046.0	100.0	3,365.2	100.0	5,657.3	100.0	7,321.7	100.0	8.6	13.9	11.2
Goods sector	353.3	17.3	768.3	22.8	1,617.2	28.5	2,473.2	33.8	13.8	21.5	17.6
Agriculture and fishing	124.0	6.1	152.8	4.5	171.2	3.0	204.7	2.8	3.5	5.0	4.2
Manufacturing and quarrying	187.4	9.2	486.8	14.5	1,143.8	20.2	1,716.6	23.5	17.2	23.4	20.3
Construction	41.9	2.0	128.7	3.8	302.4	5.3	551.9	7.5	20.6	27.5	24.0
Services sector	1,692.7	82.7	2,596.9	77.2	4,039.9	71.5	4,848.5	66.2	7.4	11.0	9.1
Electricity, gas and water services	47.3	2.3	73.3	2.2	138.3	2.5	175.0	2.4	7.6	15.6	11.5
Wholesale and retail trade	650.1	31.8	878.7	26.1	1,724.9	30.5	1,982.5	27.1	5.2	14.6	9.7
(a) Entrepot trade	(381.1)	(18.6)	(349.0)	(10.4)	(683.1)	(12.1)	(694.0)	(9.5)	-1.5	12.1	5.1
(b) Domestic trade	(269.0)	(13.2)	(529.7)	(15.7)	(1,041.8)	(18.4)	(1,288.5)	(17.6)	12.0	16.0	14.0
Ownership of dwellings	92.6	4.5	141.5	4.2	204.1	3.6	362.3	4.9	7.3	16.9	12.0
Government services	106.6	5.2	246.4	7.3	390.0	6.9	482.0	6.6	15.0	11.9	13.4
Other services	796.1	38.9	1,257.0	37.4	1,582.6	28.0	1,846.7	25.2	7.9	6.6	7.3
of which: military services	279.0	13.6	549.5	16.3	419.2	7.4	204.0	2.8	12.0	-15.2	-2.6
tourism	30.5	1.5	83.4	2.5	275.6	4.9	397.7	5.4	18.3	29.7	23.9
banking and insurance	34.2	1.7	62.1	1.8	97.9	1.7	152.3	2.1	10.5	16.2	13.2

Source: Singapore Government, *Annual Budget Statement*, February 1973, Tables 1, 1a and 1b.

13.2 percent to 17.6 percent but, among other services, only tourism rose dramatically from 1.5 percent to 5.4 percent. The contribution of military services fell from 13.6 percent in 1960 (largely from the British bases) to 2.8 percent in 1972, when it included Singapore's own defense effort as well as that of the British, then in the last year of its rundown. Government services grew modestly from 5.2 percent to 6.6 percent—a tribute to the efficiency and self-control of Singapore's political leaders and civil servants.

Using mid-year population estimates and GDP figures at factor cost in current prices, the growth of per capita GDP may be calculated as shown in Table VIII-2.

Table VIII-2. Growth of Per Capita GDP

Year	Amount (\$S)	Percent Change from Previous Year
1960	1,243	
1966	1,740	
1967	1,867	7.3
1968	2,116	13.3
1969	2,366	11.8
1970	2,727	15.3
1971	3,063	12.3
1972	3,410	11.3
Average annual rate of growth 1960-66—5.8 percent		
Average annual rate of growth 1966-72—11.9 percent		
Average annual rate of growth 1960-72—8.8 percent		

Sources: Derived from Singapore Department of Statistics, *Monthly Digest of Statistics*, March 1973, Table 2.2; and *Annual Budget Statement*, February 1973, Table 1.

Another perspective on the growing capabilities and levels of welfare in the Singapore economy can be seen in the changes in consumption, saving and investment over the period presented in Table VIII-3. While increasing at an average annual rate of 7.7 percent from 1960 through 1972, private consumption declined from 83.1 percent of gross national product (GNP) at the beginning of the period to 56.2 percent at the end. This change was accompanied by an increase in the share of public consumption from 9 percent of GNP to 11.4 percent. Gross fixed capital formation was 6.5 percent of GNP in 1960 but rose to 28.9 percent in 1972, reflecting an average annual rate of growth of 26 percent. Although the two were nearly equal in 1960, gross capital formation in the private sector was more than double that in the public sector in 1972; the former grew at an annual average rate of 28.8 percent compared with 21.7 percent for the latter.

Thus, Singapore has been simultaneously enjoying rapid economic growth and rising economic welfare. Because it was able to save and invest increasing proportions of its growing GDP, its expanding productive capabilities provided the means for substantial gains in both private and public consumption. In turn, the higher levels of consumption made it economically and politically possible for the city-state to save and invest larger shares of its total output. These

Table VIII-3. Gross National Product, Consumption, Savings, and Investment, 1960-72

(\$ million at current prices)

	1960		1966		1970		1972 Prelim.		Annual Average Rate of Growth		
	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	1960-66	1966-72	1960-72
GDP at market prices	2,161.3	98.6	3,570.0	98.4	6,001.7	98.0	7,724.5	97.6	8.7	13.8	11.2
Plus net factor income from abroad	31.3	1.4	59.7	1.6	120.5	2.0	193.0	2.4	11.4	21.6	16.3
Equals GNP at market prices	2,192.6		3,629.7		6,122.2		7,917.5		8.8	13.9	11.3
Minus consumption	2,020.0	92.1	2,986.5	82.3	4,383.7	71.6	5,355.8	67.6	6.7	10.3	8.5
of which: private	(1,822.4)	(83.1)	(2,639.1)	(72.7)	(3,703.5)	(60.5)	(4,453.5)	(56.2)	6.4	9.1	7.7
public	(197.6)	(9.0)	(347.4)	(9.6)	(680.2)	(11.1)	(902.3)	(11.4)	9.9	17.2	13.5
Equals gross national savings	172.6	7.9	643.2	17.7	1,738.5	28.4	2,561.7	32.4	24.5	25.9	25.2
Use of savings											
Net transfer payments	48.2	2.2	44.9	1.2	23.6	0.4	22.5	0.3	-1.2	-10.9	-6.2
Gross capital formation	142.4	6.5	473.3	13.0	1,375.7	22.5	2,287.9	28.9	22.2	30.0	26.0
of which: public	(67.0)	(3.1)	(239.6)	(6.6)	(367.3)	(6.0)	(710.3)	(9.0)	23.7	19.9	21.7
private	(75.4)	(3.4)	(233.7)	(6.4)	(1,008.4)	(16.5)	(1,577.6)	(19.9)	20.7	37.5	28.8
Balance on goods, services and transfers	-18.0	-0.8	125.0	3.4	339.2	5.5	251.3	3.2	-	-	-

Source: Singapore Government, *Annual Budget Statement*, February 1973, Tables 4 and 4a.

interdependent changes occurred at an accelerated rate after 1966, reflecting not only the cumulative effects of economic growth but also Singapore's greater freedom of action and widening opportunities after its separation from Malaysia.

Manufacturing

The structure of Singapore's manufacturing sector is shown in Table VIII-4. Petroleum refining is Singapore's largest industry, responsible for nearly a third (30.7 percent) of total output in the manufacturing sector. The city-state's five existing refineries—belonging to Shell, Esso, Mobil, British Petroleum, and Singapore Petroleum (a local corporation owned one-third by the Development Bank of Singapore, one-third by Amoco, and one-third by Oceanic Petroleum)—were operating at the rate of over 600,000 barrels a day in 1972, and it is envisaged that new construction will increase total capacity to 1 million barrels a day by 1974 or 1975. Petroleum refining also contributes the second highest proportion of value added, 17.5 percent of the total in 1972, and its value added per worker was by far the biggest at S\$108,900. These magnitudes reflect the capital intensity of this industry. For this reason, it is not a large employer of labor, accounting for only 1.5 percent of total manufacturing employment in 1972.

Situated on the main shipping route from the Persian Gulf to East Asia, as well as contiguous to the producing areas of Southeast Asia, Singapore has a locational advantage for petroleum refining, which the government was quick to exploit by offering pioneer-industry privileges to the large international oil companies. The expansion of its refining capacity was stimulated during the 1960s by the needs of the Vietnam War and, until 1972, South Vietnam was Singapore's largest customer. However, for the future, it is anticipated that Japan, the fastest growing petroleum importer in Asia, will be the major market for Singapore's refinery products. Since Japan's own refining capacity is being increased rapidly to take care of the bulk of its requirements, Singapore will become Japan's principal marginal supplier, whose level of operation will largely depend upon whether demand is rising or falling in the Japanese market. Despite this uncertainty, the prospects of the Japanese and other East Asian markets appear sufficiently bright for the oil companies and the Singapore government to undertake the planned increases in refining capacity in the next few years.

Contributing 14.8 percent of manufacturing output in 1972, the second largest category of industry comprised electrical and electronic products and machinery of all kinds. Although the production of machine tools and other types of capital equipment has been increasing in recent years, the biggest and fastest growing portion of this industry consists of semiconductors, integrated circuits, other electronic components, radios, TV sets, tape recorders, electric fans, household electrical appliances, and other consumer products. Nearly 40 percent of the new industrial investment during 1972 was in this category. Owing to its various assembly operations, it is the largest employer of labor, with 23.1 percent of total manufacturing employment. It provides the biggest share of value added—20.6 percent of the total. At the end of 1972, there were 50-odd companies making electrical and electronic components and products; about half were American and the remainder were from Japan, Germany, the Netherlands, the United Kingdom, Hong Kong, and other foreign countries, while several were of local origin.

Table VIII-4. Manufacturing Industries, 1972 (Preliminary)
(establishments with 10 or more workers)

Major Industry Group	Estab-lishments		Employment		Remuneration		Output		Value Added		Workers per Estab-lishment	Remu-neration per Worker	Value Added per Worker	Ratio of Value Added to Output
	No.	%	No.	%	S\$ mil.	%	S\$ mil.	%	S\$ mil.	%	No.	S\$'000	S\$'000	%
Food industry	232	12.1	9,656	5.6	29.9	4.9	541.0	10.0	96.2	5.8	42	3.1	10.0	17.8
Beverage industry	20	1.0	2,300	1.3	10.8	1.8	70.5	1.3	33.3	2.0	115	4.7	14.5	47.2
Tobacco industry	9	0.5	992	0.6	3.9	0.6	99.4	1.8	25.6	1.6	110	3.9	25.8	25.8
Manufacture of textiles	62	3.2	14,035	8.1	31.3	5.1	195.6	3.6	67.3	4.1	226	2.2	4.8	34.4
Footwear, wearing apparel and other made-up textiles	229	12.0	19,844	11.4	33.8	5.6	191.3	3.5	54.9	3.3	87	1.7	2.8	28.7
Leather products, except footwear	22	1.1	812	0.5	1.5	0.2	16.1	0.3	2.2	0.1	37	1.8	2.7	13.7
Wood and cork, except furniture	169	8.8	11,936	6.9	36.0	5.9	223.4	4.1	72.2	4.4	71	3.0	6.0	32.3
Furniture and fixtures of wood	49	2.6	2,275	1.3	7.4	1.2	24.8	0.5	12.4	0.8	46	3.3	5.5	50.0
Paper and paper products	61	3.2	3,002	1.7	5.7	0.9	56.8	1.1	24.4	1.5	49	1.9	8.1	43.0
Printing, publishing and allied industries	168	8.8	7,886	4.5	31.0	5.1	129.1	2.4	66.8	4.1	47	3.9	8.5	51.7
Chemicals and chemical products	92	4.8	4,053	2.3	16.8	2.8	142.6	2.6	61.6	3.8	44	4.1	15.2	43.2
Petroleum and coal products	9	0.5	2,647	1.5	44.2	7.3	1,661.5	30.7	288.3	17.5	294	16.7	108.9	17.4
Rubber products excluding rubber footwear and rubber processing	35	1.8	1,807	1.0	6.8	1.1	57.1	1.1	24.1	1.5	52	3.8	13.3	42.2
Manufacture of other plastic products	78	4.1	3,287	1.9	7.2	1.2	62.0	1.1	26.5	1.6	42	2.2	8.1	42.7
Nonmetallic mineral products, except petroleum and coal	65	3.4	4,401	2.5	18.8	3.1	137.1	2.5	52.8	3.2	68	4.3	12.0	38.5
Basic metal industries	20	1.0	1,871	1.1	8.4	1.4	90.7	1.7	30.3	1.8	94	4.5	16.2	33.4
Metal products, except machinery and transport equipment	168	8.8	9,573	5.5	36.2	6.0	237.3	4.4	83.0	5.0	57	3.8	8.7	35.0
Machinery including electrical machinery and appliances	201	10.5	40,129	23.1	121.6	20.0	799.5	14.8	338.8	20.6	200	3.0	8.4	42.4
Transport equipment	96	5.0	24,089	13.9	133.1	21.9	520.1	9.6	245.3	14.9	251	5.5	10.2	47.2
Precision equipment and optical goods	22	1.1	3,277	1.9	11.3	1.9	48.4	0.9	11.6	0.7	149	3.4	3.5	24.0
Miscellaneous manufactures	109	5.7	5,961	3.4	12.3	2.0	108.6	2.0	28.7	1.7	55	2.1	4.8	26.4
Total manufacturing excluding rubber processing	1,916	100.0	173,833	100.0	608.0	100.0	5,412.9	100.0	1,646.1	100.0	91	3.5	9.5	30.4
Rubber processing	25	—	3,738	—	10.1	—	432.3	—	20.1	—	150	2.7	5.4	4.6
Total manufacturing including rubber processing	1,941	—	177,571	—	618.1	—	5,845.2	—	1,666.2	—	91	3.5	9.4	28.5

Source: Singapore Government, *Annual Budget Statement*, February 1973, Table 7 (continued).

In terms of output, the third largest activity is the processing and manufacture of foods and beverages, which accounted for 11.3 percent of total industrial production in 1972. Serving mainly the domestic market, this branch consists mostly of older firms established during the 1950s and the import-substitution phase of the early 1960s. A number of its products continue to be protected by tariffs and quotas. Food and beverage production provided employment for 6.9 percent of the industrial labor force in 1972 and was responsible for 7.8 percent of the value added.

In 1972, the transportation equipment industry was the fourth largest, accounting for 9.6 percent of total output. Consisting principally of the building and repairing of ships of all kinds, including marine oil-exploration equipment, this industry was the second biggest employer of labor, with 13.9 percent of total industrial employment, and the third largest in value added, at 14.9 percent of the total. A government-owned company operates the shipyards formerly part of the British naval bases, and another is engaged in a joint venture with a large Japanese shipbuilding firm. Two shipyards are owned respectively by a British company and by a local group, and two additional Japanese firms are now constructing shipyards. American companies are prominent in the production and servicing of marine oil-exploration equipment. The transportation equipment category also includes several plants assembling automobiles and trucks that are owned by American, British and Japanese companies or by local enterprises operating on licenses.

The fifth largest contributor to total output—7.1 percent—was the production of textiles, footwear, wearing apparel, and made-ups. These industries were the second largest employers of labor, accounting for 19.5 percent of the industrial work force and 7.4 percent of value added.

No other category of manufacturing activity accounted for as much as 5 percent of total industrial output in 1972. However, in terms of employment and value added, other significant categories were the wood industry—largely the processing of logs into lumber and the production of plywood and veneer—with 6.9 percent of manufacturing labor and 4.4 percent of value added; the manufacture of miscellaneous metal products, other than machinery and transport equipment, with 5.5 percent of labor and 5 percent of value added; and printing, publishing and allied industries with 4.5 percent of labor and 4.1 percent of value added. All other categories of industrial activity were under 4 percent in terms of employment and value added.

Although Singapore's industrial pattern is becoming increasingly diversified, it was dominated in 1972 by five major categories of manufacturing activity—petroleum refining, machinery including electrical and electronic products, food and beverages, transportation equipment, and textiles, wearing apparel and footwear. As shown in Table VIII-5, they were collectively responsible for 73.5 percent of total industrial output, 64.9 percent of total industrial employment, and 68.2 percent of total value added in manufacturing. One of these industrial categories—food and beverages—produces mainly for the domestic market. The others are heavily dependent on exports, although in varying degrees. The levels of activity in the three largest in terms of employment—comprising almost 56.5 percent of the total—are affected to a very significant extent by changes in demand in world markets and by other countries' restrictions on imports and shipping, as well as by the comparative costs and prices of Singapore's competitors. Hence, a setback in the export of these commodities would have a

Table VIII-5. Five Largest Manufacturing Categories as Percent of Total Industrial Output, Employment and Value Added, 1972

Category	Output	Employment	Value Added
Petroleum refining	30.7	1.5	17.5
Machinery including electrical and electronic products	14.8	23.1	20.6
Food and beverages	11.3	6.9	7.8
Transportation equipment	9.6	13.9	14.9
Textiles, wearing apparel & footwear	7.1	19.5	7.4
Percent of total	73.5	64.9	68.2

Source: Table VIII-4.

markedly adverse effect on employment in the city-state. In contrast, a decrease in the export of refined petroleum products would have little effect on total employment but would be likely to have a much more serious impact on foreign-exchange earnings because this industry makes the second largest contribution to value added, 17.5 percent of the total.

In his 1973 Budget Speech, the Finance Minister noted that, in 1972, over 40 percent of Singapore's manufacturing output was exported, and companies with pioneer status shipped abroad nearly two-thirds of their output. These percentages reflect the success of the export-oriented industrialization strategy that replaced the import-substitution policy of the period prior to 1966. The progress of the city-state's industrialization is also dramatically evident in the changes that have taken place in its employment situation and in the composition of its foreign trade.

Employment

In 1971, Singapore finally approached its goal of substantially full employment. The unemployment rate fell to 4.8 percent from 6.7 percent in 1969 and 8.8 percent in 1966 while the participation rate rose to 58.4 percent of the population compared to 57.0 percent in 1969 and 55.4 percent in 1966. (The unemployment and participation rates in 1972 were the same as in 1971.) Both of these changes reflected the growth of employment in manufacturing industry, which increased by 56.5 percent from September 1969 to March 1972, and in commerce, hotels and restaurants, which grew by 28.7 percent. In all, employment rose by 28.8 percent during this period.

Table VIII-6 presents the distribution of Singapore's employed population at the end of March 1972. A third (33.5 percent) of employed persons were engaged in manufacturing industry and a quarter (25.5 percent) in the services sector, including government. Commercial activities, hotels and restaurants provided employment for the third largest number, 22.3 percent.

Around 36,000 persons between the ages of 15 and 64 were estimated to have been unemployed in 1972. A substantial portion represented frictional unemployment—people between jobs or temporarily unwilling or unable to work owing to illness, maternity, family needs, or other personal reasons. Most of the

Table VIII-6. Employment by Sectors, September 1969 and March 1972*

	September 1969		March 1972		Percentage Increase 1969-72
	Number	Percent of Total	Number	Percent of Total	
Total: all sectors	399,480	100.0	514,405	100.0	28.8
Agriculture and fishing	2,361	0.6	2,466	0.5	4.4
Mining and quarrying	1,663	0.4	1,867	0.4	12.3
Manufacturing	110,013	27.5	172,126	33.5	56.5
Construction	21,247	5.3	27,312	5.3	28.5
Electricity, gas, water and sanitary services	13,098	3.3	15,689	3.0	19.8
Commerce (including hotels and catering establishments)	89,314	22.4	114,947	22.3	28.7
Transport, storage and communications	38,225	9.6	48,601	9.4	27.1
Services	123,559	30.9	131,397	25.5	6.3

*Figures are obtained from mandatory labor returns submitted by employers under the Employment Act, 1968.

