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GOVERNMENT INTERVENTION IN THE ECONOMY: A COMPARATIVE ANALYSIS OF SINGAPORE AND HONG KONG

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ABSTRACT

Singapore and Hong Kong are very different and yet very similar in many respects. A study of their current profiles and historical development indicates that the two have achieved comparable economic successes through different development strategies. After World War II, Singapore gained political independence while Hong Kong achieved economic restructuring. The Singapore government adopted an interventionist approach to develop its economy, while the Hong Kong government followed the laissez-faire principle. However, as the two were maturing socially and economically in the last few decades, both governments found the necessity to adopt a hybrid strategy of mixing economic interventions with the free-market approach. An examination of public finance and economic policies since the onset of the Asian economic turmoil shows that the two have become increasingly similar in their economic approaches, with heavy emphasis on stabilizing the economy and stimulating business activities through government initiatives. Based on their projected economic, social and political development, the Hong Kong government is expected to become more interventionist while its Singapore counterpart is expected to go in the opposite direction. The economic development strategies of the two governments, coming from two extremes, will become more alike in the foreseeable future, for reasons of political feasibility in the former.

INTRODUCTION

Singapore is a place where 'anything not expressly permitted is forbidden', while Hong Kong is a place where 'everything not expressly forbidden is permitted'. Lee Hsien Loong, Deputy Prime Minister of Singapore, was reported to have made this comparison in November 1997 (Porter, 1998). The Singapore government is well known for its economic intervention, while the Hong Kong government is equally well known for its free-market approach. In spite of this apparent difference, the two have enjoyed equal economic success. Geiger and Geiger (1973, p. 11) suggest that they are models of their particular development strategies. Recent events suggest that while the Hong Kong government has become increasingly interventionist, the Singapore government has become free-market oriented. What has caused this to happen? The analysis and findings presented in this article lead to the conclusion that, whether voluntary or reluctantly, the two governments have to adopt a mixture of interventionist and free-market strategies as their societies and economies mature.

This article begins with a profile comparison of Singapore and Hong Kong which indicates that they currently bear more similarities than differences, especially in economic status. This is followed by a historical analysis which shows that, due to different political, social, and economic changes, the two reached similar economic status through very different economic approaches. The two are further compared by analysing their fiscal policies, economic revival plans, and intervention strategies after the Asian economic turmoil. The analysis leads to the conclusion that although political, social and economic changes may manifest differently at different times, they will ultimately force democratic governments into adopting a hybrid economic approach of mixing free-market with interventionist strategies. Projection of political, social and economic factors indicate that Singapore will continue to be more free market-oriented while Hong Kong will be more interventionist.

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Table 1. Profile comparison between Singapore and Hong Kong

	Singapore	Hong Kong
Geographic location	East Asia	East Asia
Current form of state	City state with parliamentary democracy	Special administrative region of China with its own constitution (the Basic Law)
Previous form of state	British colony (1819–1959) Member of Malaysia (1959–1965)	British colony (1842–1997)
Land area	647.5 sq. km	1095 sq. km
Population	3.04 million (mid-1996 estimate)	6.50 million (mid-1997 estimate)
Population growth (1993–1997)	2% per year	2.3% per year
Population make-up (Singapore, as of June 1996) (Hong Kong, as of June 1997)	Chinese (77.3%) Malay (14.1%) Indian (7.3%) Others (1.3%)	Chinese (92.4%) Others (7.6%)
Languages	English, Chinese, Malay and Tamil	English and Chinese
GDP (US$)	$94.1 billion (1996)	$154.6 billion (1996)
GDP per head (US$)	$30 900 (1996)	$24 504 (1996)
GDP growth (1988–1997)	2.67 times	2.92 times
Economic status	Newly industrialized economy	Newly industrialized economy
Type of industrialization	Export-oriented	Export-oriented
Major industries by % of GDP (1996 estimates)	Finance, property, etc. (27.2%) Manufacturing (26.9%) Wholesale and retail trade, etc. (18.1%) Transportation and communication (13.2%) Construction (8.2%)	Wholesale and retail trade, etc. (25.4%) Finance, property, etc. (24.9%) Community-based services (17.9%) Rental, lease, etc. (13.9%) Transport, storage, communications (10.2%)
EIU's Business Environment Ranking (1998–2002)[a]	6 (4th quarter report, 1998)	12 (4th quarter report, 1998)
EIU's Business Environment Ranking (1993–1997)[a]	3	1

[a]EIU, Economist Intelligence Unit.
Source: Country profiles, country reports and country forecasts of Singapore and Hong Kong, (EIU); estimates of GDP, 1961–1997 (HKSAR); and world table (World Bank).