Data exclude domestic servants, certain categories of own account workers not registered as business establishments (e.g., farmers, hawkers, taxi-drivers) and members of the armed forces.

Sources: Singapore Department of Statistics, *Yearbook of Statistics Singapore-1970*, Table 3.6; and *Monthly Digest of Statistics*, March 1973, Table 3.3.

remainder were having difficulty finding skilled or semiskilled jobs owing to lack of education or training, or to age or cultural backgrounds incompatible with the requisite work disciplines; or they were unwilling to accept the kinds of unskilled jobs available.

In place of the past concerns about unemployment, both government officials and private employers now stress the acute shortage of workers with the qualifications required for the increasing number and variety of skilled jobs in Singapore's rapidly growing manufacturing sector. At the other end of the employment spectrum, shortages also exist; more than 70,000 "guest workers" have been imported from Malaysia to fill unskilled jobs in construction, manufacturing, transportation, and services. In between, too, there are signs of emerging shortages of semiskilled workers. Labor-intensive industries, such as electronic components, electrical appliances and wearing apparel, complain of high rates of turnover and absenteeism and inability to recruit as many workers as they wish. These conditions reflect their comparatively low pay scales, the tedium of repetitive assembly operations, and the fact that many of their workers are unmarried girls and working wives whose earnings are supplemental to those of their fathers and husbands.

These incipient labor shortages have led in the last few years to a reexamination of Singapore's manpower policies, especially the desirability of continuing to encourage labor-intensive industries, which had been given a top priority during the 1960s. The need to train larger numbers of skilled workers and technicians with increasingly more diversified capabilities has also become apparent. In consequence, a new stage in Singapore's development strategy is now emerging whose characteristics will be analyzed in the last section of this chapter.

Foreign Trade¹

Singapore is one of the world's great ports; thanks to heavy petroleum shipments, it is the fourth largest—after New York, Rotterdam and Yokohama—in terms of tonnage. The importance of foreign trade to the city-state may be gauged from the fact that Singapore's total imports and exports are more than double its gross domestic product.

Due to Singapore's export-oriented industrialization policy, domestic manufactures have been an increasing share of the city-state's total exports, as shown in Table VIII-7a. They were only 6.2 percent in 1960 and 28.6 percent in 1966, the first year of the export-oriented strategy, but in 1972 for the first time they were over 50 percent of the much larger total. Virtually all of the growth in Singapore's exports has been due to its industrialization. Entrepot exports (reexports) in 1972 were slightly below their 1960 level; after recovering from the lows of the mid-1960s, they have remained stable in the last four years at approximately S\$3 billion. However, the real magnitude of the entrepot trade since 1963 is not revealed by the published statistics, which omit trade with Indonesia.

As throughout the 20th century, rubber continues to be the largest single commodity in Singapore's entrepot exports. The value of total rubber exports

Table VIII-7. Trade, 1960-72
(S\$ million)

	1960	1966	1967	1968	1969	1970	1971	1972 Prelim.
Imports	4,077	4,066	4,407	5,084	6,244	7,534	8,664	9,541
Exports	3,477	3,374	3,491	3,891	4,741	4,756	5,371	6,139
Reexports	(3,260)	(2,409)	(2,380)	(2,493)	(3,066)	(2,924)	(2,998)	(3,061)
Domestic	(217)	(965)	(1,111)	(1,398)	(1,675)	(1,832)	(2,373)	(3,078)
Total trade	7,554	7,440	7,898	8,975	10,985	12,290	14,035	15,680
Trade balance	-600	-692	-916	-1,193	-1,503	-2,778	-3,293	-3,402
Exports as percent of imports	85.3%	83.0%	79.2%	76.5%	75.9%	63.1%	62.0%	64.3%

Source: Singapore Government, *Annual Budget Statement*, February 1973, Table 8.

Table VIII-7a. Entrepot and Domestic Exports as Shares of Total Exports, 1960-72
(percent)

	1960	1966	1967	1968	1969	1970	1971	1972
Reexports	93.8	71.4	68.2	64.1	64.7	61.5	55.8	49.9
Domestic exports	6.2	28.6	31.8	35.9	35.3	38.5	44.2	50.1
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Table VIII-7.

¹Singapore's trade with Indonesia is omitted from the city-state's published statistics. Nor does Singapore publish a comprehensive breakdown of the commodity composition of trade with individual countries.

usually fluctuates from year to year in accordance with the levels of demand and prices in the world market. In recent years, however, it has been declining. Nevertheless, in 1972, crude rubber still constituted well over a quarter of Singapore's entrepot exports and almost 14 percent of total exports. Other traditional entrepot commodities of continuing importance are coconut oil, palm oil, spices, coffee, canned pineapple, rice, tin, and other primary products, as well as temperate-zone agricultural products, machinery and equipment, and manufactured consumer goods from North America, Western Europe, Japan, Australia, and New Zealand. Again, as in the past, Malaysia and Indonesia are both the chief suppliers of entrepot commodities and the main markets for those imported from other regions.

Although the doom of Singapore's entrepot trade has been predicted since the mid-1950s, its absolute level was much the same in 1972 as a decade ago. The stability of the entrepot trade reflects in part the growth of world demand for some of the primary commodities involved and, in the main, the slowness with which the principal Southeast Asian producers of these products are developing direct exports of their own. As explained in Chapter I, entrepot functions are complex. They require not only physical facilities, such as docks and warehouses, but also a large enough volume of supply to provide inventories of the various qualities and grades in continuing demand, market contacts in the importing countries, the confidence of sellers and buyers in the skill and reliability of the middlemen, and the ancillary shipping, banking, communications, and other services. Malaysia, Indonesia and other Southeast Asian countries have found that the merchandising, marketing and servicing prerequisites of direct trade take longer to develop than the physical facilities, especially in competition with Singapore's long-established and experienced merchants, bankers and shippers. Thus, it was only in 1972 that Malaysia succeeded in eliminating Singapore as the entrepot for its substantial rubber exports to China, which will be sold and shipped directly in the future. This trend is bound to accelerate in the next decade or so as Malaysia and Indonesia develop their direct export and import capabilities. Nevertheless, although it will constitute a declining percentage of Singapore's total trade, the provision of entrepot services to the region will continue to be an important activity for the city-state owing to its locational advantages, the external economies available to middlemen doing business in such an increasingly diversified and efficient industrial and financial center, and the entrepreneurial vigor of its merchant houses.

In any event, domestic manufactures will comprise a growing majority of Singapore's total exports in the coming years. Unlike entrepot exports, they have been steadily rising at an annual average rate of 24.7 percent from 1960 to 1972. Petroleum products are the largest category of domestic exports as well as of total exports, of which they represented almost a fifth in 1972. Other major manufactured exports in that year were electrical and electronic components, appliances and machinery; lumber and plywood; and textiles, wearing apparel and shoes.

On the import side, the raw materials, intermediate products and machinery and equipment required for Singapore's manufacturing industries increased in comparative importance, as did food and consumer goods to meet Singapore's rising living standards. The largest commodity group is crude oil which, together with petroleum products, comprised about one-seventh of total imports in 1972. Other major imports are cotton and synthetic textiles, crude rubber, power-gen-

erating, industrial and other machinery and equipment, motor vehicles and parts, steel plates and sheets, logs, paper and paperboard, clothing, watches and clocks, vegetable oils, spices, rice, fresh and preserved fruits, and medicinal products.

Malaysia was Singapore's largest trading partner in 1972, accounting for nearly 18 percent of total imports and exports. The United States and Japan were next at 14.6 and 14.5 percent, respectively, of the total, followed by the United Kingdom at 6.2 percent and Australia at 4.3 percent. As Table VIII-8 shows, Singapore's biggest trade deficit was with Japan, over 43 percent of its total trade deficit, and the other large bilateral deficits were with Kuwait, the United States, China, and the United Kingdom. In contrast, the city-state earned substantial trade surpluses with South Vietnam and Hong Kong.

As shown in Table VIII-7, Singapore's total trade deficit has been increasing in absolute terms since 1960. Compared with S\$3.4 billion in 1972, the trade deficit was S\$3.3 billion in 1971, S\$2.8 billion in 1970, S\$1.5 billion in 1969, S\$1.2 billion in 1968, and S\$0.6 billion in 1960. Conversely, exports paid for over 85 percent of imports in 1960 and for 76.5 percent in 1968 but for only 64.3 percent in 1972, up slightly from the 1971 low of 62 percent. The growing trade deficit reflects the expanding capital goods imports required to sustain Singapore's high growth rate and rising living standards, as well as the city-state's lack of indigenous natural resources and agriculture to meet industry's needs for raw materials and the people's requirements for food and certain other consumer goods. The announced plans for new investment projects, private and public, foreign and local, indicate that imports of capital goods will continue to be substantial during the next few years. Hence, large merchandise deficits are likely to persist, although they may not rise much above the current level.

Table VIII-8. Singapore's Imports and Exports by Major Countries, 1972
(S\$ million)

Country	Total Trade		Imports		Exports		Trade Balance
	Value	Percent of Total	Value	Percent of Total	Value	Percent of Total	Value
Malaysia	2,787	17.8	1,509	15.8	1,278	20.8	-231
United States	2,289	14.6	1,340	14.0	949	15.5	-391
Japan	2,266	14.5	1,874	19.6	392	6.4	-1,482
United Kingdom	975	6.2	636	6.7	339	5.5	-297
Australia	681	4.3	386	4.0	295	4.8	-91
Hong Kong	616	3.9	243	2.5	373	6.1	+130
West Germany	540	3.4	369	3.9	171	2.8	-198
Thailand	483	3.1	269	2.8	214	3.5	-55
China	456	2.9	399	4.2	57	0.9	-342
Kuwait	435	2.8	425	4.5	10	0.2	-415
South Vietnam	313	2.0	9	0.1	304	5.0	+295
Taiwan	296	1.9	229	2.4	67	1.1	-162
Iran	278	1.8	267	2.8	11	0.2	-256
Others	3,265	20.8	1,586	16.6	1,679	27.3	+93
Total	15,680	100.0	9,541	100.0	6,139	100.0	-3,402

Source: Singapore Government, Department of Statistics.

Balance of Payments

Despite Singapore's substantial trade deficit, it had a large balance-of-payments surplus in 1972, the seventh consecutive year of payments surpluses. Table VIII-9 presents the balance-of-payments accounts. The very large balancing item of over S\$2.5 billion is generally explained as including not only short-term capital inflows and statistical discrepancies in the merchandise and invisible accounts but also the substantial surplus in trade with Indonesia, which is excluded from the government's published import and export statistics.

In 1972, the current-account deficit was nearly S\$2.6 billion. As in previous years, it was smaller than the trade deficit owing to the offsetting effects of the income from Singapore's investments abroad, British expenditures for the final year of the reduction of the bases, and the earnings from tourism. An estimated 780,000 tourists visited Singapore for an average of 3.9 days in 1972—23 percent more than in 1971—and spent nearly S\$400 million. In turn, the current-account deficit was more than covered by the inflow of long-term capital and the unspecified activities subsumed in the balancing item to yield an overall balance-of-payments surplus of S\$565.6 million in 1972.

Despite its positive balance of payments and strong foreign-asset reserve position (explained in later sections), the Singapore government is by no means

Table VIII-9. Balance of Payments, 1960 and Selected Years, 1966-72
(S\$ million)

	1960	1966	1969	1970	1972 (Prelim.)
Exports of goods & services	3,620.3	4,248.9	5,809.5	5,945.0	7,377.5
Merchandise including					
nonmonetary gold	2,964.6	3,167.8	4,470.5	4,428.3	5,671.2
Freight and insurance	23.9	9.1	21.2	26.5	26.0
Travel and other transportation	268.4	399.1	719.5	857.3	1,161.1
Investment income	61.4	100.2	170.8	203.4	290.4
Government, n.i.e.	290.5	560.7	415.9	416.6	215.0
Other services	11.5	12.0	11.6	12.9	13.8
Imports of goods & services	3,816.8	4,200.7	6,469.8	7,826.0	9,934.3
Merchandise including					
nonmonetary gold	3,497.8	3,824.6	5,862.7	7,047.7	8,851.9
Freight and insurance	223.9	231.8	377.5	466.3	591.6
Travel and other transportation	42.1	53.0	90.2	104.8	163.1
Investment income	30.1	40.5	50.5	82.9	97.2
Government, n.i.e.	2.6	7.0	8.5	11.9	9.7
Other services	20.3	43.8	80.4	112.4	220.8
Resource balance (= inflow)	-196.5	48.2	-660.3	-1,881.0	-2,556.8
Transfer payments (net)	-48.2	-44.9	-39.1	-23.6	-22.5
Private	-40.2	-39.3	-50.0	-63.5	-41.3
Central government	-8.0	-5.6	10.9	39.9	18.8
Current account balance	-244.7	3.3	-699.4	-1,904.6	-2,579.3
Nonmonetary capital (net)	22.7	51.2	173.3	443.9	580.4
Private long-term (net)	18	56	114	306	518
Official (net)	5	-5	59	138	63
IBRD loans (net)	—	38	33	61	26
drawings	—	(39)	(36)	(66)	(35)
repayments	—	(-1)	(-3)	(-5)	(-9)
Other official	5	-43	26	77	37
Balancing item	335.4	132.6	993.9	1,922.0	2,564.5
Currency payments surplus or deficit	113.4	187.1	467.8	461.3	565.6
Monetary movements (net) (= Increase)	-113.4	-187.1	-467.8	-461.3	-565.6
IMF accounts	—	-23.1	—	—	—
Currency Board's foreign assets	-22.5	-52.6	-103.7	-148.3	-800.0*
Commercial banks' foreign assets	26.7	-34.2	-175.4	103.5	334.2
Central government assets	-117.6	-77.2	-188.7	-416.5	-99.8

*Includes foreign assets of the Monetary Authority of Singapore.

Source: Singapore Government, *Annual Budget Statement*, February 1973, Table 5.

complacent about the outlook for the city-state's external accounts. The already high and increasing volume of private foreign direct investment will soon begin to earn growing amounts of profits, much of which will probably be remitted abroad. Unless counterbalanced by larger earnings from exports and services, these rising remittances would augment the current-account deficit, all other things being equal. Moreover, the inflow of funds for the continuing British bases will be quite small in the coming years. To prevent future strains in the balance of payments, therefore, the government is putting greater emphasis on promoting exports of goods and services, including tourism, and on building up the city-state as a major Asian financial center on the Swiss model.

Public Finance

In general, Singapore finances its main, or operating, government expenditures from tax revenues and other income, and its public-sector development investments from borrowing, but a transfer payment of substantial though varying size is made annually from the main budget to the Development Fund.

Most official borrowing is done domestically, with a comparatively small amount coming from foreign loans. The external loans for development purposes obtained by the Singapore government from the World Bank, the Asian Development Bank and other governments were estimated to have totaled well over US\$300 million by the end of 1972.

In recent years, the annual borrowing has exceeded the amount required to cover the total expenditures from the Development Fund. One reason is that, by this means, the funds of the Central Provident Fund, the Post Office Savings Bank and the statutory boards, and a portion of the funds of the commercial banks and finance companies, the insurance companies, and the private provident and pension retirement schemes are invested in Singapore rather than abroad, and also the government's ability to control the money supply is enhanced, as explained in a later section. Another reason is to build up the city-state's official foreign assets, since much of the government's surplus is invested abroad, where it is a reserve against contingencies and an important source of income. At the end of 1972, such official foreign investments (excluding the foreign-asset backing for the currency and the foreign-asset holdings of the Monetary Authority of Singapore) totaled nearly S\$3 billion. The Singapore government invests these foreign assets not only in the securities of other governments but also in sound growth stocks of American, European and Japanese companies. And, the government's ability to move these funds in and out of the city-state gives it another means for influencing the money supply.

Table VIII-10 presents the estimated government revenue and expenditure for the fiscal year 1973-74. The main budget is envisaged as in balance at nearly S\$1.9 billion, an increase of 11.9 percent in revenue and 11.0 percent in expenditure over the revised estimates for the fiscal year 1972-73. The development budget is estimated to total nearly S\$1.2 billion in 1973-74, an increase of 65.2 percent over the preceding year's revised estimates of expenditure.

Defense and internal security are projected to account for nearly 30 percent of main expenditures, a decline from the preceding year's estimates. This reflects consolidation of Singapore's armed forces after the build-up initiated when the city-state became fully sovereign in mid-1965, and further increased during the British withdrawal. The next largest share—26 percent—of expenditures is

Table VIII-10. Estimated Government Revenue and Expenditure for Fiscal Year April 1, 1973 to March 31, 1974

Revenue		Main Estimates		Expenditure	
	S\$ million	Percent of Total		S\$ million	Percent of Total
Direct taxes	759.2	40.5	Social services	487.6	26.0
Indirect taxes and taxes on outlay	545.0	29.1	Economic services	147.6	7.9
Reimbursements and sales of goods and services	242.5	12.9	Statutory expenditure	307.4	16.4
Income from investments and property	188.4	10.0	Defense and internal security	561.5	29.9
Others	139.8	7.5	Others	71.8	3.8
			Add: transfer to development fund (278.5) surplus (20.5)		(14.9) (1.1)
				299.0	16.0
Total	1,874.9	100.0	Total	1,874.9	100.0

Sources of Funds		Development Estimates		Expenditure	
	S\$ million	Percent of Total		S\$ million	Percent of Total
Appropriation from revenue account	278.5	23.7	Social services	460.1	39.1
External loans	50.0	4.2	Economic services	611.5	51.9
Domestic loans	630.0	53.5	Defense and internal security	70.6	6.0
Others	200.0	17.0	Others	35.0	3.0
Drawing down of development fund balance	18.7	1.6			
Total	1,177.2	100.0	Total	1,177.2	100.0

Source: Singapore Government, *Republic of Singapore Main and Development Estimates for the Financial Year 1st April 1973 to 31st March 1974*.

allocated to social services, principally to cover the operating expenses for education, health, sanitation, and other community functions. The operating expenses of the agencies providing economic services are estimated at almost 8 percent of the total. The statutory expenditures are mostly for servicing of the public debt held at home and abroad. A transfer of S\$278.5 million is to be made to the Development Fund.

On the revenue side, over 40 percent is estimated to come from direct taxes, principally those on company and personal incomes and on real property. Indirect taxes, largely customs duties, excise taxes, the payroll tax, stamp taxes, and the various levies on gambling and amusements, are projected as yielding slightly more than 29 percent of total revenues. The remaining 30 percent is derived from the payments for the goods and services provided by the government, fees and fines, income from investments at home and abroad, and other sources.

Unless accorded exemption as a pioneer industry or an export enterprise, all business firms—domestic and foreign—are subject to income (profits) tax at the rate of 40 percent. In addition, companies are liable to a payroll tax of 2 percent on all wages, bonuses, commissions, leave and holiday pay, and other cash

remuneration to workers (except employer contributions to approved provident and pension funds) when the total exceeds S\$500 a month. Both domestic and foreign owners of land and houses pay a property tax ranging from 12 to 36 percent of assessed valuation, defined as the estimated amount for which the property could be rented. Stamp duties are charged on many types of financial and legal transactions. There are no capital gains or wealth taxes in Singapore.