CURRENT PROFILES

The profiles of Singapore and Hong Kong bear considerable similarities. Both have been British colonies and still carry heavy British influences. Hong Kong, unlike Singapore, has never been and probably never will be a sovereign state. However, Britain did allow Hong Kong to negotiate internationally as an independent voice in defence of its industry. This gave Hong Kong de facto autonomy on economic issues (Berger and Lester, 1997, pp. 15–17). Under the 1984 Sino-British Joint Declaration, Hong Kong is guaranteed the same degree of autonomy after the reversion to China in 1997 (the handover) as under the British rule. Hong Kong has its own law (the Basic Law), an independent administration, and an independent legal system. In these regards, Hong Kong's status is broadly similar to that of Singapore (see Table 1).

Both Singapore and Hong Kong are newly industrialized economies (Tan, 1992, pp. 1–15). Hong Kong tripled its GDP in the 10 years between 1988 and 1997. Singapore had done similarly well with a GDP increase of 2.67 times over the same period. In 1991, a World Bank report classifies both Singapore and Hong Kong as '*high-income*' countries and places them in the same category as the developed countries in the Organization for Economic Cooperation and Development (World Bank, 1991, p. 207). The Economist Intelligence Unit (EIU) ranked

Hong Kong first and Singapore third in the order of attractive business environment among 60 countries for the period between 1993 and 1997. Their projected rankings for 1999–2003 have been changed since the Asian economic turmoil started in mid-1997. Hong Kong had dropped to the twelfth place and Singapore to sixth place in the EIU's 4th quarter report for 1998.

As their economies matured, both Singapore and Hong Kong experienced rapid rises in living standards, leading to an erosion of competitive advantages. Heavy emphasis has been placed on economic restructuring.[1] Hong Kong, a gateway to the China mainland, has economic advantages that Singapore can only envy. To cope with high costs, manufacturers in Hong Kong have moved many of their production activities to the mainland, while retaining product development, marketing, accounting, financing and various support services in Hong Kong. Investment on the mainland has been highly profitable, contributing to Hong Kong's continuing prosperity.

Unlike Hong Kong, Singapore does not have an economically benevolent hinterland. Its relationship with Malaysia has been volatile. In spite of rising costs, Singapore manages to maintain a healthy manufacturing sector in electronics, transport equipment and chemicals. Singapore has been developing its financial and business services aggressively. In 1997, financial and business services accounted for 30.9% of its GDP, while manufacturing's share dropped to 24.3%.[2] This development has made Singapore a potentially serious competitor to Hong Kong's already established financial services industry (Enright *et al.*, 1997, pp. 243–250).

The above analysis shows that Singapore and Hong Kong currently bear more similarities than differences, especially in economic status. The two, however, have achieved similar economic successes through very different economic approaches, as indicated in the following analysis.

HISTORICAL ANALYSIS

Social, economic and political factors do not exist in isolation and should not be examined alone. The history of Singapore and Hong Kong, observed as the interaction of these three factors, can be divided into four periods for comparative analysis: (1) after British colonization and before the war when the two were similar in almost every respect; (2) after the war and before 1960, during which Singapore gained self-government from Britain while Hong Kong went through economic restructuring under British rule; (3) between 1960 and 1980 when the two became philosophically different in their economic approaches; and (4) after 1980 when political, economic, and social circumstances forced the two to become similar again.

(1) After colonization

Both Singapore and Hong Kong were once British colonies.[3] The British developed both into entrepôts and brought with them organized and efficient civil administration, entrepreneurs, and technological expertise.[4] Both experienced rapid population growth, as entrepôt trade improved the economy and provided job opportunities.

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[1]Enright *et al.'s The Hong Kong Advantage* (1997) offers an analysis of Hong Kong's historical competitive advantages and its forthcoming challenges. Berger and Lester's *Made by Hong Kong* (1997) provides suggestions for dealing with the challenges.