Personal income tax ranges from 6 percent to 55 percent. Each taxpayer is allowed a S\$2,000 personal exemption, S\$1,000 for a wife, S\$750 for each of the first two children, S\$500 for the third child (with nothing for subsequent children), S\$300 each for dependent parents or grandparents, as well as an earned income deduction of S\$1,000 and deductions of up to S\$4,000 for approved life-insurance premiums and employee contributions to approved provident and pension funds. Thus, a family of four could have deductions totaling as much as S\$9,500 if making the maximum permitted life-insurance and retirement payments. However, most Singaporeans would not be carrying that much life insurance, although most of them make provident-fund contributions, so the average total deduction would probably be closer to S\$6,000. In other words, families of four earning around US\$2,400 a year or less would pay no income tax. Estate duty (inheritance tax) is levied on estates valued at over S\$25,000 at rates ranging from 5 percent to 60 percent.

Excise taxes and customs duties are important sources of revenue. Excise tax is levied on locally produced alcoholic beverages, refined petroleum, sugar, and matches. About 400 imported products are subject to customs duties, some primarily for revenue purposes (such as alcoholic beverages and tobacco), others mainly to protect import-substituting industries. However, in the case of many brand-name or high-quality consumer goods, tariffs and quotas do not keep out all imports; continuing consumer preferences for such imported products despite their higher prices have meant that the protective duties on them are also revenue producing. Other significant indirect taxes are levied on betting and sweepstakes, lotteries, entertainments, and other services.

Singapore derives substantial income from the sale of goods and services, by government agencies and statutory boards (such as the post office, telecommunications, water, electricity, gas, sewerage, etc.), from licenses and fees (such as radio and television broadcasting and receiving, civil aviation, educational and medical charges, etc.) and from fines of various kinds. Another category is income from government-owned enterprises and official investments in the securities of private business firms in Singapore and abroad and of other governments.

To be comprehensible, an account of Singapore's development budget has to begin with the city-state's extensive network of statutory boards, government enterprises and participations in private enterprises. The statutory boards include the Economic Development Board, the Housing and Development Board, the Public Utilities Board, the Port of Singapore Authority, the Singapore Telephone Board, the Jurong Town Corporation, the Central Provident Fund Board, the Tourist Promotion Board, as well as the more recently formed Telecommunications Authority, Post Office Savings Bank Board, Urban Renewal Authority, and Sentosa Development Corporation (described in a later section). There are a considerable number of government enterprises, some wholly owned and others joint ventures with local or foreign companies, in such activities as shipbuilding and repair, radio and television broadcasting, electronics and engineering, munitions, and others. Neptune Orient Lines, the city-state's ocean-shipping

company, and Singapore Airlines, derived from the city-state's half of Malaysia-Singapore Airlines when it was dissolved in 1972, are both owned by the government. In addition, the government owns 49 percent of the shares of the Development Bank of Singapore, which operates as both an investment bank—it has taken over the equity and loan investment functions of the Economic Development Board—and a commercial bank for government-owned and privately owned companies alike. Directly, and indirectly through the Development Bank, the government owns a similar minority holding in INTRACO, a merchant-trading firm—like the Japanese trading companies—engaged in marketing Singapore's manufactured goods abroad, bulk buying and selling imported commodities, and conducting business transactions with the state-trading companies of the communist nations. Finally, the government has much smaller equity interests in many other Singapore companies managed by local or foreign businessmen, and it invests a substantial share of its foreign assets in the securities of well-known American, European, Japanese, and Australian corporations, from which it has derived sizable dividends and capital gains in recent years.

As shown in Table VIII-10, Singapore's development budget for 1973-74 is estimated at almost S\$1.2 billion, a 65 percent increase over the revised estimates for 1972-73. Of the total, 52 percent is allocated to economic infrastructure and other economic development purposes, 39 percent to social infrastructure and community improvements, 6 percent for security installations, and 3 percent for public-administration construction. Well over two-thirds of all development expenditure is in the form of loans to the statutory boards noted above and to private industrial and commercial enterprises in which the government has an interest. The remainder is spent directly by government ministries.

In 1973-74, the development budget is receiving a transfer payment of S\$278.5 million from the main budget intended to cover 23.7 percent of total development expenditures. Drawings on external loans from the World Bank, the Asian Development Bank and other sources will finance 4.2 percent. The largest share, S\$630 million or 53.5 percent, of the total development funding will come from domestic borrowing. The biggest single source of the latter is the forced saving entailed by the Central Provident Fund, described in the next chapter, to which both employers and workers are required to make monthly contributions that are vested in the employees and are paid to them with accumulated interest on or after age 55. Other important sources of official domestic borrowing are the Post Office Savings Bank, the statutory boards, and the commercial banks, finance companies, insurance companies, and private pension and provident funds. To encourage private-sector investment in government securities, no tax is levied on the interest earned by individuals and only half the standard rate of company tax is levied on the interest earned by banks and other private enterprises. In these ways, the voluntary and compulsory savings of Singapore's people finance a substantial proportion of the city-state's public investment for development purposes.

Money and Banking

Singapore's currency is controlled by the Board of Commissioners of Currency, a statutory body generally called the Currency Board. It provides Singapore dollars in exchange for sterling and other foreign currencies at the official exchange rate on the request of the commercial banks and other financial

institutions. This arrangement enables the Board to meet the legal requirement to hold gold, sterling and other convertible foreign assets equal in value to at least 100 percent of the Singapore dollars in circulation. At least 30 percent of the backing for the currency must always be in readily liquid form—gold, convertible foreign exchange, high-quality short-term securities of other governments—while the remainder can be invested in gilt-edged, longer-term securities yielding higher rates of return. The income earned in this way pays for the cost of issuing coins and notes and the administrative and other expenses of the Board. Income in excess of these expenditures is transferred annually to a Consolidated Fund, which is also invested in income-yielding foreign assets and serves as an additional reserve for the currency. At the end of 1972, the foreign-asset holdings of the Currency Board and of the Monetary Authority of Singapore totaled S\$2.7 billion (including Singapore's gold tranche at the International Monetary Fund). In addition, as explained in the preceding section, the government had nearly S\$3 billion of other foreign assets.

The exchange rate of the Singapore dollar was tied to sterling until June 1972, when the United Kingdom floated the pound. The city-state did not follow sterling downward but tied its dollar to the U.S. dollar. However, when the latter declined in June 1973, Singapore untied from it and, at present writing, the city-state's dollar is floating. Singapore's official sterling reserves were guaranteed under the Basle Agreement but, in recent years, it has been diversifying its foreign assets.

At the beginning of 1971, the Monetary Authority of Singapore (MAS) commenced operations. The MAS consolidates all of the central-banking type of activities, except for those of the Currency Board, previously carried on by different government agencies. It issues, buys, sells, discounts, and redeems short-term government bills and long-term government securities; manages the public debt, including the sinking funds, and the foreign assets of the government except for those of the Currency Board; carries on the interbank clearing function; holds deposits of government funds, the clearing accounts of the commercial banks, and the mandatory minimum cash reserves of the banks and other financial institutions; administers the foreign-exchange regulations; and acts as agent of the government *vis-à-vis* the International Monetary Fund (IMF) and other international financial organizations. The MAS also exercises the government's regulatory and inspection powers over the commercial banks and other financial institutions, including determination of their ratios of cash reserves and liquid assets to total deposits, the kinds of permitted investments and transactions, and the amounts and patterns of credit extensions. Most of the government funds deposited at the MAS and of the cash reserves and other funds deposited by the banks and finance companies at the MAS are invested abroad. The Minister of Finance is Chairman of the MAS and the other Directors are top-level government officials.

Singapore maintains controls over foreign-exchange transactions by its residents. In practice, permission is routinely and quickly given for all foreign-trade transactions, and foreign investors are freely permitted to move their capital and profits in and out of the city-state. However, although Singapore conforms in these ways to the IMF's current-account convertibility requirements, it has not yet developed a major foreign-exchange market.

As part of its operation as an entrepot, Singapore has always had a relatively extensive and sophisticated banking system and the city-state's rapid growth since

1965 has greatly stimulated the expansion and diversification of banking facilities. As of early 1973, 46 commercial banks with over 180 branches were in operation or authorized to operate in Singapore. Of this total, 11 were locally owned banks, and 35 were foreign owned, principally by banks in the United Kingdom, the United States, Japan, Hong Kong, Malaysia, India, and other European and Asian countries, including the Soviet Union and China. Seven additional foreign banks have recently been authorized to open branches in Singapore to engage in foreign-exchange transactions, Asiandollar business, and other offshore financing operations. In addition, 20-odd foreign banks have representative offices in Singapore. Twelve merchant banks, most of them joint ventures involving several foreign and local banks and investment houses, have recently been established and others are planned. Other financial institutions include the Post Office Savings Bank, over 50 finance companies, various types of insurance companies, and numerous chit funds.²

The growth of the liabilities and assets of Singapore's commercial banks from 1961 to 1972 is shown in Table VIII-11. Total deposits increased more than fivefold during the period. The higher rate of growth of demand deposits in 1972 largely reflects the inflow of short-term funds stimulated by international monetary developments and the city-state's recent stock-market boom.

Table VIII-12 depicts the composition of the commercial banks' loans and advances. As indicated by the large increases in loans to individuals, financial concerns and real-estate firms, the 1972 figures are distorted by the stock-market and real-estate booms, and the 1971 figures may give a more accurate picture of the basic trends since 1962, as demonstrated in Chart VIII-1. General commercial purposes declined from over half of the total in 1962 to less than a third in 1971. In contrast, manufacturing rose from only 12.8 percent in the former year to 31.4 percent in the latter, making its share equal to that of general commerce. Agriculture dropped from over 5 percent to less than 1 percent, while other purposes—construction, transportation and communications, other services, etc.—increased their share from 30.3 percent to 36.4 percent. The finance companies, whose operations are not shown in Table VIII-12, lend primarily for consumer credit, mortgages and real-estate development.

The commercial banks are required to maintain minimum cash-reserve accounts at the MAS and also clearing accounts. During 1972, the minimum cash reserve was raised from 3.5 percent of total deposits to 5 percent, and then in February 1973 to 9 percent to counteract the inflationary effects of the inflows of short-term funds during the international monetary crisis of that month. In addition, a special deposit against their net foreign liabilities that the banks have to place with the MAS was raised from 5 percent to 9 percent. The banks are subject to a liquidity ratio of 20 percent of total deposits, half of which must be in cash, balances due from local banks, and very short-term time deposits and Singapore treasury bills, while the remaining liquid assets cannot include balances due from foreign banks or foreign securities. The finance companies must also

²A chit fund is a modern form of the traditional Chinese tontine, under which small savers make periodic deposits in a fund that is lent to the members in turn or as needed. In the bigger and more sophisticated chit funds, the money is invested by the promoter-managers. The income and capital gains are shared among the depositors, with the fund managers usually deducting substantial fees for expenses and a commission, as well as often investing the money in activities in which they have an interest.

Table VIII-11. Growth of Singapore's Money and Commercial Banking System, 1961-72

(\$ million)

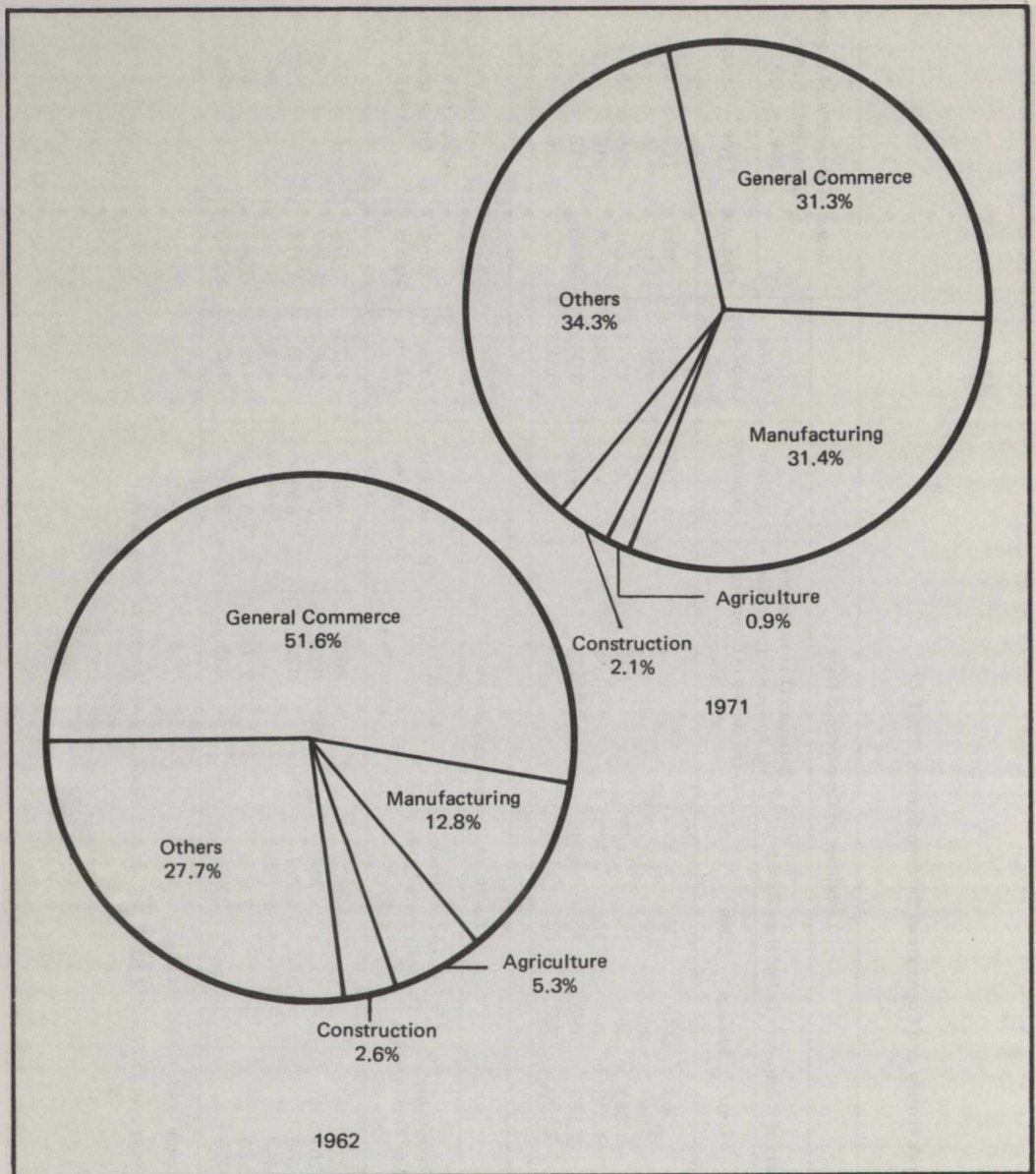
Year End	Currency in Active Circulation*	Liabilities of Commercial Banks								Index of Deposits of Customers Other than Banks 1961 = 100			
		Deposits of Customers Other than Banks					Balances Due to Banks and Amounts Borrowed from Banks in Singapore and Abroad	Other Liabilities	Total Liabilities	Demand	Time	Savings	Total
		Demand	Time	Savings	Other	Total							
1961	n.a.	367	351	146	30	893	487	298	1,678	100	100	100	100
1965	469	447	549	217	10	1,222	852	308	2,382	122	156	149	137
1969	617	812	1,563	355	16	2,745	876	653	4,274	221	445	243	307
1970	726	948	1,818	413	16	3,195	1,046	801	5,042	258	518	283	358
1971	832	1,083	2,168	480	15	3,746	1,438	879	6,063	295	618	329	419
1972	1,033	1,558	2,550	603	26	4,737	2,362	1,084	8,183	425	726	413	530

Year End	Assets of Commercial Banks							Index of Loans and Advances to Customers Other than Banks 1961 = 100
	Cash	Bills (Receivable Discounted or Purchased)	Loans or Advances to Customers Other than Banks	Investments in Securities	Balances Due from Banks	Other Assets	Total Assets	
1961	49	211	630	200	406	182	1,678	100
1965	30	251	914	432	550	205	2,382	145
1969	48	485	1,727	822	859	333	4,274	274
1970	43	554	2,168	921	941	415	5,042	344
1971	46	555	2,615	1,276	1,092	479	6,063	415
1972	63	720	3,565	1,438	1,660	737	8,183	566

*Excludes amounts held by government treasuries and banks.

Sources: *Yearbook of Statistics, Singapore, 1971*, pp. 110, 114-115; and Monetary Authority of Singapore.

Chart VIII-1. Loans and Advances of Commercial Banks



Source: *Yearbook of Statistics, Singapore 1971*, p. 113.

keep minimum cash-reserve accounts at the MAS—currently 9 percent of total deposits—but their liquidity ratio is only 11 percent. Owing to these liquidity ratios and the pressure that the MAS can exert, the banks and finance companies hold substantial portfolios of Singapore government securities. As the MAS continuously buys and sells government securities, the amounts held by the banks, finance companies and other financial institutions can be varied to suit the government's borrowing needs and its macroeconomic-management policy. At the end of 1972, the commercial banks' investments in securities, both governmental and private, totaled over S\$1,438 million.

Singapore's effort to make itself a major financial center is currently concentrated on the development of the Asiandollar market. Started in late 1968 at

Table VIII-12. Bank Loans and Advances

Activity	As of December 31, 1971		As of December 31, 1972	
	Value (S\$ million)	Percent of Total	Value (S\$ million)	Percent of Total
Agriculture, forestry and fisheries	24	0.9	22	0.6
Mining and quarrying	14	0.5	9	0.3
Manufacturing	822	31.4	1,071	30.1
Basic metals, metal products and machinery	160		265	
Chemicals, chemical products (including petroleum products and coal)	157		154	
Textiles and clothing	86		111	
Rubber processing, grading and packing	57		98	
Manufactures of wood and cork (including sawmilling and excluding furniture and fixtures)	57		86	
Transport equipment	68		71	
Food, beverages and tobacco	47		64	
Miscellaneous	190		222	
Building and construction	54	2.1	80	2.2
General commerce	818	31.3	988	27.7
Import, export and wholesale	755		940	
Retail	63		48	
Miscellaneous	883	33.8	1,395	39.1
Professional and private individuals	291		420	
Financial concerns (excluding banks)	144		282	
Building developers and real-estate agents	173		314	
Hotels, restaurants and boarding houses	121		135	
Transport, storage and communication	63		154	
All others	91		90	
Total	2,615	100.0	3,565	100.0

Source: Monetary Authority of Singapore.

the initiative of one of the leading American banks, this market was quite small for several years, operating largely as a source of funds for the longer-established, much bigger and faster-growing Eurodollar market. It has expanded rapidly in the past year, however, reaching total gross deposits of US\$3 billion by early 1973, and these funds are now mainly reinvested in East Asia and nearby regions rather than fed into London and other Eurocurrency centers. Although many banks are now authorized to have Asian Currency Units, as this facility is officially called, the market is dominated by three large U.S. banks and the two biggest local Chinese banks, which set the borrowing and lending rates each day, place most of the loans, and obtain additional funds from the other banks. The biggest proportion of these loans is made to the large American, European, Japanese, and overseas Chinese companies operating in East and South Asia and in the Pacific and Indian Ocean regions; and these firms, the banks themselves, and wealthy overseas Chinese and other Asians constitute the three main sources of funds for the market. The rates move closely with those in the Eurocurrency market; and the bulk of the funds are deposited and lent for short terms, 1 through 3 months, although some may be for as long as 12 months. Recently, however, several large Asiandollar bond issues have been placed through the Singapore market and it is anticipated that longer-term lending will grow substantially in the coming years.

The existence of the Asiandollar market depends not only on legal authorization by the MAS permitting the banks to establish Asian Currency Units and to move foreign currencies freely in and out of the city-state through them. It also depends on two economic incentives: the interest earned by depositors in the market is exempt from income and other taxes while the banks' profits from these "offshore" activities are taxed at only 10 percent, and the Asiandollar deposits are exempt from the banks' liquid-asset ratio. Initially, the Asiandollar market was completely insulated from the internal Singapore dollar market. Recently, however, local provident and pension funds, insurance companies and other financial organizations were permitted to invest up to 10 percent of their funds in the Asiandollar market. Also, foreign companies operating in Singapore may now be authorized by the MAS to borrow in the Asiandollar market, although local firms and Singapore citizens are still forbidden to do so.

To encourage the growth of both the Asiandollar market and the internal capital market, the government has abolished the withholding tax on interest earned from, and the stamp tax on, bills of exchange and negotiable certificates of deposit. This move was intended to facilitate the growth of secondary markets in both Asiandollars and Singapore dollars for commercial paper, negotiable certificates, and other short-term obligations through a discount-house system like that in London. The MAS is establishing a rediscounting facility so that it can support the secondary market as a lender of last resort. Recently, too, Singapore's banks were authorized to set up numbered accounts for foreigners, and the gold market is to be expanded.

Until recently, Singapore shared a stock exchange with Malaysia, but there are now two separate institutions. As in Hong Kong, the stock market boomed during 1972 and early 1973 and then declined. However, speculation in Singapore did not reach quite the fever pitch prevalent in Hong Kong nor did it involve such large numbers of small businessmen and workers. Although eager to increase the amount and diversity of traded securities, the government has introduced legislation giving it wide powers to regulate the operations of the securities market.

The Macro-Adjustment Process

The Singapore government has both the will and the means for carrying on an active macroeconomic-management policy. However, as in the case of Hong Kong, the scope for macro management is smaller than in economies that are less dependent upon foreign trade and have fiduciary monetary systems. Nor has the Singapore government so far attempted to use such powers as it possesses to their fullest extent. As long as the external and internal determinants of the self-equilibrating mechanisms of an economy and a monetary system like those of Singapore are conducive to the city-state's objectives—continuing economic growth and rising living standards with reasonably full employment and stable prices—a more active and directive policy is believed to be neither necessary nor desirable.

Over time, Singapore's money supply is largely determined by the state of the balance of payments. Exports of goods and services, earnings from the other items in the current account, and capital inflows (including government borrowing abroad) generate foreign-exchange accumulations by the banks. These can be converted into Singapore dollars at the Currency Board, thereby augmenting the currency in circulation and increasing demand deposits, which may eventually multiply several-fold through successive extensions of credit. Conversely, imports of goods and services, outpayments for other current-account items and outflows of capital require the banks to make foreign-exchange payments abroad, which tends to reduce currency in circulation and demand deposits. As Singapore's balance of payments has persistently been in surplus, the net effect on the money supply has been expansionary. The steady growth of the money supply both reflects and stimulates the growth of Singapore's economy. In turn, the mutually expansive character of this interaction has depended upon both the favorable state of world trade and Singapore's ability to realize the opportunities thereby provided for increasing its income and employment.

In addition to the largely automatic determinants operating through the balance of payments, the government has external and internal means for varying the size and rate of change of the money supply. It has large foreign assets, which could be liquidated and the proceeds remitted to Singapore. It can borrow abroad from the international development institutions and other governments, and probably could do so in world capital markets. By these means, the government could increase the net inflow—or reduce the net outflow—of foreign exchange and hence the volume of local currency in circulation and of demand deposits to the extent that the proceeds are deposited in the commercial banks. Similarly, the government can bring pressure on the commercial banks and locally owned business firms to repatriate capital invested abroad, with the same effect on the money supply. Conversely, it can accelerate repayment of the externally held government debt or invest additional official funds abroad, as well as encourage the banks and local businessmen to do so, if it wishes to reduce the money supply in order, for example, to dampen an inflationary upsurge. In addition, the government can sterilize a portion of the net inflow of private funds by requiring that it be deposited by the banks at the MAS. Such special deposits were required in 1972 and 1973 to counteract an anticipated inflationary net inflow of short-term capital.

With respect to internal means for influencing the money supply, there are a variety of measures that the government could take. The MAS could reduce or

increase the cash-reserve requirement of the commercial banks and finance companies—currently at 9 percent—and thereby raise or lower their capacity to lend and create demand deposits, assuming that they did not send abroad or repatriate offsetting amounts of funds. The government could shift its own deposits from the commercial banks to the MAS for investment abroad, or vice versa. As the equivalent of “open-market” operations, the MAS could constrain the banks and other financial institutions to increase or reduce their investments in Singapore government securities; such transactions would not merely be transfers between the public and private sectors if official investments abroad were correspondingly, or even partially, increased or reduced. The MAS could supervise the banks’ credit allocations, guiding funds into or away from the various types of borrowers. In these ways, the lending capabilities of the commercial banks could be raised or lowered and the pattern of credit influenced.

For the balance-of-payments determinants of the macro-adjustment process to operate in accordance with Singapore’s goals, the government must endeavor to assure that the city-state’s exports of goods and services continue to be competitive in world markets and share in the growth of world trade and investment. Hence, a central element of Singapore’s macro-management policy has been control over labor costs, exercised legally under the 1968 amendment to the Industrial Relations Ordinance, the Employment Act of the same year and the National Wages Council established in 1972, and politically through the PAP’s influence on the trade unions. As described in the last section of this chapter, there are also many ways in which the government is now seeking to improve productivity, expand technical education and training, promote technological research and development, and encourage private business firms, indigenous and foreign, to produce more sophisticated goods and services for export.

As in Hong Kong, the Singapore government has limited scope for macro management through budgetary policies intended directly to affect the level of demand in the internal market. Internal demand is largely determined, directly and indirectly, by the levels of activity in the entrepot trade, domestic manufacturing for export, tourism, and the other services for foreigners. The government could in theory stimulate demand for the goods and services catering to the internal market through budgetary deficits financed from foreign borrowing, or from domestic borrowing, or by taxation and other means of transforming private savings into public consumption and capital expenditures. But, an increased level of internal demand would in turn stimulate larger imports of consumer goods and of the materials, supplies and capital equipment required by industries serving the domestic market. Granted Singapore’s large persisting current-account deficit and the volatility of the long- and short-term capital inflows that offset it, a policy of deliberately increasing internal demand would soon result in overall balance-of-payments deficits and contraction of the money supply if unmatched by rising exports, an exchange-rate change, or other ways of increasing foreign-exchange accruals.

Does this limitation imply that Singapore would have no means of protecting itself against the effects of a severe recession, or even of a prolonged stagnation, in international trade and investment? In meeting such a contingency, the existing characteristics of Singapore’s economy and of its external relationships would give the city-state both advantages and disadvantages.

On the positive side is the fact that, while its entrepot trade would probably decline at least in proportion to the recession in world demand, its exports of

certain domestic manufactures might not fall as much or as fast. This is because they are finished products, parts and components manufactured in the Singapore factories of large American, European and Japanese corporations, and they are exported to the parent companies or to their subsidiaries and affiliates in other countries. In some—though not in all—industries, such intracorporate flows of goods may be less vulnerable than other types of exports to the effects of a world trade recession because multinational companies can take advantage of market opportunities in many countries and often have oligopolistic positions in their home markets, which help to sustain their levels of activity. Another of Singapore's advantages is its large reserve of foreign assets. Even omitting the mandatory foreign-exchange backing for the currency and the MAS's holdings, the city-state has large foreign assets that would make it possible to sustain internal demand, and hence employment, for a considerable period even though exports of goods and services and private capital inflows were declining. Finally, the city-state could reduce the exchange rate of the Singapore dollar.

At the same time, the Singapore economy has certain negative features. One is the fact that entrepot activities still constitute about half of total imports and exports. Demand for most of the commodities involved and for shipping, ship repairing, insurance, and other services, as well as for tourism, would probably be reduced quite drastically during a world trade recession; indeed, they are likely to be the hardest-hit activities. Some of these vulnerable activities are substantial employers of labor, and the adverse employment and income effects on them of a world trade recession would be severe. Another disadvantage is the substantial degree of dependence on net capital inflows to offset the deficit items in the balance of payments. In circumstances of world economic recession, large American, European and Japanese companies would be inclined to reduce drastically, if they did not stop entirely, their new investments in Singapore. And, much of the short-term capital invested in Singapore's Asiandollar market might be repatriated or moved to other financial centers. The cessation of long-term capital inflows combined with substantial short-term capital outflows would greatly aggravate a deteriorating balance-of-payments situation.

A final source of weakness in the Singapore economy would be the restraints on the movements of capital and labor in response to market forces. Productive resources might not be shifted quickly and easily enough from comparatively inefficient high-cost activities to more efficient lower-cost ones. Some of the industries producing for the internal market are still relatively so inefficient that they need continued protection by tariffs and quotas, and their ability to cut costs and prices is quite small, especially if their already limited scale of production were to be reduced further. Nor, in view of the size of Singapore's trade unions and their political importance, are wages and other labor costs likely to fall readily during a recession. Such an adjustment would be more difficult than the converse of preventing them from rising too fast during the period of expansion. For these and other reasons, the prices of Singapore's manufactured exports and services for foreigners might not decline sufficiently to maintain their competitiveness in world markets.

On balance, it is likely that Singapore's advantages would outweigh its disadvantages in enabling the city-state to weather a world economic recession. The probability that it could meet such a challenge without intolerable damage and

suffering, like its success in surmounting the past challenges surveyed in the preceding chapter, rests on the demonstrated capabilities of its political leaders and civil servants, the energy and experience of its businessmen, and the hard work and good common sense of its people. However, the more likely threat to the city-state's economic future is not a world trade recession but rather its inability to meet the competition of other exporting nations or to counter the protectionism of its major markets. These possibilities are discussed in the concluding section of this chapter.

Foreign Investment

Since 1965, American, European, Japanese, Hong Kong, and other foreign companies have been playing increasingly important roles in Singapore's development, both in industrialization and in the expansion of exports. It is estimated that, at the end of June 1972, the accumulated foreign investment in Singapore's manufacturing industries totaled S\$1,874 million, of which two-thirds were made in the preceding two and a half years. Table VIII-13 shows the major countries involved. Of the total, a large proportion was invested in petroleum refining by American, British and Dutch companies, and in oil-exploration equipment and services by U.S. firms. In the past, Japanese investment was largely concentrated in shipbuilding and repair but it is now branching out into machinery and equipment, including precision ball bearings. Electronic and electrical components and products are major fields for American, Dutch and German companies, and Rollei, the leading German producer of cameras and optical goods, is in process of transferring the manufacture of many of its standard products to Singapore. Hong Kong investment is mainly in textiles, clothing, radios, and other consumer goods.

Singapore offers two types of incentives to both local and foreign companies. The first is pioneer-industry status, which entails exemption from the corporate income tax and the tax on dividends for five years, and loss carry-forward privileges beyond the exemption period. Certain very large investments, such as petroleum refineries, may also be given a deduction of capital-cost allowances from their tax liabilities beyond the exemption period. Companies may also receive pioneer status for expansion of existing facilities. The second incentive is

Table VIII-13. Accumulated Foreign Investment in Singapore's Manufacturing Industries as of June 30, 1972

Country	Gross Fixed Assets (S\$ million)	Percent of Total
United States	618.2	33.0
United Kingdom	343.8	18.3
Netherlands	328.2	17.5
Japan	113.0	6.0
Hong Kong	106.1	5.7
Malaysia	64.8	3.5
West Germany	52.9	2.8
Other	246.8	13.2
Total	1,873.8	100.0

Source: Government of Singapore.

for companies making approved products and exporting at least 20 percent of their output, with the amount exported valued at not less than S\$100,000 a year. Export companies without pioneer status are entitled to tax exemption of their earnings from exports for 5 years; those with pioneer status may be exempted for as much as 8 years; and the large investments eligible for capital-cost deductions may continue to receive them for 15 years if they also qualify for export status. Training costs are counted as part of the investment in determining eligibility for tax exemption under these incentives.

To qualify for either or both types of exemptions, local and foreign companies must undertake to invest specified amounts of capital and to make approved products. The list of approved products is revised from time to time in accordance with Singapore's changing development strategy, as explained in the next section.

In addition to administering the pioneer-industry and export tax incentives, the Economic Development Board attracts foreign investment through its useful planning, promotional and facilitating activities. Staffed by able and energetic personnel, the EDB offices in North America, Western Europe, Japan, and other capital-exporting centers contact companies in the industries selected for development and help them plan their projects. In Singapore, the EDB assists foreign companies to obtain the various licenses and approvals needed to incorporate a local subsidiary, qualify for government loans or equity purchases, rent or construct production facilities, import machinery and equipment, bring in executive and technical personnel, arrange for public utilities, comply with health, safety, labor, and other codes, etc. Once the subsidiary is in operation, the EDB continues to observe its performance to assure that its policies and practices contribute to the city-state's development objectives.

In cases where the growth and profit potentials of a new foreign-investment project are promising, the Singapore government—usually through the Development Bank—may seek a substantial though minority portion of the equity. Also, the government will provide up to 50 percent of the equity for smaller foreign firms capable of making technologically more advanced products in the city-state but unwilling or unable to invest enough of the required capital. These companies would, however, have the option of buying back a substantial portion of the government's equity. Management responsibility is generally left to the foreign company because the government's interest is less to control the subsidiary's activities than to enable the city-state to share in its profits through dividends and capital gains. Hence, the government's attitude toward its equity participations in both foreign and local enterprises is largely businesslike.³

Interviews with numerous foreign companies in Singapore indicate that tax exemptions were not the only, or even the main, reason why they invested in the city-state. Many pointed to Singapore's economic advantages: its hard-working, literate and predominantly English-speaking workers; its favorable labor and other

³In a speech on January 17, 1973 at an international economic development seminar in Saigon, Dr. Goh Keng Swee, the former Finance Minister, explained another aspect of the Singapore government's businesslike approach. "The government, through the EDB and Development Bank, invests heavily in business enterprises, usually as a minority shareholder. But we make it a point when an investment turns sour never to throw good money after bad. We have allowed the company to go bankrupt; while this gives rise to public criticism on the few occasions it happens, it avoids a situation where a country is saddled with a large number of high cost industries. . . ."

costs relative to those at home or in other countries; its sophisticated banking, insurance, shipping, communications, and other ancillary services and facilities; and its pleasant living arrangements. All stressed Singapore's political advantages: its pragmatic, honest and self-confident political leaders and civil servants, the efficiency of its administration, the political stability and social peace it has enjoyed for a decade, and the consequent good relations prevailing between the government and the foreign companies. For the latter reasons especially, foreign companies have been more willing in Singapore than elsewhere to enter into joint ventures with local business interests and to agree to equity participation in their investments by the government.

The New Development Strategy and Its Prospects

Indicative of its pragmatism and flexibility, Singapore has had two different development strategies since 1960 and has now embarked on a third. The import-substitution industrialization policy of the period before and during the merger with Malaysia was superseded by the export-oriented, labor-intensive manufacturing policy of the years after Singapore's separation from the Federation. Thanks to the success of the latter effort, the city-state is approaching full employment, and labor is becoming increasingly short not only in the skilled categories but also in the semiskilled activities, especially for the labor-intensive clothing and electronic-assembly operations. Also, Singapore's leaders are aware of the uncertain future of the city-state's entrepot trade and the competing development of export-oriented, labor-intensive manufacturing by other East and Southeast Asian countries—prospects that generate a growing need for Singapore to develop new types of goods and services for export. Accordingly, Singapore's leaders have been devising a new development strategy for the 1970s, whose main outlines were sketched by the Finance Minister in his 1972 Budget Speech.

The Finance Minister stated "the goal is to transform Singapore within ten years, at an economic development growth rate of 15 percent per annum, into a regional centre for brain services and brain service industries." Per capita income would be doubled, which would cover the costs of the necessary development expenditures along with continuing increases in living standards provided "population growth is kept down to almost Z.P.G. (or Zero Population Growth)."⁴ The announced goal is to be achieved principally by means of four kinds of efforts.

The first is accelerated development of the professional and technical skills that the government has been seeking to foster since the adoption of the export-manufacturing strategy in the mid-1960s. An Industrial Training Board has been established to increase, improve and coordinate professional and technical training both in the educational system and in the private sector, indigenous and foreign. Technical education has been introduced into the secondary schools, and six new secondary vocational training institutes are being established. In addition, the technical training institutes at the college level and the professional schools and

⁴To supplement the activities of its birth-control clinics and educational efforts in achieving zero population growth, the Singapore government reduced the economic benefits provided to families with children in 1973. Income-tax deductions were restricted to the first three children, the accouchement charges on the third and subsequent children were raised, paid maternity leave was abolished for the third and subsequent children, and smaller families receive higher priority in the allocation of new housing.

centers in the universities are being improved. The industry-oriented effort is equally ambitious, including apprenticeship and on-the-job training arrangements, and off-the-job local and overseas training schemes, including some already underway that involve a sharing of the costs and the graduates between the Singapore government and the foreign companies providing the training. For off-the-job training in Singapore, several centers are being established, jointly sponsored and financed by the government and the firms in particular industries. In addition, the immigration restrictions are being eased for already-trained skilled workers, technicians and professionals willing to settle in the city-state.

The second type of effort is the encouragement of applied research and development in Singapore. A Ministry of Science and Technology was established several years ago and its responsibilities have been expanded. It is helping the universities and technical colleges to improve their laboratories and other R&D facilities, and is considering setting up a Centre for Applied Research, as well as strengthening the existing Singapore Institute of Standards and Industrial Research. In addition, the foreign companies are to be encouraged to move some of their R&D activities to Singapore through tax incentives and other means.

Third, the development of infrastructure is being accelerated, especially the improvement of ocean-shipping and air-transport facilities and telecommunications. A feasibility study is also underway of a mass rapid transit system for Singapore to ease the problem of moving people between their homes and places of work.

Fourth, the investment incentive system is periodically reexamined to make it more conducive to attracting high-technology industries and highly skilled service activities to Singapore, as well as fostering the further development of the city-state as a major international financial center along Swiss lines. The list of industries eligible in the future for pioneer status and export incentives has already been revised, removing the relatively low-skilled and labor-intensive activities in favor of those requiring high skills, advanced technologies and export markets. Among the industries on which Singapore hopes to concentrate in the years to come are petrochemicals and plastic and synthetic-fiber materials, engines and turbines, specialized industrial machinery of many types, electronic and optical products, office machinery, aerospace engineering and servicing, construction and materials-handling equipment, and scientific and medical instruments and equipment. Such existing activities as shipbuilding and repair, and oil-exploration equipment and services are also being fostered. In addition, encouragement will be given to the establishment of various sophisticated services for the East Asian region: engineering, architectural and product-designing firms, computer software and programming, high-fashion textile and clothing designing, management-consulting and accounting firms, construction and other types of contracting companies, and legal, medical, social-science, educational, and other applied professional research and advisory firms.

In addition, the government is vigorously promoting tourism and the attraction of regional and international conventions and conferences to the city-state. Singapore is envisaged as becoming the tourist "entrepot centre" for the region, that is, the initial point of arrival for tourists where their subsequent tours of the neighboring countries will be arranged. The city-state's own attractions are being improved, especially through the recently established Sentosa Development Corporation, which is transforming the small offshore island of Sentosa into a resort area and entertainment center. Meeting facilities for large conventions and confer-

ences are being constructed. Thanks to the building boom of the last few years, Singapore is amply supplied with new hotels.

Singapore's new development strategy clearly involves continued—indeed increased—reliance upon foreign direct investment. As the Finance Minister pointed out, the “multi-national manufacturing companies have a scope for progressive growth in technological content in their manufactures, and consequently, a greater capacity for development of modern skills at all levels.” Indeed, in many cases, these techniques and skills could not be transplanted to the city-state by new or inexperienced local firms under licensing agreements, as could be done with the simpler, standardized technologies of older industries. Hence, the new strategy means that the foreign companies must continue to be attracted to Singapore both individually and in joint ventures with local interests and the government.