[2]EIU's *Country Report: Singapore* (2nd quarter of 1998, p. 5).

[3]Singapore was founded in 1819 by Sir Stamford Raffles as part of the Straits Settlement, which also included Penang and Malacca on the west of the Malayan Peninsula. Britain developed Singapore as an entrepôt to facilitate trade in tin, rubber, rice and, among other things, opium. The Hong Kong Island became a British colony under the Treaty of Nanking in 1842, as a result of the Opium War. In 1860, Kowloon, a peninsula across the channel from the island, was ceded from China to Britain under the Treaty of Peking. In 1898, New Territories, the area adjacent to Kowloon, was leased to Britain under a term of 99 years. The city 'Hong Kong' now encompasses the Hong Kong Island, the Kowloon Peninsula and the New Territories. Under the lease agreement, the New Territories would have to be separated from Hong Kong and returned to China in 1997. However, the economic development in Hong Kong had made it difficult to separate the New Territories from the rest of Hong Kong. Sino-British negotiations subsequently resulted in reverting the sovereignty of the whole city of Hong Kong, including the parts ceded from China under the two treaties, to the PRC in 1997.

[4]Lee Kuan Yew, founder of the PAP, looking back on the years, commented that 'whatever their political faults, the top echelons of British colonial officers were men of integrity, honest and efficient' (Drysdale, 1984, p. 48).

Although both attracted migrants from China, Singapore's ethnic make-up has always been more diverse as its native population is not Chinese and it attracted a lot of migrants from India during this period.[5]

Aside from the difference in ethnic diversity, Singapore had a matured Chinese population in comparison to that of Hong Kong. In Singapore, the growth of its Chinese population was fastest in the early 1800s, particularly between 1824 and 1830, during which the average growth rate was 12% a year (Chew and Lee, 1991, pp. 224–225). It was observed that its Chinese population considered Singapore their permanent home, although China continued to be their spiritual motherland (Drysdale, 1984, pp. 61–68). Hong Kong, on the other hand, experienced rapid population growth in the early 1900s as migrants fled the Chinese mainland for political stability and economic opportunities in Hong Kong. This caused Hong Kong's population to grow from 400 000 in 1918 to 1.6 million in 1941 (Chan and Kwok, 1997, pp. 158, 229).

The lack of a matured population might have been a major reason for the easy acceptance of colonial policy in Hong Kong, as new immigrants would be more concerned with settling down than challenging the government. When English education was promoted by both colonial governments, the Chinese population in Singapore resented the policy (Chew and Lee, 1991, pp. 269–273) while it was quietly accepted in Hong Kong. The resentment towards English education led to a growing anti-colonial sentiment in Singapore, fuelling social discontent, and inciting riots after the war.[6]

Socially, both Singapore and Hong Kong were underdeveloped during this period, as it was the case for most Asian countries then. The British tradition of voluntarism did not help to improve their social conditions (Ng, 1982). However, meritocratic colonial administration and entrepôt trade had made the two desirable places to live, in comparison to their neighbouring cities.

(2) After the war and before 1960

Both Singapore and Hong Kong came under Japanese occupation during World War II. The two decades after the war were crucial to the development of both cities, with Singapore gaining independence from Britain while Hong Kong achieved economic restructuring. Anti-colonial sentiment grew stronger in Singapore after the war, leading to outcries for independence (or self-government) from Britain. Rodan (1989, p. 50) contends that bourgeois political forces in Singapore, such as the Progressive Party, failed to accommodate the depth of the anti-colonial sentiment. This led to the surprising election results in 1955 when the pro-government Progressive Party won only four of the 22 seats it contested. The Labour Front[7] surprisingly won 10 of the 25 seats, the most of any party. A very important development in this election was the emergence of the radical People's Action Party (PAP) which, led by Lee Kuan Yew,[8] won three of the four seats it contested. The PAP gained popularity quickly after the election while the Labour Front lost ground for failing to push forward for self-government and to contain social unrest. In the 1959 election, the PAP became the governing party by capturing 43 of the 51 seats in the expanded Legislative Assembly. Singapore was considered to have gained self-government from Britain after this election, a political change that did not happen in Hong Kong until 38 years later.