What are the prospects for the success of the city-state's new development strategy? Several conflicting external and internal factors are involved.

On the one hand, the economic advantages that have hitherto helped to bring so many foreign enterprises to Singapore will continue to be effective. The external economies of many kinds already available in the city-state, its good transportation and communication facilities, its literate and hard-working labor force will certainly be important persisting attractions, as are the government's continued efforts to keep labor-cost increases in line with the growth of productivity. It is also quite likely that the government's current program, described above, will produce a sufficient number of people trained in enough of the requisite skills, technologies and professions to staff new, more sophisticated manufacturing and service activities, although probably not as rapidly as is hoped. Nor can there be much question that, as the populous and potentially rich nations of the region increasingly realize their capabilities, East and Southeast Asian markets will more and more need and be able to buy the kinds of advanced products and services that Singapore plans to develop.

On the other hand, there are three related uncertainties regarding Singapore's prospects for meeting this demand. The first arises from the fact that Singapore is not very popular in the region, especially in Indonesia and Malaysia, where many opinion leaders envy its prosperity, fear its dynamic Chinese citizens, and resent its not always concealed sense of superiority. Hence, Singapore's exports of advanced goods and services are likely to be carefully watched by its neighbors, who will generally not encourage such imports in a positive sense and may sometimes endeavor to impede them, regardless of whether they are produced in the city-state by multinational companies or by local enterprises.

Secondly, the East and Southeast Asian nations will not only be wary of fostering Singapore's development but will also seek to attract to themselves the same kinds of advanced manufacturing and service activities. Already, for example, Indonesia has constrained some of the foreign oil-exploration equipment and servicing companies to locate within its borders if they wish to have access to its onshore and offshore petroleum-producing areas. However, although efforts along these lines will increase, they are likely in the foreseeable future to have limited success in diverting foreign investment away from Singapore unless the countries involved have significant leverage, as in the Indonesian example, or other special circumstances prevail. For, it will take these nations at least a decade to develop economic advantages comparable to those that already exist in Singapore.

The third uncertainty relates to the response of Singapore's world markets to the city-state's new strategy. Of especial concern would be the reaction of the United States which is a large and rapidly growing market for Singapore's exports. Indeed, as reported by the Finance Minister in his 1973 Budget Speech "our exports to the United States rose by 41.5 percent [in 1972] due mainly to the export of semi-finished products back to the United States by subsidiaries of American companies in Singapore." The proposed U.S. Trade Reform Bill is aimed at severely restricting such imports into the United States from the factories of American companies in foreign countries. Owing to strong pressure from U.S. trade unions concerned about the "export of jobs," there is a distinct probability that any new trade legislation adopted by the Congress would in one way or another limit the amount of finished products, parts and components manufactured abroad by American companies that could be imported into the United States. Moreover, the trends toward discriminatory bloc-like groupings of countries and toward protectionism, explained in Chapter I, could adversely affect Singapore's ability to export higher-technology goods and components to Western Europe, North America and Japan regardless of whether they were manufactured in subsidiaries owned by companies in the markets involved. These possible developments that could restrict Singapore's markets for higher-technology products in the developed countries make its prospects for exporting them to the developing nations in Southeast Asia all the more important.

On balance, the regional factors favorable to Singapore's new development strategy would appear to outweigh those working against its success. Also, as long as multinational American, European and Japanese companies are permitted by their own and other governments to enjoy at least their existing degrees of freedom to move capital, production and goods internationally in accordance with their own corporate strategies, Singapore will undoubtedly be one of the preferred locations for their overseas investment designed to serve both regional and worldwide markets. In his 1972 Budget Speech outlining the new development strategy, the Finance Minister implied that the city-state's reliance on multinational firms was in part based on their continuing to enjoy these options.

Unlike simple manufacturing or assembly type industry depending upon low cost labour, these [higher-technology] industries are less likely to be displaced by sudden competition in their export markets. . . . In any case, by their nature, multi-national companies have diversified and established markets overseas, and can operate also when necessary, largely independently of foreign exchange requirements and variable currency rates, or are even able to take advantage of them.

However, the possible external difficulties are not the only problems that the city-state will have to surmount. There are internal uncertainties as well, two of which are especially important.

The first relates to the desirability of inhibiting local opposition to foreign investment by fostering the ability of indigenous enterprises to operate in the higher-technology fields and thereby counterbalance the multinational firms. Hitherto, except for some university intellectuals and Chinese chauvinists—as well as, of course, the communists—there has been general support for the government's policy of reliance upon foreign private investment. In part, this attitude reflects the distinctive nature of the relationship between the Singapore government and the foreign companies discussed in the preceding section. In part, it is

the corollary of the fact that the local business community does not compete seriously with the large multinational corporations engaged in manufacturing for export. Singapore entrepreneurs, Chinese and Indian, are mainly active either in the entrepot trade and the service sector or in manufacturing for the internal market, and they contribute less than 20 percent of the city-state's manufactured exports, mostly textiles, clothing and other older products that are not made by the foreign companies (except for the subsidiaries of Hong Kong firms). True, in the internal market, particularly in banking and consumer-goods production, they have to contend with some competition from foreign companies and a degree of jealousy and resentment naturally results. However, such reactions have so far been quite minor. The extent of competitive activities is limited and, more important, the intensity of competition is moderate because the foreign banks and other foreign companies involved are generally careful not to push their competitive advantages too far.

Nevertheless, as the extent of Singapore's dependence upon foreign private investment grows under its new development strategy, opposition to the predominant role of the foreign companies in the city-state's industrial sector is bound to increase with the rising educational level and the resulting greater popular attention to the views of intellectuals, journalists and other articulate opinion leaders. Hence, if the foreign companies are to continue to make their indispensable contribution to the success of Singapore's high-technology strategy, their role will sooner or later have to be paralleled by the growing role of local enterprises capable of engaging in similar activities. To that end, the government maintains firm but reasonable pressure on the foreign companies to train Singaporeans for managerial, professional and technical positions and to promote them as soon as they qualify, and many companies follow such practices of their own accord. The comparatively large number of joint ventures involving local business interests also contributes to that objective. In addition, the government has embarked on the ambitious technological and scientific training programs described at the beginning of this section.

These activities are already beginning to produce a growing corps of highly trained Singaporeans capable of providing the professional and technical cadres for local enterprises in the more advanced fields. However, the existence of such a corps is only one of the essential conditions for effective participation by indigenous firms. Certain major industries, such as basic electronics, chemicals, pharmaceuticals, and aerospace, are probably beyond the city-state's capabilities for the foreseeable future because they require a general sociocultural background of highly diversified and sophisticated science and technology and specific large-scale continuing research and development by the companies involved. Even if some of the foreign firms in these fields are persuaded to conduct some of their R&D in Singapore, such activities are unlikely to be on a large enough scale to reduce significantly the city-state's dependence upon the technological innovations of the scientifically advanced nations. Nevertheless, behind the advancing technological fronts dominated by these companies and in certain other industries—such as specialized types of machinery, machine tools and industrial equipment, scientific and medical instruments and equipment, high-fashion consumer products, and others also included in the new development strategy—there are numerous production and service opportunities for which the technology can be licensed, or even developed, by new or existing Singapore firms. But, to produce such sophisticated goods and services efficiently enough to export them to com-

petitive regional and world markets, such indigenous companies will have to modernize their organizational forms and management philosophies.

As in Hong Kong, the great majority of Singapore businesses are transitional family-type firms, with management responsibilities reserved to persons related by birth or marriage or with whom traditional personalistic ties are developed. Reluctant to promote professionally and technically qualified strangers to top supervisory and policy-making levels, such companies are unlikely to attract the talent they need to succeed in the technologically more advanced fields. However, in recent years, an increasing number of second-generation businessmen are being trained in modern management techniques. This process will have to be expanded and accelerated so as to hasten the changes in organization, staffing and management philosophy necessary for success in the higher-technology fields.

Paradoxically, development of needed dynamism by Singapore's businessmen is to a significant extent inhibited by the existing dynamism of their own government. With Singapore's political leaders and civil servants so far-sighted in anticipating problems and opportunities and so energetic and pragmatic in their determination to forge ahead, the local business leaders individually and through their chambers of commerce and trade associations tend to have a shorter-term view and to concentrate more narrowly on their own direct interests and difficulties. With less need for the private sector to take the initiative in worrying about and planning for the city-state's longer-term economic future, its businessmen naturally do less. However, the corollary is that the Singapore government will characteristically be providing incentives and pressures for broadening the private sector's self-motivation and conception of its developmental responsibilities. In time, therefore, Singapore should make significant progress in improving its indigenous entrepreneurial capabilities for participating in higher-technology production and services.

The second internal uncertainty relates to the need to prevent labor and other costs from rising disproportionately to those of Singapore's competitors. As in Hong Kong's case, Singapore's extreme dependence on imported food, raw materials and capital goods has meant that rising world prices are reflected in increasing prices in the domestic market. The consumer price index, which had risen from a monthly average of 111.4 in 1968 to only 114.4 in June 1972, mounted rapidly during the second half of the year to reach 121.7 in December 1972, and increased further to 128.6 in March 1973. True, Singapore's competitors are also experiencing inflationary pressures not only in consequence of rising world prices but also of domestic constraints and fiscal and monetary policies. So far, the city-state has been remarkably free of the latter types of inflationary causes. The question is whether, if the external forces pushing up the cost of living persist, let alone intensify, the Singapore government will be able to maintain the control over the rate of increase of wage and related costs that it has successfully exercised until now. At bottom, this is as much a political as an economic uncertainty and is discussed in Chapters IX and X.

The external uncertainties and internal difficulties with which Singapore will have to cope in carrying out its new development strategy are even more diffuse and varied than those that it met in the past. The new strategy will take considerably longer to realize than did the import-substitution policy of the first half of the 1960s or the labor-intensive export-production policy of the second half of the decade. Nevertheless, even though the time and effort required will undoubtedly be greater than those now envisaged by the city-state's political leaders

and civil servants, Singapore is likely to be able in the future, as it has in the past, to deal reasonably effectively with the obstacles preventing progress toward its objectives provided that circumstances beyond the government's capacity to control or offset do not intervene. Moreover, in the last analysis, the success both of Singapore's new longer-term development strategy and of its shorter-term efforts to ward off or counteract the effects of adverse international and domestic economic changes depends in substantial measure upon its political prospects. Indeed, whether the existing leadership persists or, if not, whether it is replaced by an equally pragmatic, efficient and dedicated regime would have a determinative influence on Singapore's chances of achieving continued development progress. The internal and external political uncertainties affecting Singapore's future are discussed in Chapter X.

IX.

Singapore's Search for the Good Life

Singapore's successive development strategies have been different means to the same compound end: rising levels of living for growing numbers of people increasingly conscious of a common sociocultural identity and collective destiny in the international system. Indeed, in few other countries, developing or developed, is the search for "the good life" as deliberate, its characteristics as clearly defined, and the effort to achieve it as carefully directed and controlled as in Singapore. The city-state's political leaders and senior civil servants continually discuss, publicly and privately, the kinds of material benefits, social satisfactions and personal fulfillments not simply that economic growth will make possible but, more significant, that ought to be permitted. For, the PAP regime implicitly rejects the principle that these are matters of individual choice, and it has very definite ideas as to what should and should not be included in the Singapore conception of the good life.

High on the list of the desirable components of rising levels of living are the improvements in housing, urban amenities, education, and health that are among the city-state's outstanding achievements. Of equal importance and official concern are the attitudes and behavioral norms that will govern the ways in which people will realize their income gains and occupy their leisure. Before turning to these subjects, however, such objective indicators as exist of improved living standards and more equitable income distribution need to be considered, and the condition of the working population will be briefly surveyed.

Living Standards

As Singapore does not publish an index of real wages, it is not possible to ascertain the extent to which the real incomes of the labor force from wages and fringe benefits have grown since 1960. However, there are other statistical measures which indirectly indicate that levels of living have probably improved significantly. As shown in Table VIII-2 in the preceding chapter, per capita GDP in current prices was $2 \frac{3}{4}$ times greater in 1972 than in 1960. True, the increase would be somewhat less in real terms and, more important, per capita GDP does not measure the income actually accruing to people individually. Nonetheless, it is reasonable to conclude from the per capita estimates that Singapore's working population has gained some increases in real income over the period.

Further evidence supporting this conclusion is the increase in expenditure for private consumption. From Table IX-1, it will be seen that total private consumption was almost $2 \frac{1}{2}$ times greater in 1972 than in 1960. The figures are in current prices and, as the consumer price index rose from 100 in the base year 1960 to 121.7 at the end of 1972, the increases in private consumption in real terms were, of course, less. Also, total population grew by 30 percent over the

Table IX-1. Expenditure on Private Consumption by Major Categories, 1960-72

(in current prices)

Category	1960		1966		1972 (Prelim.)		Average Annual Rate of Growth	
	Amount (\$ million)	Percent of Total	Amount (\$ million)	Percent of Total	Amount (\$ million)	Percent of Total	1960-72	1966-72
Food	588.1	32.3	786.4	29.8	1,079.2	24.2	5.2	5.4
Beverages and tobacco	135.3	7.4	220.2	8.3	367.2	8.2	8.6	8.9
Housing	139.1	7.6	199.5	7.6	461.6	10.4	10.5	15.0
Transport and communications	187.6	10.3	288.6	10.9	608.7	13.7	10.4	13.2
Clothing	230.1	12.6	357.4	13.5	643.4	14.4	8.9	10.4
Other	542.2	29.8	787.0	29.8	1,293.4	29.0	7.5	8.6
Total private consumption	1,822.4	100.0	2,639.1	100.0	4,453.5	100.0	7.7	9.1
Gross domestic expenditure	2,162.4		3,459.8		7,643.7		11.1	14.1
Private consumption as percent of gross domestic expenditure		84.3		76.3		58.3		

Source: Singapore Government, *Annual Budget Statement*, February 1973, Tables 2, 2a and 2b.

period. Even allowing for these qualifications, however, the growth of private consumption expenditure was impressive. As in other developing countries, the proportionate decline in food expenditures from 32.3 percent of total expenditures in 1960 to 24.2 percent in 1972 indicates that levels of living have been rising. In addition, the increases in the other major components of gross domestic expenditure—public consumption and public and private capital formation—also contributed directly or indirectly to rising living standards through improved housing, community services, education, health, social-welfare programs, and cultural and recreational facilities, as well as through the greater diversity of goods and services available in the city-state.

Another indication of Singapore's rising levels of living may be seen in the growth of ownership of automobiles by the residents in Singapore's public-housing estates. Whereas there were only slightly over 6 cars per 100 families in 1963, the number had risen to 16 cars per 100 families in 1971, an average annual rate of increase of 12.4 percent. According to an earlier survey relating to public-housing families in mid-1968, "one in every two households possesses a radio set, two in every five households possess a television set and one in every eleven households possesses a telephone. . . . [and] more than half of households owns a refrigerator."¹ Today, five years later, these ratios are undoubtedly much higher.

Unfortunately, no recent data appear to be available on the distribution of income. That it is probably becoming more equitable may be surmised from the fact that, since 1960, large and growing proportions of the population have been enjoying greatly improved housing, more and better education and medical care; expanded community and social-welfare services; greater leave, retirement and other employee benefits; and more numerous and diverse recreational facilities. At the same time, the tax system continues to be progressive and most families pay little or no income tax. Nonetheless, whether significantly bigger shares of the total income are in fact going to larger numbers of families can only be determined by statistical studies that have apparently not yet been made.

Nor do the evidences of generally rising living standards and the indirect indications of more equitable income distribution mean that poverty no longer exists in Singapore. Although their numbers decline from year to year, there is still a sizable group of people whose conditions of life are seriously deficient compared with those of the rest of the population. They include Malays, especially those in traditional farming and fishing occupations; aged and ill persons dependent on relatives or public assistance; many hawkers, porters and others engaged in low-paying petty trade and service activities; unemployed and intermittently employed people; and many low-paid unskilled workers and their families. Many of these people live in the remaining urban slums and in the squatter communities still to be found on the city's outskirts. Programs for helping people in some of these categories are described in a later section of this chapter.

Labor Conditions and Labor Relations

From a situation of endemic labor unrest and frequent, widespread strikes and work stoppages in the early 1960s, Singapore enjoys substantial industrial

¹Stephen H.K. Yeh and Statistics and Research Department, Housing and Development Board, *Homes for the People: A Study on Tenants' Views on Public Housing in Singapore* (Singapore: Housing and Development Board and Economic Research Centre, University of Singapore, 1972), pp. 42-43.

peace in the early 1970s. Legal, institutional and attitudinal factors have all contributed to this change. The legal framework is provided by two detailed statutes that cover many of the major determinants of labor conditions and industrial relations.

The first is the Employment Act of 1968, which modernized, consolidated and extensively amended the previous legislation governing wages, hours, fringe benefits, overtime, holiday and sick leave, employment of women and children, inspections and investigations, claims and complaints, and other conditions of employment and work. Normal hours of work are fixed at 44 per week, with time and a half for overtime that may not exceed 48 hours per month, except in certain specified circumstances, and double time for holidays and any regularly scheduled day of rest. One rest day in every seven is compulsory, as are 11 paid holidays per year. Employees with less than 10 years of service with the same employer are entitled to 7 days of paid annual leave; those with 10 or more years to 14 days. Paid sick leave of up to 14 days a year is mandatory and, if hospitalization is required, a total not exceeding 60 days of paid sick leave must be given. Until late 1972, a lunar New Year's bonus of one-month's pay could be negotiated by employers and employees but any larger bonus was an *ex-gratia* payment at the discretion of the employer and was not supposed to be subject to negotiation. In November 1972, this restriction was substantially liberalized to permit an annual wage supplement related to past bonuses with, in addition, either a negotiated annual bonus not to exceed three months pay or a negotiated wage increase based on rates recommended by the government. At the same time, the duration of new collective bargaining agreements was shortened from 3-5 years to 2-3 years.

Workers with three years of continuous service are entitled to redundancy payments (termination payments) which, however, are made to a fund administered by the Ministry of Labour and dispensed by it to the persons involved. Employers are encouraged to establish their own provident funds or pension-retirement systems—in addition to their mandatory contributions to the Central Provident Fund—for workers with at least five years of service. Women are entitled to paid maternity leave for the first two children but, to keep down the birth rate, not for any additional children; and women may not be employed for night work except under specified circumstances. Children cannot be employed until completion of their twelfth year; young people from 13 through 16 require certificates issued by the Ministry of Labour before they can be hired and then only for light work; and they are prohibited from working at night.

The second statute is the Industrial Relations Act also extensively amended in 1968. Among its most important provisions are those defining the subjects for collective bargaining and specifying those that are outside its scope and can be determined solely by management (principally hiring, firing and job assignment); prohibiting collective-bargaining agreements from providing benefits more favorable than those specified in the Employment Act; defining the facilities and conditions for conciliation and arbitration; and clarifying the compulsory powers of the Ministry of Labour and of the Industrial Arbitration Court to prevent, delay, call off, and settle strikes. The earlier law of 1966 continues to require secret ballots before strike action and the registration of trade-union officials. The Industrial Arbitration Court plays a major role in the settlement of labor-management disputes of all kinds not only by mandatory awards pursuant to formal hearings but often by mediating voluntary agreements of the parties con-

cerned. In addition, a National Wages Council was established in 1972, composed of representatives from the government, the employers and the trade unions, to set guidelines for increases in wages and fringe benefits and to suggest incentives for encouraging productivity improvements.