The Chinese people in Hong Kong were politically apathetic during this period.[9] Social unrest then was caused largely by economic problems[10] or political conflicts between the Communists and the Kuomintang.[11]

[5]It was estimated that three-quarters of the population in Singapore were Chinese at the end of World War II (Drysdale, 1984, p. 3), while almost the entire population of Hong Kong were Chinese.
[6]See Chapter 6, 'Anti-Colonial Sentiment', and Chapter 7, 'Paths to Chinese Chauvinism' of Drysdale (1984) for a description and analysis of the conflicts created by the language issue and other aspects of the British administration.
[7]The Labour Front was then a relatively new party which owed its origin to the Singapore Labour Party.
[8]Lee Kuan Yew, the first Prime Minister of Singapore after its independence from Britain, came into the political scene as a legal advisor to unions, pro-Communist political organizations and Chinese school students. As a Cambridge law reader, Lee might have been exposed to the Fabian Socialist ideal, which became a pertinent characteristic of his government. Lee and other political activists founded the PAP in 1954.
[9]A good example of the political apathy was the total lack of public response to an initiative made by Governor Mark Young to increase the Chinese representation in the government (Endacott, 1987, pp. 307–309).
[10]For example, an association of machine operators organized a strike in 1947, which lasted for about a month, over a pay issue (Chan and Kwok, 1997, p. 257).
[11]For example, a riot broke out in 1956 over the defacing of a Kuomintang flag (Chan and Kwok, 1997, p. 394).

The political apathy was attributed to a transient mentality caused by rapid population growth. During the war, Hong Kong's population dropped from 1.62 million in 1941 to just 600 000 in August 1945. After the war, migrants poured in from China and the population grew rapidly to 2.5 million by the end of 1955 (Chan and Kwok, 1997, p. 248). In comparison, Singapore's population grew by only half a million between 1947 and 1957, of which net migrants accounted for only 112 300 (Chew and Lee, 1991, pp. 221–222). Since the New Territories, a large part of Hong Kong, was leased from China, the future of Hong Kong was always under a cloud of uncertainty which discouraged migrants from settling down. As Richard Hughes (1976, p. 1) puts it, Hong Kong was a '*borrowed place living on borrowed time*'.

Hong Kong experienced rapid economic growth after the war. By 1949, Hong Kong's volume of entrepôt trade reached HK$5.1 billion, a growth of four times over the previous record high of HK$1.3 billion set in 1931. Hong Kong's close proximity to China played an important role in the economic growth, as huge amounts of capital and a large number of firms were relocated from China to Hong Kong due to civil war in the mainland.[12] In 1950, the Korean War led to trade restrictions against China,[13] which threatened Hong Kong's economic growth temporarily. However, with the capital and entrepreneurs absorbed from the mainland, Hong Kong was able to restructure its economic base from entrepôt trade to export manufacturing.[14] The economic growth put the government in a strong fiscal position to improve social conditions.[15] In 1954, the government began a plan to develop public housing to accommodate the poor and the rapidly expanding population (Endacott, 1987, pp. 310–313).

By comparison, Singapore's economy grew at a much slower pace and entrepôt trade continued to be its economic base during this period, although the economy benefited from a short-lived trading boom during the first few years of the Korean War (Chew and Lee, 1991, pp. 182–187). The population then was undernourished, disease-ridden, poorly housed, and had inadequate health, education, and welfare facilities (Chew and Lee, 1991, p. 182).

The main contrast between Singapore and Hong Kong during this period, hence, was that Singapore went through political transformation while Hong Kong achieved economic restructuring.

(3) From 1960 to 1980

This was a period during which both Singapore and Hong Kong achieved significant economic gains, but through very different approaches. After the 1959 election, the PAP became the governing party but there were severe conflicts within it between the pro-Communists and the moderates. The conflicts worsened after Singapore joined the Federation of Malaysia (Ganesan, 1996). At the same time, the deteriorating relationship between Singapore and Indonesia led to trade stoppage between the two (Chew and Lee, 1991, p. 194). In 1965, Singapore separated from the Federation of Malaysia. In 1967, the Singapore government learned of a British plan to gradually withdraw its entire military base. The military withdrawl, besides military implications, meant the loss of 38 000 jobs directly and indirectly (Sullivan, 1991, p. 124). The adversity experienced during this period led to an acute sense of vulnerability, often cynically referred to as a siege mentality (Ganesan, 1996). Under the influence of this siege mentality, the PAP became an elitist (Quah, 1984) and paternalistic (Low and Aw, 1997, p. 1) government emphasizing social and economic responsibilities (Devan Nair, 1982, p. xii). Fiscal measures were immediately used to stimulate economic development and to improve social conditions, leading to frequent deficits

[12]It was reported that between 1945 and 1947 US$50 million of capital from the Chinese mainland and 288 firms from Shanghai were moved to Hong Kong (Chan and Kwok, 1997, pp. 257–258).