Singapore has a comprehensive code governing the safety and health of workers and providing for a system of workmen's compensation. Under the Ministry of Labour, the Factory Inspectorate enforces these provisions while a separate Labour Inspectorate carries out those of the two major statutes.

In addition to these legal and juridical arrangements, labor conditions are influenced by the institutional and attitudinal characteristics of the government, of the different types of employers, and of the workers themselves and their trade unions.

The PAP regime seeks to balance two sometimes incompatible sets of interests and constraints. On the one hand, the PAP originated in the leftwing trade-union movement of the mid-1950s, still regards itself as a socialist party, and is deeply committed to protecting and improving the social conditions and economic well-being of the great mass of the people. On the other hand, it is fully aware that Singapore's economic future depends upon keeping the city-state's costs in line with those of its competitors in regional and world markets and upon maintaining labor-management relations that are conducive to attracting the foreign investment essential for its development strategy. Thus, the government does not wish, nor could it afford, to be antilabor; equally, it does not wish, nor could it afford, to be antibusiness.

The PAP regime has generally been successful in steering a positive middle course between the two negative extremes essentially for three reasons. First, the rise in the levels of living of the working population has been significant, even though the rate of increase of their incomes has been controlled. Second, by a wide variety of educational means, the government seeks continuously to improve popular understanding both of Singapore's achievements and of its limitations. Third, the regime carefully supervises the activities of the trade unions and closely watches the labor practices of indigenous and foreign companies, not hesitating to use its statutory powers or to apply pressure on one side or the other—often on both—to bring about equitable resolutions of disputes. So far, the PAP has been sufficiently even-handed to retain the confidence of the great majority of the workers, of the trade-union leadership, and of the employers. Indeed, this is one of the most difficult and most notable of its accomplishments.

Singapore's employers, like those of Hong Kong, can be divided into three main categories.

The first comprises the many small Chinese, Indian and other indigenous enterprises with from one to a dozen or so employees in addition to members of the family. Mostly engaged in small-scale production and services for the internal market or the entrepot trade, the multifaceted relationships between employer and worker in these enterprises are broadly similar to those ascribed to their Hong Kong counterparts in Chapter V. The second category embraces Singapore's larger indigenous business enterprises which are mainly engaged in the entrepot trade, in manufacturing and services for the internal market, and in banking and other financial activities. Their relationships with their employees are also similar to those of their counterparts in Hong Kong, tending to be markedly personalistic and paternalistic. Like the latter, Singapore's large Chinese and Indian enterprises would decidedly prefer that their workers should not be unionized. Nevertheless,

however reluctantly, the majority are prepared to deal with trade unions where they exist, and more or less conscientiously conform to the statutory requirements governing labor-management relations, as well as to the government's indicated wishes in these matters if strongly enough pressed.

So, too, do the great majority of the foreign companies, the third category of employers in Singapore. In most cases, developments in their home countries and in other highly industrialized parts of the world where they operate have long since habituated them to modern labor-management relationships. Accordingly, many of them are attentive to the safety, health and well-being of their workers, which they endeavor to protect through programs generally similar to those they practice at home. Nevertheless, although these benefits are sometimes more extensive than those provided in the large indigenous firms, they are administered in the impersonal, rationalized manner characteristic of modern, scientifically managed Western enterprises. Hence, their relationships with their employees lack the multifaceted qualities prevailing in Chinese enterprises that, as explained in Chapter II, both reflect and reinforce the mutual expectations of owners and employees. Like the large indigenous enterprises, many of the foreign companies would prefer not to have to deal with trade unions—but not, as in the Chinese enterprises, because unionization threatens to erode personalistic, paternalistic aspects of labor-management relations. Where unions exist, most foreign companies are prepared to deal with them more or less conscientiously; where they do not, their absence is not regretted by management.

The most marked difference between the two city-states in the labor relations field is with respect to their trade-union movements. In contrast to Hong Kong's relatively small, weak and traditionalistic trade unions described in Chapter V, Singapore's are comparatively larger and much more influential and modern. Instead of operating—in effect if not in name—as benevolent societies, Singapore's unions resemble those of Western Europe and North America in their self conceptions and activities.

The National Trades Union Congress (NTUC) had 40-odd affiliated unions in both the private and the public sectors and represented over three-quarters of Singapore's approximately 131,000 union members in 1971. The numerous unaffiliated unions are mostly small, some controlled by the Barisan Sosialis and other political groups, while some are employer unions. All must register and observe the restrictions on membership, outside affiliation, finances, elected officials, and hired employees adopted during the 1960s by the government to prevent communist domination of the labor movement. In 1969, the NTUC and its affiliated unions engaged in a major reexamination of their purposes and policies in the course of a Seminar on Modernization of the Labour Movement. In essence endorsing the government's development strategy, the union leadership agreed to joint productivity councils and obtained the right to participate in joint health and safety councils and joint work councils. It also undertook to rationalize the trade-union structure through mergers and reorganizations, and to improve the training of members for trade-union activities. For its part, too, the government sanctioned the introduction of a check-off system for union dues and other means for strengthening union finances, and has provided them with assistance in setting up a cooperative insurance scheme, a cooperative taxicab and minibus operation, a cooperative dental services society, and other cooperative activities.

Many NTUC leaders are members of the PAP (some hold seats in the Parliament) and are more or less committed by conviction to its objectives and policies,

which they attempt to implement through trade-union activities. At the same time, they conceive of their movement as an independent force in the city-state representing the interests of the working people. It is not always easy to reconcile these two different roles, especially when the government limits the size and frequency of increases in wages and fringe benefits. On the one hand, the trade-union leaders recognize the need to maintain the competitiveness of Singapore's exports, to encourage indigenous investment, and to attract the technologically advanced foreign companies to the city-state. On the other, they are troubled by the fact that membership has been gradually declining since the early 1960s and that the rank and file are becoming less active in union affairs. Thus, on the one side, they use the leverage of their members' expectations to exert a significant influence on the PAP's policies, positively and negatively; on the other side, they act as one of the PAP's most important educational means for improving popular understanding of Singapore's needs and limitations.

The decline of trade-union membership reflects several factors. Among older workers, some of the militants who formed the backbone of the new trade-union movement in the late 1940s and early 1950s have died or retired, and others have become inactive due either to changing attitudes or to opposition to the NTUC's support of the PAP regime. Many young women employees do not think of themselves as permanent members of the labor force, and a significant proportion of the young workers of both sexes find trade-union behavioral norms and activities uncongenial to their interests and expectations. For workers of all ages, the steady rise in living standards, the decline of unemployment, and the continuing confidence both in the commitment of the PAP regime to the people's interests and in its competence to advance them have weakened the sense of need for the kinds of services and protection that trade unions provide.

So far, the government has been successful in steering a middle course between the aspirations of the working people and the requirements of Singapore's development strategy. This is by no means an easy task; there are serious dangers inherent in this tactic. If the government is too even-handed, it runs the risk of satisfying neither side. If it makes concessions to trade-union demands, it may inadvertently arouse expectations of additional benefits that it has no intention of fulfilling. If the government permits too small or too slow a realization of labor aspirations in an effort to reassure the indigenous and foreign companies, it may provoke labor unrest that it would be unable to control. In these ways, disappointment and resentment may be generated that could lead to increasing labor-management conflicts.

Despite the difficulties and the dangers involved, the government will probably continue to be alert and skillful enough to be able to balance the expectations of Singapore's workers and the requirements of its development strategy. Moreover, its effort is assisted by the fact that the two conditions it is trying to satisfy are not only conflicting at any given time but, over time, each is also an essential prerequisite for the other. A successful development strategy provides resources for improving living standards; reasonable satisfaction of popular expectations in this regard fosters labor-management relations conducive to development progress. And, the reverse relationship also exists: the failure of one sooner or later contributes to the failure of the other. The fact that this dynamic interaction has so far been positive predisposes it to continue to operate in that way as long as the other determinative factors—economic, political, and psychocultural—also remain favorable.

Central Provident Fund

Established in 1955, the Central Provident Fund is a compulsory savings scheme to which most employed residents of Singapore and all employers contribute whether they are citizens or not. The Fund is administered by a Board representing the government, the employers and the employees.

The amounts of the monthly contributions to the Fund have been periodically increased, most recently in July 1972. Currently, for employees earning less than S\$200 a month, the employer must make a monthly contribution of 12 percent of the employee's ordinary wage while the employee need not contribute; for employees earning between S\$200 and S\$250 a month, the employer must contribute 14 percent of the employee's ordinary wage and 12 percent of any additional compensation while the employee is required to contribute one-half of the difference between his wage and S\$200; finally, for employees earning more than S\$250 a month, the employer must contribute 14 percent of the ordinary wage, up to a maximum contribution of S\$210 a month, plus 12 percent of any additional compensation while the employee is required to contribute 10 percent of his ordinary wage, up to a maximum of S\$150 a month, plus 12 percent of any additional compensation. Employers and employees may contribute in excess of the specified percentages if they wish. Both contributions are made directly by the employer to the Fund and are credited to the employee's account, the whole of which is vested in him or his heirs regardless of whether he changes employers. The interest earned—currently 5 3/4 percent per annum—is also credited to the employee's account. The Fund invests these deposits in Singapore government securities. As of the end of 1972, the total amount owed to participants, including interest, was over S\$1.3 billion, an increase of S\$328 million during the year.

Although not a pension plan, the Fund is intended to assist older people by providing them with a substantial lump sum that they can use to prepare for their retirement. At any time after reaching the age of 55, an employee may withdraw some or all of the money in his account, or it is paid to his heirs should he die or to his guardians if he is legally declared physically or mentally incapable of working again. Noncitizens leaving Singapore and not expecting to return may withdraw their money regardless of age. The only other exception is that permitted for the purchase of flats in public-housing projects, as described in the next section. During 1972, a total of S\$25 million was withdrawn by participants for this purpose.

Singapore's government and opinion leaders are justifiably proud of this mandatory savings scheme as a noninflationary means of channeling a large and growing volume of funds into development investment. Although the Central Provident Fund was established before it took office, the PAP regime has made it a key financial element in its development strategy by gradually increasing the percentages paid in by employers and employees and investing the assets in government securities. Forced saving is rarely popular with those involved in it, but Singapore's scheme seems to be one of the exceptions for several reasons. Both thrift and a secure old age are traditional Chinese values that have survived in the transitional society. Despite the rising percentages of wages and salaries deducted for deposit in the Fund, real incomes have grown even faster so that consumption has also increased. Thus, the sense of current sacrifice is not strong and it is further held in check by the fact that people can use their assets in the Fund to buy flats in the new housing estates. Finally, the sound fiscal and

monetary policies followed by the government have sustained the trust of the depositors that the purchasing power of their savings will not have been eroded unduly by the time they reach retirement age.

Housing and Urban Development

One of the most important, and certainly the most dramatically conspicuous, of Singapore's achievements has been its housing and urban renewal program. By the end of 1972, the Housing and Development Board (HDB), established in early 1960, had completed over 157,000 units (dwellings, shops, and other related facilities). These units provide homes and service facilities for over 800,000 people, about 40 percent of Singapore's population. Under the present five-year construction program, which began in 1971, it is anticipated that an additional 90,000 units will be completed by the end of 1975.

The majority of Singapore's new housing is concentrated in large, high-rise, self-contained "new towns" situated around the outskirts of the urban area. Other, smaller housing estates and single high-rise buildings have been constructed either in similar locations or on slum-cleared sites within the city as part of the urban renewal effort. All of the housing estates have facilities for shops and eating places at the street level. In addition, where several housing estates conjoin, there are community centers containing schools, libraries, religious edifices, cinemas, playgrounds, creches, athletic facilities, and car parks, as well as small shops and large department stores, restaurants and cooked food stalls, and market places for hawker stands. Bus lines and individual multiple-rider taxicabs provide regular transportation to and from the city center, Jurong and the other industrial estates where the residents work. Also, flatted factories and other facilities for nonpolluting light industries are constructed as part of some housing estates.

Of the existing nearly 139,300 HDB dwelling units, over 50,000 have one room, more than 31,000 have two rooms, almost 54,000 have three rooms, and close to 3,900 have four rooms, with 47 five-room units constructed for the first time since early 1971. In that year, the official estimate of the average floor space of the flats constructed since 1961 was 400 square feet and of the average size of occupant families 5.7 persons per flat. To raise standards, however, the average floor space of the new flats being built under the current plan will be increased to 700 square feet—an average of 150 square feet per person—through construction of a larger proportion of four- and five-room units and the expanded size of the other types. In addition, the oldest one-room units are gradually being converted into larger, modernized accommodations. Most units have electricity, running water, a toilet and shower, a kitchen and refuse chute, and a balcony. The newer HDB units rate high by Western—let alone Asian—standards of design, construction, space, and amenities.

Initially, only applicants with at least five household members and an income of under S\$500 per month were eligible for HDB flats. Since 1966, however, the eligibility standards have been progressively liberalized so that, as of the end of 1972, the minimum household size was two persons and the maximum monthly family income was S\$800. Early in 1973, as part of the intensified population-control effort, families with one and two children were given higher priorities for new housing than larger families. Most units are rented to their occupants, with rentals ranging from S\$20 per month for the old smaller one-room unit and S\$30 for the improved one-room unit to S\$40 for a two-room unit,

S\$60 for a three-room unit and higher for the smaller number of four- and five-room units. The HDB estimates that the average rental is less than 15 percent of family income.

In 1964, a home-ownership scheme was initiated under which existing tenants and new residents could buy flats. By the end of 1972, nearly 45,000 units had been sold to families with monthly incomes not exceeding S\$1,500. Prices range from S\$3,330 for a one-room unit, to S\$7,800 for a three-room unit and S\$12,500 for a four-room unit, and they vary for the five-room units from S\$22,000 to S\$33,000 depending on location. The HDB estimates that the average price of a three-room unit is generally less than twice the annual income of the purchasing family. The down payment is 20 percent of the purchase price and the balance can be met by monthly payments over a period as long as 20 years at interest of 6 1/4 percent a year. Because of rises in land and construction costs in 1972, the HDB states that their subsidy on each three-room flat currently sold is S\$5,000. Since 1968, purchasers have been permitted to use their credits in the Central Provident Fund to buy flats. In addition, flat owners pay a lower than normal rate of property tax. These arrangements are encouraging increasing numbers of families to buy flats. As of the end of 1972, the HDB had over 53,000 unfilled applications to purchase flats, virtually all for three-room and larger units. In contrast, there were only 25,000 rental applications, mostly for one- and two-room units.

The HDB designs, contracts for the construction of, services and maintains these housing estates and their ancillary civic and commercial facilities. For its capital expenditures, the HDB relies upon loans from the government. Loans for the construction of rental units are for 60 years at 7 3/4 percent including interest and amortization; those for units to be sold are for 10 years at 6 percent interest. In 1972, interest and amortization on its outstanding indebtedness to the government cost the HDB S\$45.7 million, 45.4 percent of its operating expenditures. The HDB also pays property tax on rented units, amounting to S\$18.5 million or 18.4 percent of its operating expenditures in 1972. Conservancy, service and maintenance charges were S\$23.5 million, 23.3 percent of the total, and administrative costs were S\$13 million, or 12.9 percent. Of the HDB's operating income, 67.8 percent is derived from rents and service and conservancy charges amounting to more than S\$68 million, and miscellaneous sources brought in an additional S\$17 million, or 16.9 percent. The deficit of S\$15.5 million in 1972—15.3 percent of operating expenditures—was met by a subsidy from the government's budget. Owing to rising costs and the undesirability of increasing rents accordingly, the annual operating subsidy was considerably higher in 1972 than in recent years, when it averaged between 8 and 10 percent.

The HDB has also been responsible for urban renewal, slum clearance and squatter resettlement. Through the sale of many cleared sites to private developers, S\$500 million of new residential, hotel, office, and commercial construction has been completed or is underway. The urban renewal program also includes development of new, and improvement of existing, parks and recreational areas, pedestrian malls, hawker centers and markets, and the preservation or reconstruction of historic buildings and monuments. In April 1973, the division of the HDB hitherto responsible for urban renewal functions was set up as a separate statutory board called the Urban Renewal Authority.

Singapore has a comprehensive long-range master plan for the physical development of the island until 1992. It governs not only agricultural, residential,

commercial, industrial, and recreational zoning and standards but also highways and streets, public utilities and sanitation facilities, land reclamation and drainage, and mass rapid transit, airports and other transportation. The plan is periodically reviewed and revised.

Although about 40 percent of Singapore's population has been rehoused in HDB flats, large numbers of people still live in central-city slum areas or in squatter communities on the outskirts. In the typical central-city "shophouse" tenement, men, women and children are crowded into the available space with its poor ventilation, primitive sanitary and cooking facilities, and lack of privacy. Physical conditions in the squatter settlements are also usually poor, although crowding may not be as bad. An indication of the number of families who desire and can afford improved housing may be seen in the size of the waiting list for HDB flats—more than 78,000 applications to buy or rent at the end of 1972. Using the average of 4.7 persons per household implicit in the HDB's estimate of an average of 700 square feet per unit and 150 square feet per person in future construction, these applications represent at least 370,000 people. As some 53,000 applications were for the purchase of flats, a majority of this group clearly had steady and adequate incomes. No statistics are available on those who cannot afford to pay HDB rents or are unwilling to do so.²

Nor, despite their high physical standards, are the HDB housing estates without problems of their own. Although rents average less than 15 percent of incomes, there are poor tenants who pay larger proportions of their incomes and hence are hard pressed to cover other expenses. Also, some families have difficulty adjusting to vertical living in ethnically heterogeneous blocks after a lifetime of horizontal living with easy access to the common social space of the street and the communal warmth and mutual aid of neighbors speaking the same dialect or belonging to the same lineage or local association.³

Education

Singapore's achievements in the field of housing are matched, if not surpassed, by those in education. At the primary level, schooling is free for all children and financial help is provided to those unable to afford the supplementary expenses for educational materials. Although fees are charged at secondary and advanced levels, scholarships and other forms of aid are readily available for qualified students whose families cannot meet these costs. Similar help is provided to needy students attending the city-state's two universities, its polytechnic, and its several technical and vocational institutes.

In line with Singapore's new development strategy, a major change in the purpose and content of its educational curriculum has been underway since 1969. Both the English and the Chinese schools that were inherited from colonial days

²Squatters, farmers and other persons displaced by HDB construction, urban renewal projects, and the building of roads and other facilities under the master plan receive generous compensation grants and residential subsidies for three years. Displaced shopkeepers are given rent reductions for eight years in new premises on government-owned or -controlled properties.

³Data on HDB tenants' views on various aspects of public housing in mid-1968 are presented in Stephen H.K. Yeh, *Homes for the People*, cited.

typically concentrated on the humanities and the inculcation of needed clerical skills. But, the progress of Singapore's industrialization generated increasing demands for workers, technicians and supervisors trained in modern production and scientific skills. The recent shift to encouraging technologically advanced manufacturing and service activities has intensified these needs. Under the current revision, technical and scientific subjects have been introduced into the first two years of secondary education, during which a common curriculum is followed by all students. Then, they have the choice of continuing in academic, technical or commercial streams or of attending a vocational training institute to learn industrial and related skills.