[13]Restrictions were imposed by the United Nations and the Hong Kong government on trade with China. In December 1950, the Hong Kong government restricted the shipment of 96 types of products that might have military uses from entering China through Hong Kong.

[14]In 1954, Hong Kong had 2384 factories employing 110 000 workers. These figures grew to 4689 factories and 205 000 employees in 5 years. By 1959, 70% of Hong Kong's exports were domestically produced (Chan and Kwok, 1997, pp. 250–251), signifying a successful transition from an entrepôt to an export-oriented economy (Chen, 1996).

[15]The Hong Kong government reported a fiscal surplus of HK$320 million in 1947–48 and set up a reserve fund in 1952–53 for the accumulated surpluses (Chan and Kwok, 1997, pp. 255, 341).

being incurred during this period. Unemployment was a serious problem then, at a high rate of 13.5% (Sullivan, 1991, p. 122; Drysdale, 1986, p. 215). With the assistance of the World Bank and the United Nations, Singapore formulated a state development plan emphasizing job creation (Chew and Lee, 1991, pp. 189–190). In 1961, an Economic Development Board (EDB) was established to promote industrial development, which through time produced leaders and influential players in both the private and public sectors (Schein, 1997, p. 2).

The separation from Malaysia in 1965 caused Singapore to lose a common commodity market. Unlike Hong Kong, which absorbed capital and expertise from the China mainland, Singapore had to create capital and expertise from within. Industry estates were developed through the Housing and Development Board (HDB). The Development Bank of Singapore (DBS) was created in 1968 to provide industrial financing. The Jurong Town Corporation was set up in the same year to acquire, develop and manage development sites (Sullivan, 1991, p. 132). These developments were major success factors for restructuring Singapore's economic base from entrepôt trade to manufacturing (Lim and Ow, 1971, p. 4).

Aside from creating resources from within, Singapore attracted foreign investment through heavy government intervention in the labour market (Chew and Chew, 1995). The Employment Act and the Industrial Relations (Amendment) Act were introduced in 1968 to tighten conditions pertaining to employment and to impose limits on negotiation over employment conditions (Chew and Lee, 1991, p. 205). In 1969, the government reorganized and modernized trade unions. The National Wage Council (NWC) was established in 1971 to ease business–labour relations and to consolidate government control over labour issues (Ganesan, 1996). In 1979, a second reorganization led to the government-sponsored National Trades Union Congress (NTUC) emerging as an umbrella body controlling corporatized labour (Chew and Lee, 1991, p. 177). Singapore's government intervention produced phenomenal economic growth (Chew and Lee, 1991, pp. 193–194) and achieved full employment by the early 1970s. Economic emphasis was then shifted to broadening Singapore's economic base through venturing into high technology, capital-intensive industries, and value-added services (Tan, 1996, p. 10).

In social development, the Singapore government considered making public housing the top priority. The Housing and Development Board, set up in 1960, built 10 000 to 13 000 units a year between 1962 and 1969. In 1959, only 9% of the population lived in public housing. This figure rose to 32% in 1969 (Drysdale, 1984, pp. 252–255). Education was improved, by upgrading the facilities of Chinese schools, providing training facilities for Chinese-stream teachers, and recognizing Chinese teachers' unions, yet at the same time continuing to promote English education. Total enrolment increased from 401 064 in 1962 to 537 278 in 1972 (Lee and Chew, 1991, p. 275). Old age income security was improved through increasing the Central Provident Fund (CPF) contribution rate gradually, from the initial 5% each from employers and employees to 25% each in the mid-1980s (Low and Aw, 1997, p. 34). The CPF also provided a huge source of internal capital for industrial development and alleviated the pressure on social and health spending. In 1968, the government tied the pension scheme to home ownership, permitting tenants under the 'home ownership' scheme to purchase their flats using part of their CPF savings as down payment (Drysdale, 1984, p. 406). Low and Aw (1997, p. 1) credited the CPF for transforming the stopgap measures taken by the colonial government into a device that has achieved wide-ranging socio-political and macro-economic objectives. Kalirajan (1986) considers the CPF to be the central feature of Singapore's social security system.

Hong Kong also enjoyed phenomenal economic success during this period, with rapid expansion in manufacturing during the 1960s followed by industrial diversification in the 1970s (Chan and Kwok, 1998, pp. 2–3 and 114–115). Unlike Singapore, its economic success was achieved without fiscal expansion beyond the GDP growth rate and without blatant government intervention. However, this does not mean a complete absence of government interference in the economy. The government continued its involvement in the property market by controlling land supply (Chen, 1980) and by providing public housing.[16] It has been argued that the

[16]In 1963, the Choy Hung Estate, a large public housing estate, was completed to provide 7450 units and house 43 300 people. This was surpassed in 1968 by the Wah Fu Estate, which provided more than 7800 units and housed 54 000 people (Chan and Kwok, 1998, pp. 43, 96).

development of public housing served the economic purpose of freeing expansive land, previously occupied by squatters, for commercial uses (Keung, 1981, pp. 9–14; Fong, 1987, pp. 4–9). The government's tight control over land supply has been criticized for inflating land value. Between 1947 and 1954, property value rose by 10 times (Chan and Kwok, 1997, p. 335), making private flats unaffordable to many (Leung, 1981, p. 8). The Home Ownership Scheme and the Private Sector Participation Scheme were introduced in 1976 and 1978, respectively, to provide lower-middle-income families with access to housing ownership (Leung, 1981, p. 19; Chan and Kwok, 1998, p. 219). Schiffer (1983, pp. 9–30) observed government intervention in other areas, including: (a) setting prices and controlling supply of many food items through agricultural and fishery policies and through negotiation with China; (b) providing subsidies to medical services; (c) regulating public transport and utility industries; (d) controlling rents; and (e) tightening banking supervision. He argues that these government interventions might have served the purpose of keeping the cost of living down and maintaining Hong Kong's economic competitiveness during this period. Furthermore, Ng (1982, 1993) observed government intervention in labour, employment and training.[17] Skeldon (1995) observed government control over labour importation through quota and levy. The government also had influence over the development of human resources through education and manpower training policies.[18]

Aside from government interference in the economy, the 1970s were also a period of tremendous social and community development in Hong Kong. It was referred to as the 'golden era of social development', during which social expenditure increased by an estimated eight-fold if all public accounts were considered (Lo, 1990, pp. 61–63). The first phase of a subway system was also built during this period.

Both Singapore and Hong Kong had phenomenal economic and social accomplishment during this period. Singapore's success is credited to proactive, extensive and purposeful government intervention.[19] Although the Hong Kong government also interfered with the economy, the interference was reactive, usually to address a problem that had already occurred, selective and reluctant.[20] The contradiction between them is not only a difference of degree but also a departure in philosophy.

(4) After 1980

The 1980s were a period during which both governments encountered threats to their economic stability. In Singapore, over-regulation had led to a distorted economy, which prompted the government to reconsider its development strategy. In Hong Kong, the looming uncertainty of what would happen to the city after 1997 had led to political and economic instabilities, which forced the government to become more interventionist.

Entering the 1980s, the Singapore government encouraged industrial diversification from manufacturing into financial and professional services in order to develop the city into a total business centre (Tan, 1996, p. 10). Singapore entered a brief period of recession in the first half of the 1980s as a result of high wages caused

[17]Evidence provided includes enacting the Employment Ordinance in 1968 to regulate individual contracts, wages and employment standards; introducing a labour tribunal under the Tribunal Ordinance of 1972; the inception of the Training Council in 1974; enacting the Labour Relations Ordinance in 1975 to deal with industrial conflicts; enacting the Apprenticeship Ordinance in 1976; raising the minimum employment age in 1980; as well as the 1978 White Paper on matching senior and tertiary education with the needs of commercial and industrial diversification.

[18]For example, the Curriculum Development Committee, formed in 1972, and the Hong Kong Examination Committee have influence over the content as well as the delivery of education.