Primary and secondary education is offered in four languages—Chinese (Mandarin), English, Malay, and Tamil. Because of its economic and technoscientific advantages, English is increasingly selected by parents as the language of instruction. All students are required to be fluent in a second language, which is usually English for those for whom it is not the first language. Not only do they study the second language as a curriculum subject but they also use it as the language of instruction for certain other subjects. Further to encourage bilingualism, most primary and secondary schools contain at least two language streams, and their students have common athletic and extracurricular activities. Most schools are located in new buildings constructed since 1960. They generally have two sessions a day to make possible smaller classes and conserve the use of physical facilities. The primary and secondary schools are of three types: those operated by the government, those operated privately but with financial and other assistance from the government, and those that are wholly private. Table IX-2 shows the numbers of students in each type of school and language stream.

Singapore has two universities—the University of Singapore, where instruction is in English, and Nanyang University, where Chinese is the main language.

Table IX-2. Primary and Secondary Students by Type of School and Language Stream, as of the end of June 1972

Type of School	Primary		Secondary	
	Number of Students	Percent of Total	Number of Students	Percent of Total
Government				
English	196,107	55.3	83,721	51.9
Chinese	19,456	5.5	25,398	15.7
Malay	11,891	3.4	9,055	5.6
Tamil	134	—	—	—
Government-aided				
English	33,036	9.3	20,014	12.4
Chinese	92,934	26.2	20,862	12.9
Malay	—	—	—	—
Tamil	828	0.2	316	0.2
Private				
English	243	0.1	1,743	1.1
Chinese	119	—	262	0.2
Total	354,748	100.0	161,371	100.0

Source: Ministry of Education.

Soon to be located at a new larger campus, the University of Singapore was founded in 1905 and was a branch of the University of Malaya until 1962, when it became an independent institution. It offers degrees in arts and the physical and social sciences, has professional schools in law, medicine, dentistry, engineering, architecture, education, accountancy, and business administration, and provides postgraduate (Master's and Doctoral) training in these fields. In addition, the University has research institutes in Southeast Asian Studies, Economic Research, and various medical and biological subjects. Its student enrollment in 1971 was about 4,700 and its faculty numbered around 600. Finally, the University of Singapore has a large adult education department providing day and night courses in a wide variety of subjects.

Nanyang University was founded in 1956 under private auspices but has become increasingly a government regulated and financed institution. With a student body in 1971 of over 2,300 and a faculty of about 200, Nanyang University gives degrees in the arts, sciences and commerce, and has professional institutes of Asian Studies, Business Studies, Natural Sciences, and Mathematics.

In addition to the vocational training institutions at the secondary level, Singapore has two technical institutes at the intermediate level for the education of technicians and advanced craftsmen. Instruction in English is provided at the Singapore Technical Institute, established in 1969, and in Chinese at the Ngee Ann Technical College, founded as a private institution in 1963 but made a government school in 1967. The vocational and technical educational hierarchy is capped by the Singapore Polytechnic, established in 1954, which gives diplomas for advanced technical training in the various branches of industrial technology as well as in nautical studies. Finally, Singapore has an Institute of Education, which offers a full-time curriculum for prospective teachers and continuing-education courses for those already in service.

Health, Welfare and Recreation

Situated only a few miles from the Equator, Singapore's climate is uniformly warm and humid throughout the year but the tempering influence of the surrounding seas prevents the extremes of heat characteristic of so much of the tropics. This natural advantage for the city-state's general health is reinforced by safe tap water available to over 95 percent of the population, good sanitary facilities, adequate diet, and cleanliness. In consequence, Singapore's people have not suffered from epidemic diseases for many years and the incidence of the endemic tropical diseases is quite low.

Singapore has 17 government hospitals with 7,500 beds, and there are nearly 900 additional beds in private facilities, making a ratio of about 4 beds per 1,000 inhabitants. Outpatient needs are served by 27 dispensaries distributed throughout the island, which charge S\$1.00 per visit. In addition, there are 52 maternity and child-care centers, 41 of which also contain family-planning units providing birth-control advice and means, as do 8 separate family-planning units. Dental care is available at 84 clinics, many located in primary and secondary schools to serve the children and others in the main government hospitals to serve the adults.

The city-state has also been gradually diversifying and expanding its social-welfare services and facilities. The Social Welfare Department provides widely used family counseling services. There are 11 creches and 8 children's centers that

provide day-long care, including kindergarten and primary and secondary education, for the children of Singapore citizens who are working or ill and earn less than S\$500 a month. A total of 12 government-operated establishments house and care for orphaned or destitute children and old people. Training and special employment assistance are available for handicapped persons. Daily patrols are made of city-center streets, market places, parks, amusement centers, and other places likely to be frequented by beggars, and those apprehended are assigned to appropriate social-welfare agencies or to their families for assistance and rehabilitation. The victims of fires and natural disasters receive emergency relief and help in obtaining new housing.

Financial assistance is provided to six categories of needy people: the aged, advanced tuberculosis patients, chronically ill persons, physically and mentally handicapped people, widows and orphans, and unemployed aged 55 and over. In accordance with a means test and the number of dependents involved, public-assistance payments may range up to S\$60 a month. Additional disability allowances are given to heads of households permanently unable to work, bus fares are provided for visits to hospitals and dispensaries, and special allowances are available for those undergoing treatment for tuberculosis. In addition, Singapore citizens of Malay ethnic origin with household earnings of less than S\$300 per month are eligible for monthly rent subsidies of 20 percent if housed in an HDB flat or subject to relocation in consequence of a redevelopment scheme. The number of families receiving public-assistance has been declining steadily and averaged less than 7,900 a month in 1972 compared with 23,400 in 1962. This reduction reflects both the declining numbers of people requiring help in an increasingly prosperous economy and the government's special efforts to find suitable jobs for employable public-assistance recipients.

The social-welfare services and financial assistance provided by government agencies are supplemented by the activities and help of numerous private charitable organizations and mutual-benefit associations. Regulated and in some cases subsidized by the government, many of these private bodies are supported by lineage, dialect, neighborhood, or other groups, while the rest are organized in the Western manner and have a heterogeneous sponsorship. The overseas Chinese tradition of charitable activity, the prestige gained therefrom, and the increasing sense of civic consciousness have combined to foster a vigorous development of privately conducted social-welfare efforts.

Singapore has a wide variety of recreational facilities that are increasingly in demand as income levels rise. Sports complexes, swimming pools and playgrounds are constructed as integral parts of HDB housing estates and redevelopment schemes. In addition, the extensive athletic and other recreational facilities attached to the former British bases have been converted to public use. For spectator sports, a new National Stadium has just been completed and related facilities of Olympic size are now being added.

The National Library contains well over 500,000 items in its central building, three branches and 12 mobile units, and carries on a variety of cultural programs and activities for adults and children. Two government-owned theaters and several smaller private halls provide accommodations for professional and amateur dramatic performances, musical shows, concerts, and commemorative pageants, and Chinese operas are often presented in streets and parks. Singapore's Botanical Gardens, inherited from colonial days, are world famous, and its new bird park at Jurong attracts large numbers of local families, as well as tourists.

Singapore has continuous AM and FM radio transmission in Chinese, English, Malay, and Tamil, and operates two television channels for well over 100 hours a week.

Singapore's Conception of the Good Life

Singapore's leaders and senior civil servants have a clear picture in their minds of the kind of city-state they are in process of creating. Along the lines depicted in the master plan for 1992, its physical characteristics are gradually becoming evident in the towering housing estates with their commercial centers, schools and other structures, in the modern industrial estates, in the proliferating high-rise office buildings along the harbor front and in the downtown section, in the flamboyant luxury hotels in the midtown area, in the spacious new university campus, in the initial sections of the planned highway network, in the tourist recreation facilities now being constructed on the island of Sentosa and elsewhere, and in the expanding parks and playgrounds, sports fields and stadiums for the ordinary citizen. To enhance the effect of these new constructions, the government spends over S\$1 million a year to plant and maintain flowering trees and shrubs along Singapore's streets and highways. Householders and property owners are permitted tax deductions of up to S\$300 a year to install and maintain gardens and ornamental plantings. And, the physical beauty of the city-state is protected by the continuing, highly effective "keep Singapore clean" campaign that makes it one of the most litter-free cities in the world.

Yet, equally important to Singapore's leaders are the thoughts and actions of the people who live in and use these increasingly attractive physical facilities. They frequently refer to Singapore as a "rugged society" struggling to create both a secure place for itself in the uncertain and dangerous regional and world environments and a peaceful, healthy and comfortable existence for its people. Hence, the pioneering virtues are repeatedly stressed: self-reliance and mutual aid to cope with present problems, hard work and saving to build the planned future, pride in the city-state's achievements and understanding of its difficulties to motivate these efforts and sacrifices, and sound minds in sound bodies to assure the desired quality of life.

In addition to trying to inculcate the attitudes and behavioral norms that Singapore's leaders believe are desirable, they do not leave the city-state's people much choice in avoiding those they consider bad. The government censors movies, TV and radio programs, and publications of all kinds. Smoking and drinking are frowned upon and taxes have recently been raised on tobacco products and alcoholic beverages. Long hair and deviant patterns of dress and behavior are rigorously discouraged in young people, and foreign "hippies" are not permitted to remain in the city-state. Flogging and severe prison sentences have been introduced in an effort to prevent the sale and use of drugs from becoming a serious problem. As noted above, beggars are apprehended and ordered to be rehabilitated. In these and other ways, the regime seeks to protect the people, especially the young, from "contamination" by the current permissive attitudes and behavior of Western societies, as well as by the older kinds of "moral corruption." As Prime Minister Lee Kuan Yew explained during a press conference ". . . the safest way is cultural inoculation. . . make them understand that there are basic tradi-

tional values they should hold fast to—what is good, what is bad, what is to be admired, what is to be despised, who is a hero, who is a villain”⁴

The puritanical paternalism of Singapore’s political leaders may seem anomalous in persons who have mostly been educated at British universities and who approach the city-state’s economic and political problems with such unusual pragmatism, flexibility and technical sophistication. In view of the strong influence on them of liberal English culture, their conviction that they have the obligation, as well as the power, to regulate the private lives of Singapore’s citizens is surprising. Yet, it may not be so in the light of the Confucianist tradition of moral authoritarianism explained in Chapter II. Indeed, although it is a contradiction in terms, Singapore’s leaders could be called “Confucianist technocrats.” Unlike Confucianist officials since Sung times, to whom proficiency in the humanities was the prerequisite for governmental responsibilities, Singapore’s political leaders and civil servants regard professional training in the social sciences and related administrative techniques as the essential qualification. But, they too act in accordance with the Confucianist moral ideal that confers on the official bureaucracy the primary obligation for assuring that the people conform to the standards of right conduct defined by the sages of old.

The same cultural tradition undoubtedly plays an important role in the acquiescence of the majority of the people in the regulation of their morals and manners by Singapore’s technocratic mandarins. True, if left to their own inclinations, more young people would probably be attracted to the interpersonal, sartorial and recreational manifestations recently fashionable in the Western youth culture. (The question of political opposition to the regime is discussed in the next chapter.) By and large, however, the official ideal of a wholesome, clean-living, conforming society inhabiting a smoothly functioning and physically attractive urban/suburban complex seems to be shared in greater or lesser degree by most opinion leaders and by the people generally. It is difficult, of course, to ascertain accurately the extent and intensity of attitudes of this kind. Nevertheless, in the opportunities afforded us for questioning on these subjects, little opposition was expressed—even by those who strongly criticized the regime on economic or political grounds—either to the desirability of moral regulation or to the traditional norms that Singapore’s leaders are attempting to enforce. And, our impressionistic judgment was that the city-state has gone a considerable way toward realizing many of the physical and behavioral components of the good life as defined by its Confucianist technocrats.

⁴*Far Eastern Economic Review*, December 9, 1972, p. 14.

X.

Government and Politics

The nature and prospects of Singapore's existing political system cannot be understood without taking into account two complex sets of interacting determinative factors. The first are those derived from the city-state's sociocultural background and current transitional characteristics. The second are those arising from its peculiar situation in Southeast Asia and the emerging trends in world and regional political and economic relationships. After sketching the main features of Singapore's governmental system, this chapter analyzes the interactions among these factors in helping to shape the city-state's present and prospective political evolution.

The Governmental System

Since the separation from Malaysia in 1965, Singapore has been a fully independent republic with a parliamentary system of government functioning under a written constitution. The Parliament consists of 65 members elected from single-member constituencies by a simple majority vote, and it sits for five years unless dissolved sooner by the President. The latter is the head of state, elected for a four-year term by the Parliament, and his functions are largely symbolic and ceremonial. The head of the government is the Prime Minister, officially appointed by the President following a majority vote of the Parliament. The Prime Minister and the Ministers comprising the Cabinet must be elected members of Parliament and are collectively responsible to that body. At present, there are 12 Cabinet Ministers each in charge of a major government department.

Parliamentary sessions are conducted in English, Chinese (Mandarin), Malay, and Tamil, with simultaneous translation provided for both members and spectators. With its powers and procedures modeled on those of the Mother of Parliaments in Westminster, Singapore's legislature is the supreme law-making authority in the city-state. In practice, most bills are prepared in the Prime Minister's office or in the various departments and are introduced by Ministers or other leading members of the party forming the government.

Certain politically important functions are carried on by the Prime Minister's office in addition to those of general policy formation and coordination. They include supervision of elections, investigation of corrupt practices, religious affairs, honors and awards, and control of the Citizens Consultative Committees. With one in each parliamentary constituency, the Citizens Consultative Committees were established in 1966 to bring about closer relationships between the government and the people by keeping the former continuously informed of the latter's changing needs and concerns and *vice versa*. The Committees are grouped into districts served by full-time secretaries, who are civil servants reporting to the Prime Minister's office.

The 12 departments headed by Cabinet Ministers are Foreign Affairs, Finance, Defense, Science and Technology, Labour, Education, Communications, Home Affairs (police, internal security, immigration, passports), Social Affairs

(social welfare, many community services), Health, Culture, and Law and National Development (judicial and legal affairs, public works and the remaining community services). In addition, a Public Service Commission is in charge of the appointment, promotion, transfer, and discipline of government employees, and a Legal Service Commission performs these functions with respect to employees of the judicial system.

Singapore's judiciary consists of magistrates courts and district courts handling both criminal and civil proceedings, a high court of appeal from these lower courts, and two final appellate courts for criminal and civil cases respectively. As in other former British colonies, certain cases may be further appealed to the Judicial Committee of the Privy Council in London. Trial by jury was abolished in the early 1960s for all but capital offenses and for the latter in 1970. A Legal Aid Bureau provides legal services free of charge for those unable to afford counsel.

A final feature of Singapore's governmental system is the Presidential Council, a rather unusual constitutional agency. It has the function of reviewing existing and proposed legislation to point out any violation of constitutional liberties and safeguards, especially those prohibiting racial and ethnic discrimination of any kind. However, laws certified by the Prime Minister as affecting the defense or internal security of the city-state are excluded from the Council's jurisdiction.

The Search for Identity

Singapore's fully articulated political and governmental system fosters the development by its people of an increasing identification with the city-state and a deepening sense of their collective destiny as an independent entity in the international system. Yet, this process has not gone far enough to make loyalty to Singapore as a sovereign political entity decisively more compelling than the other social identifications felt by many of its citizens. For one thing, political independence had never been Singapore's goal in the postwar period: decolonization was always expected to make it part of a larger national entity embracing, at the least, the neighboring Malay states. Thus, Singapore's expulsion from Malaysia in 1965 was not the fulfillment of its aspirations for independence but the disappointment of its expectations of becoming an integral member of the Federation.

Since then, the city-state's leaders have been endeavoring to foster a separate Singaporean identity as both the major source of its citizens' personal senses of sociocultural identity and the primary focus of their social loyalties. This task cannot be accomplished quickly or easily because the socialization and acculturation processes are by nature slow and the particular sociocultural factors involved in Singapore's case are complex and ambivalent. The latter characteristics arise especially from the city-state's ethnic diversity and peculiar regional situation.

Singapore has four main ethnic groups and cultural influences—Chinese, Malay, Indian, and European—among which there inevitably are incompatibilities and derogatory or resentful feelings. Moreover, the three-quarters of its population that are of Chinese origin are subdivided by linguistic and other related sociocultural differences. Some 40 percent are Hokkien speakers, originally from Fukien province, 20 percent or so speak Teochiu, another 20 percent are Cantonese, and the remaining 20 percent speak Hakka, Hainanese and other South China dialects, with Mandarin serving as the learned language of intercommunication. Thus, Singapore's Chinese population is much more diverse than that of

Hong Kong, which is predominantly Cantonese. In Hong Kong's case, however, such positive effect as this homogeneity may have in fostering a distinctive sense of identity is more than offset by the overwhelming awareness of contiguous China and by that city-state's lack of political independence.

For Singapore, the reverse relationship exists. The negative effect of its heterogeneity is counterbalanced not only by its political independence but also by its much greater distance from China both in space and in time. The great majority of Singapore's Chinese are descendents of second-, third- and fourth-generation immigrants, and its influx of refugees from China since 1945 has been insignificant compared with Hong Kong's. Nevertheless, the positive effect of the temporal separation has not been as great as might be expected. Singapore's independence is a recent development and, until it was achieved, there was no source of sociocultural identity for Chinese born and educated in the city-state that could remotely compete with China. Similarly, the effects of Singapore's geographical separation from China have not all been positive. The minority status of its Chinese population in the Nanyang and the endemic resentment and occasional overt hostility toward them of the majority ethnic groups in the countries of the region have helped to keep alive their loyalties to China, as well as their sense of Chinese identity. These feelings have been reinforced by their pride in China's sociopolitical achievements in recent decades and its increasing importance in the international system.

Singapore's leaders have been trying to cope with these complexities and ambivalences by a two-pronged strategy. With respect to the older generations, they are endeavoring to foster pride in Singapore's accomplishments and loyalty to it as a sovereign political entity while trying to weaken the ties to China of the Chinese majority, lessening the incompatibilities and resentments among the different ethnic groups, and vigilantly suppressing outbreaks of hostility among them. Toward the younger generation—those born or educated since 1960—efforts are more positive and varied. Both in formal schooling and in relevant extracurricular activities, all means likely to be effective are employed for inculcating the sense of a distinctive Singaporean identity and for infusing children and young people with strong feelings of pride in and loyalty to the city-state.

Naturally, the strategy has been markedly more successful with the young than with the adults, whose attitudes are already formed and hence are hard and slow to change. Among most young Chinese and Indians, there is an increasing consciousness of a common Singaporean identity along with a continuing sense of their different ethnic backgrounds; an eagerly expressed pride in the city-state and its achievements; and a strong feeling of loyalty to it that precludes such ties to other political entities. Even among many adults in these ethnic groups, rising living standards, improved community services and physical amenities, and the conspicuous efficiency and honesty of the PAP regime have reinforced the positive effects of their geographical and temporal separation from China or India and of the city-state's regional insecurities to support the government's efforts to foster their loyalty to Singapore. These effects and attitudes are least evident among Malays, old and young, who tend to be culturally more traditionalistic, have strong ties with nearby Malaysia, and have generally benefited much less than the other groups from Singapore's socioeconomic development.

Along with the emerging consciousness of a common Singaporean identity, especially among the young people, there are the beginnings of a common culture. This results largely from a blending of Chinese and Western ways of thinking and

acting, spiced with certain congenial Malay terms, elements of household furnishing and cuisine, and forms of social intercourse and recreation. Leaving aside the Malay admixture, there appear to be interesting contrasts in the Chinese and Western blendings in Hong Kong and Singapore. Hong Kong strikes us as at once more Chinese in the attitudes and behavioral norms of the great majority of its people and more Westernized in the sophisticated big-business activities and high-fashion ways of living of its Chinese elite groups. Singapore is more Westernized in its technocratic elite groups' faith in the power of rational action to transform society; yet, at the same time, its people seem less worldly-wise and more outgoing.

Domestic Politics

The PAP regime's authoritarianism extends not only to the morals and manners of the city-state's people but also to its internal politics and the public expression of opposition to the ruling party and its policies.

Singapore is a democracy in the sense that its government is representative of and responsive to the will of a substantial majority of its people as manifested in periodic elections in which they are able to vote for opposition candidates. But, it is a carefully controlled democracy in several significant respects. Although there is no evidence that the secrecy of the ballot has in fact been violated, each ballot carries a means of identifying the voter who cast it, and this possibility is generally known. Members of opposition parties and other opponents of the regime are vigilantly watched, their financial and other records can be inspected by the Prime Minister's internal security branch, and they are liable to arrest, deportation or internment without trial. Although there is no formal censorship, newspapers and other periodicals must renew their licenses annually, and they and the universities and other educational institutions are closely supervised and regularly lectured on proper behavior. Opposition candidates have been arrested after elections, as have members of the press accused of fomenting Chinese chauvinism or of being in the pay of foreign powers; and opponents of the regime are harrassed and intimidated in other ways. These practices naturally deter persons disagreeing with the PAP and its policies from engaging in political activities or public criticism.

Despite these restrictions and risks, Singapore does have opposition political parties that contest elections, and significant numbers of people vote for them: In the most recent election in September 1972, 30 percent of the ballots were cast for opposition candidates, although none won a seat. People opposed to the regime talked quite freely with us in private. While watched by the government, the press does print occasional articles and editorials critical of particular government policies and activities. Nor could we detect feelings of fear or sullenness or an atmosphere of tension or resignation such as might be expected under conditions of repression and regimentation. Despite the authoritarianism of its government, Singapore is far from being a police state. Indeed, excluding Japan, it ranks with Malaysia as the freest and most democratic of the sovereign political entities in East Asia.

The PAP regime was chagrined at the size of the opposition vote in the 1972 election. However, it is worried in varying degree about only two of the various strands of dissatisfaction expressed in the election. That of lesser concern comprises the groups and individuals appealing to the city-state's Malay minority.

They are believed to be financed and directed by ethnic chauvinists in Malaysia and to aim at Malay domination of Singapore either through reunification with or as a puppet of the Federation. Of greater concern are the China-oriented communists and their incongruous tacit or overt allies among the Chinese ethnic chauvinists in the business and university communities and in the traditional lineage, dialect, religious, and charitable organizations. These groups are regarded as the gravest threat to the PAP regime because of their potential appeal to the Chinese three-quarters of the population—especially those who feel that they have not benefited sufficiently from Singapore's development progress and those whose loyalty to and pride in China predominate over their dislike of communism as such. Indeed, we suspect, the PAP leaders fear this set of opponents less because many of them are communists than because most of them are Chinese and, as such, knowledgeable about the ways of influencing the city-state's majority ethnic group.

In addition to the normal desire to remain in power, the PAP regime regards itself as the only government capable of preserving Singapore's independence, maintaining an adequate rate of economic growth, and steadily improving the well-being of its people. Granted the impossibility in its case of having an autarkic economy like those of existing communist states, Singapore under a communist regime might not have sufficient access to noncommunist markets to maintain its current levels of living and, in that case, could only survive as a satellite of China. The latter development would very likely be viewed with such alarm by Malaysia or Indonesia as to impel one or the other to intervene to prevent it. In these circumstances, most observers—including ourselves—would agree that, for the present, the city-state has no practicable or desirable alternative to continued rule by the PAP. There seems little possibility of an effective nonethnic, noncommunist opposition party emerging. On the one hand, the restrictive measures noted above make such an effort particularly difficult and frustrating. On the other, the extraordinary success of the PAP's policies, its conspicuous honesty and efficiency, and its substantial elite-group and popular support are even more formidable obstacles to overcome for a party whose only claim would be that it could better achieve the same political and economic objectives.

Yet, as highly intelligent men educated in the British liberal tradition, the PAP leaders recognize the benefits of responsible criticism from an independent opposition not only for the political development of the city-state but also for inhibiting the tendency on their own part to become complacent and lose touch with the people. They have repeatedly stressed their desire to have "an intelligent, constructive opposition," as Prime Minister Lee Kuan Yew put it after the 1972 election. To this end, the government announced that it is exploring the possibility of allotting five or six parliamentary seats to the universities and colleges which, under official control, would be expected to fill them with the kind of constructively critical opposition members that Lee Kuan Yew and his colleagues would like to have. Whether and how this suggestion would be put into effect have not been decided at present writing.

In the absence of an effective, independent opposition, the PAP has adopted other means for inhibiting the natural tendencies to complacency and loss of popular contact inherent in any monopolistic political party. PAP members of Parliament are required to spend at least one evening a week in their constituency headquarters, where they are expected to talk freely with local people, as well as Party members, regarding community concerns, individual and family problems

related to governmental activities, and the city-state's general policies and programs. They and other members of the PAP cadre—the inner group of Party activists who elect the governing Central Committee—are continuously engaged in speechmaking, TV and radio broadcasts, and other informational activities by which the regime seeks to improve popular understanding of Singapore's problems, progress and prospects. The developing sense of commitment to the public good among politicians and civil servants has been helping to reduce bribery and other forms of corruption to negligible proportions, and its effects are reinforced by the vigilance of the corrupt practices investigation unit in the Prime Minister's office and the punishments given to offenders.

The older, long-dominant leaders are encouraging younger, able, trustworthy Singaporeans to become Party members and others already in the Party to be more active in politics, and some of these younger people have been nominated for and elected to parliamentary seats in recent elections. However, whether this encouragement of younger members will be sufficient to prevent generational conflicts within the PAP remains to be seen. The existing top leaders were themselves quite young when they formed the Party during the 1950s and they still have many more years of active life ahead of them. Although ministerial portfolios have been shifted among them, there have been few newcomers to the ranks of Cabinet ministers in recent years. The younger, upcoming potential leaders may not be content to wait in local Party offices and backbench parliamentary seats until the present heads are willing to retire of their own accord. Hence, it is possible that inner-Party factionalism and tensions, absent since the secession of the communists in 1961, could spring up again in the course of the 1970s.

Another political uncertainty relates to the future of the Prime Minister. Regardless of whether or not he does so in the inner counsels of the Party and the government, Lee Kuan Yew towers over his colleagues in the public eye and sets the moral tone of the regime. In the past year or so, his prominence has become even greater as his pronouncements on the behavior of the press, the intellectuals, the young people, and others about whom he is concerned have become more censorious and threatening. The question is whether, after Lee Kuan Yew's retirement or death, his essential function of maintaining the unity, momentum and morality of the PAP regime can be fulfilled by a successor, or by other means, or whether the regime will regress into particularistic factionalism, self-seeking and corruption, with more or less adverse consequences for Singapore's development progress. In our judgment, there is a reasonable probability that the emerging sense of Singaporean identity and the related universalistic values and behavioral norms are sufficiently powerful among the existing and prospective PAP leadership to make the latter contingency unlikely.

Although acknowledging that there is no practicable alternative to the PAP, critics of the regime—inside and outside Singapore—often insist that Lee Kuan Yew and his colleagues grossly exaggerate the risk of allowing substantially greater freedom for the expression of dissenting opinions and deviant behavior and for independent political activities by their opponents. It could well be that the recent increases in restrictions are unnecessary. But, this is a question of degree. The more important question is one of kind: should Singapore reverse the current trend and instead move toward substantially greater freedom of opinion, behavior and dissent?

Outside observers like ourselves, who have not lived in the city-state for a long period of time, generally lack the information and empathy needed to make

an empirical judgment on a question of this type. Our answer must, therefore, be based on our understanding of the sociocultural prerequisites for more or less fully democratic regimes and of Singapore's own sociocultural characteristics and regional situation. The democratic standards by which Singapore is usually judged have originated, have been substantially realized, and have persisted without interruption for reasonably long periods only in a small number of Western societies in Northern Europe, North America and Australia/New Zealand as the result of a slow and quite exceptional historical development that has not been experienced by any other group of countries, not even by others in the Western sociocultural tradition. Too few of the distinctive institutions, values and behavioral norms critical for such democratic systems are inherent in the sociocultural tradition to which Singapore belongs. In fact, however much it may differ in its specific aspirations and modes of expression, the benevolent authoritarianism of the PAP regime is in its essential social function and moral significance fully consistent with and derived from the relationships of authority and subordination and the ideals and behavioral norms of traditional Chinese society and culture explained in Chapter II. It is also reasonably close to those of the Malay sociocultural tradition. The influence of these basic historical factors is reinforced by the effects on the city-state's political system of its existing ethnic particularism, the endemic suspicion and occasional hostility of its neighbors, and the potentially dangerous crosscurrents of regional and world politics.

In the light of these basic considerations, the more relevant question for social scientists is not whether Singapore could or should be more democratic but how it has been able to achieve and maintain the unusual degree of democratic freedom it already enjoys compared with other East Asian countries except Japan.¹ A definitive answer to this question is beyond the scope of this study, probably even of the present state of knowledge of the social sciences. Whatever factors may eventually be shown to be involved, they will undoubtedly include the influence of the exceptional group of men who successfully rode the communist tiger to power and have since provided the dedicated and pragmatic leadership that has played so important a role in Singapore's extraordinary development progress. Indeed, the fact that their critics tend to judge them by higher standards of democratic performance than they apply to most other non-Western leaders is itself a significant tribute to the accomplishments of Lee Kuan Yew and his colleagues.

Regional Relations and Foreign Policy

Singapore's regional situation is sufficiently ambivalent and uncertain to make it the subject of continuing concern to the city-state's government. It is a small island surrounded by very much larger and ethnically different national societies that are at best wary of and at times hostile to its predominantly Chinese population. It is much richer and more industrialized than its neighbors, its people have substantially higher living standards, and its business enterprises are notably more competitive and aggressive—differences which infuse with envy and resentment the ethnic suspicions of the surrounding countries. Nor are these adverse

¹This is also the relevant question regarding the existence of political institutions more or less democratic than those of Singapore in Japan, India and some Latin American nations.

feelings mitigated by Singapore's attitude toward its neighbors. Quite the contrary. Despite their efforts at self-restraint, some of Singapore's Chinese policy makers and opinion leaders are often unable to conceal their sense of sociocultural superiority or their satisfaction over the city-state's achievements compared with those of the other East Asian nations, except Japan. Regarded as arrogant and condescending, these Singaporean feelings exacerbate the suspicions and resentments of the neighboring peoples.

At the same time, however, Singapore and the other Southeast Asian nations have major interests in common, whose importance is being steadily increased by the basic changes now underway in regional and world politics and economics. Although both Indonesia and Malaysia are trying to increase their own direct trade, their entrepot relationships with Singapore are still important and mutually beneficial. As a growing financial and business service center, the city-state attracts capital, technology and managerial talent to the region, and these resources are increasingly drawn upon by the other countries. In fact, Singapore is the major regional source of dynamic attitudes and activities, which help to stimulate not only its own economic development but also that of its neighbors. And, all of the countries in the region seek the same objective of trying to make world trade, monetary and investment relationships more conducive to their own growth and well-being.

Beyond these common economic interests, each has a fundamental interest in its own independence, which means that all share the common aim of preserving the peace and freedom of the region as a whole. In the 1950s and '60s, they relied primarily upon the protection afforded by the various alliances and treaties involving the United States, the United Kingdom, Australia, and New Zealand. In the 1970s, however, these ties are rapidly being diminished or terminated. The United Kingdom now keeps only a token force in Singapore and Malaysia, and the small Australian and New Zealand contingents are being further reduced in consequence of the recent Labour Party victories in these two countries. The American military presence in the region has already been greatly diminished since the cease-fire in Vietnam.

These changes reflect and in turn reinforce the basic shifts in political and economic power relationships that have been underway in the region since the late 1960s. As explained in Chapter I, it is very likely that, in the course of the 1970s, East and South Asia—in the broadest geographical sense—will manifest in the most complex and dramatically conspicuous form the emerging multipolar structure of the international system as a whole. In these circumstances, the smaller and weaker nations of the region will be increasingly hard pressed to preserve a sufficient degree of freedom of action in political and economic affairs, both external and internal, to satisfy their basic aspirations for national independence. The pressures on them generated by great-power interactions will both strengthen and complicate their efforts to accelerate their economic growth, improve the effectiveness of their institutions, and raise the living standards of their people. This gradually emerging regional situation will also foster existing and new cooperative arrangements of various kinds among these countries. Such associations will be designed to help preserve their freedom of action *vis-à-vis* the great powers and to benefit their own development in a variety of ways. At the same time, however, their mutual rivalries and ethnic suspicions, as well as the deliberate or unintentional effects of the maneuvering among the great powers, will

make formation of such arrangements difficult and slow, and will inhibit them from becoming as effective as they otherwise could be.

Singapore is the smallest independent entity in the region and is almost wholly dependent for its survival, let alone its prosperity, upon its external economic relationships. Hence, it must rely not only on the interest but also on the goodwill of its trading partners in the region and in other parts of the world. For, if sufficiently provoked or constrained, they could reduce or dispense with their trade and investment relationships with Singapore, which has no monopolistic advantages. In consequence, the city-state actively cultivates good relations with the other nations important to it. As part of this effort, Lee Kuan Yew periodically visits Europe, Africa, the United States, the Soviet Union, and other parts of Asia. The large and growing American, European and Japanese investment in the city-state not only brings economic benefits but also has the advantage of giving the great powers an incentive to maintain Singapore's independence so as to prevent one of their number from dominating it. Like other nations in the region, the changes sketched in Chapter I are also impelling Singapore to move toward establishing relations with China, despite the PAP's fear of thereby strengthening the Chinese chauvinists and communists in the city-state.

Singapore is also endeavoring to strengthen the positive and mutually beneficial aspects of its ambivalent relationships with Malaysia and Indonesia, its two closest and most important neighbors. For example, it provides the tax and other benefits of pioneer status to approved investments by Singapore companies in Malaysia and Indonesia, an arrangement intended both to assist their development and to foster its economic ties with them. Of greater potential significance is Singapore's membership in the Association of Southeast Asian Nations (ASEAN) along with Indonesia, Malaysia, the Philippines, and Thailand. Through ASEAN, these countries aim to help preserve their neutrality and freedom of action *vis-à-vis* the existing and emerging great powers, as well as to cooperate in promoting their economic, social and cultural development.

Although ASEAN may in the future perform increasingly important mutual defense functions for its members, Singapore—like Malaysia—has hitherto relied upon its historical relationships with the United Kingdom, Australia and New Zealand for its main external protection. Growing out of Sukarno's confrontation policy of the early 1960s, the Five Power Defense Arrangement among these Commonwealth countries is mainly intended to protect Malaysia and Singapore from a resurgence of Indonesian aggression against them, and it also serves the implicit purpose of inhibiting possible Malaysian designs against Singapore. In addition, the city-state has been building up its own defense forces as a deterrent to a hostile move by any of its neighbors, as well as to strengthen its own internal security.

Singapore's Future

If, due to its smallness, its lack of natural resources, and the regional cross currents sketched above, Singapore's situation is essentially precarious, it has invaluable assets for coping with the dangers inherent in this condition. They are the attitudes and skills of its people; the farsightedness, pragmatism and efficiency of its leaders; and the self-confidence and momentum generated by its achievements to date. Barring a war in which it would be involved or a worldwide

regression into serious neomercantilism, the city-state's future will largely be determined by whether these assets continue to be present in sufficient degree to enable it to meet the political and economic difficulties, internal and external, that lie ahead.

As in many developing nations in Asia and Africa, the focal point for these uncertainties is the character of its elite groups and of the leaders they provide. In turn, these immediately crucial factors depend fundamentally upon the characteristics of the society and culture as a whole. Insofar as generalizations can be drawn from the experiences of the many different transitional societies and cultures of Asia and Africa, we conclude that the key consideration is the relative strength of the particularistic sociocultural elements compared with the universalistic ones. The more a transitional society is subdivided into particular ethnic, economic and other types of competing groups and institutions, and the more single-mindedly and uncompromisingly that each pursues its self-interests as each conceives them, the less capable its elites and people are of agreeing upon a consistent set of national goals, of mobilizing sufficient resources for achieving these objectives, and of applying these resources efficiently enough for their efforts to be successful. Of special importance is the particularism of the elite groups and leaders as manifested in their factionalism and self-seeking and in the related ineffectualness or transitoriness of many of their attempts at deliberate management of the development process. For, in transitional societies in which particularism predominates, the pace and nature of sociocultural change is very largely determined by the autonomous interactions of social and cultural forces, internal and external, and not by the conscious rational planning and implementation of policy makers and experts, however strongly they may believe in the efficacy of their efforts and however much energy, time and money they may devote to them.

Universalistic societies may be no less—often they are more—differentiated into competing groups and institutions than particularistic societies. But, the pursuit by each of its presumed interests is both self-limited and socially constrained in ways that significantly orient their efforts toward national goals, which are articulated and shared by a majority of the elite groups and are actively supported or passively acquiesced in by a majority of the people. This consensus depends upon the prevalence of social values and behavioral norms, applicable to all members of the society, that foster a sense of the common good and the willingness of individuals and organizations to guide their actions by it; and upon the existence of institutions that, whenever necessary, can enforce compliance with these universalistic goals and standards of conduct. Universalistic societies can be democratic, as in North America and Northern Europe, or authoritarian, as in the Soviet Union and other communist states, depending upon whether universalistic values and norms are effectuated primarily by voluntary or by coercive means and upon whether the consensus on national goals is formulated mainly by the cooperative and competitive interactions of the different groups and institutions or is imposed from above by the ruling elite. Both types of universalistic societies are capable to a significant extent of deliberately managing their processes of sociocultural change.

In Singapore, neither particularistic nor universalistic characteristics as yet clearly predominate. But, since 1960, the trend has been toward a substantial strengthening of the latter compared with the former. True, as we have pointed out wherever relevant, the danger of a resurgence of particularism is still serious

both at the elite-group level among political leaders, civil servants, businessmen, trade-union officials, intellectuals, and other opinion leaders, and at the popular level among the different ethnic groups. Nevertheless, the direction of the basic sociocultural trends in the city-state has been toward growing universalism, and this momentum is likely to be sustained by other characteristics of its society, especially the pragmatism of its leaders and the practical common sense of its people. For these reasons, the probability is greater that Singapore will avoid a serious regression into particularistic struggles than that it will not. The crucial period is likely to be the second half of the 1970s and the critical issue could well be the willingness and ability of the present PAP leaders to open the top levels of party and government to people from the upcoming age groups of the elites.

Granted the continued strengthening of universalistic characteristics at both elite and popular levels, it is likely that the city-state will be able to weather the more probable kinds of external difficulties with which it could be confronted. True, as explained in Chapter VIII, its present development strategy is by no means easy to carry out, involving as it does a qualitative jump in the city-state's technological and managerial capabilities. And, the outlook for its still important exports of labor-intensive consumer goods and intermediate products is uncertain in view of the threatened protectionism in its major markets. In unfavorable external economic or political circumstances, a lag in the implementation of this strategy could lead to a return of serious unemployment and a halt in the growth of real income. Nonetheless, even such adverse internal repercussions could be endured and in time overcome provided sufficient unity and pragmatism prevail among Singapore's leaders and the realism and common sense of its people persist. Hence, despite the difficulties and dangers that lie ahead, there is a substantial probability that Singapore will experience in the foreseeable future a continuation of the notable development progress it has achieved in the recent past.

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