[19]Singapore's economic success and development strategy are explained in Drysdale (1984, pp. 404–412), Sullivan (1991), and Fong and Low (1996).

[20]There are many who hold the view that Hong Kong's economic success is attributed mainly to minimal government intervention. Edward K. Y. Chen in 'A Hong Kong model of development' (1996) provides an explanation of this view. See also Luk (1995, p. 10), Hadden-Cave (1980), and Glassburner and Riedel (1972).

by over-regulation,[21] high company tax rate, rising statutory charges, and a high CPF contribution rate (Fong and Low, 1996, p. 400). The government responded to the economic downturn by recognizing certain adverse effects of excessive intervention and by introducing a number of corrective measures in 1986.[22] Since then, the government has adopted a number of policies to reduce its direct involvement in the economy[23] and has switched to a new emphasis of managing the economy through partnership with business and labour. The Government of Singapore Investment Corporation (GIC), formed in 1981, invested heavily in the private sector (Luckett *et al.*, 1994, pp. 126–127; Sikorski, 1989). These changes contributed to productivity increases and a 30% drop in production costs. By 1988, the economy rebounded (Sullivan, 1991, p. 127) and, entering the 1990s, Singapore has been aiming to surpass Hong Kong as an international centre of finance and business headquarters.

Further to the above changes, the government de-emphasized using deficit spending to stimulate economic growth.[24] Since 1986, budget formulation has to include a 5-year expenditure and revenue forecast, with the purpose of producing an overall balanced budget for each block of a 5-year planning period (Doh, 1995). Budget surplus was subsequently produced for each of the years between 1986 and 1997.[25]

While the Singapore government was relaxing its intervention in the economy, the Hong Kong government moved in the opposite direction. Fung (1982, pp. 45–47, 62, 81–83) observed government interventions in the stock and money market in the early 1980s.[26] In 1982, the failure of the Sino-British negotiation (to reach an agreement on Hong Kong's future) caused public panic, which sent both the Hong Kong dollar and the stock market index to a crashing dive. In 1983, the government intervened by linking the Hong Kong dollar to the US dollar to restore exchange rate stability.[27] The linked exchange rate system has since been considered crucial in maintaining Hong Kong's economic stability (Jao, 1996, p. 40), especially in protecting the economy against the effects of the Tiananmen incident in 1989. In 1993, the Hong Kong Monetary Authority was established to oversee the linked exchange rate as a main part of its functions, signalling ongoing intervention in the money market.

The Sino-British negotiation also altered Hong Kong's socio-political scene. Triggered by the uncertainty regarding Hong Kong's future, numerous people in Hong Kong with the financial means or family connections had emigrated to other countries. Those who decided to stay, by choice or by necessity, came to consider Hong Kong their permanent home. The transient mentality observed previously was diminishing. Hong Kong ceased to be a 'borrowed place living on borrowed time'. The British government, in response to public demands, hastened the pace of democratization (Miners, 1995, p. 115). This led to the introduction of direct elections in 1991 and the promise of universal suffrage in 2007, resulting in rapid development of political parties and increasing political activities. Norman Miners (1994, p. 224) observed that 'the Legislative Council has changed from a wholly appointed body subservient to the executive into an obstreperous assembly with an elected majority where government proposals are frequently defeated'. People were no longer politically apathetic and the government could no longer ignore public demands and social responsibility easily.

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[21] After the 1979 oil crisis, the National Wage Council recommended large-scale wage increases, which eroded Singapore's international competitiveness.
[22] The measures included: tax concessions; tax incentives and grants for research and development; a reduction of the CPF contribution rate; freezing overall wages; minimizing trade restrictions; introducing incentives to encourage the fund management industry; and education improvement.
[23] A report of Singapore's Economic Committee (Ministry of Trade and Industry, 1986, p. 83) provided three main recommendations: (1) minimizing regulations to prevent abuse and over-regulation; (2) divesting the government from companies that could prosper on their own; and (3) relying more on private sector initiatives and enterprises to generate growth. The government adopted a flexible wage system that emphasized using productivity incentives rather than strict wage control (Cima and DeGlopper, 1991, p. 202). A number of changes introduced in 1986 have the effect of relaxing the role of statutory boards, public corporations and government companies in economic development.
[24] Singapore had a budget deficit every year in the period between 1974 and 1986.
[25] An economic revival plan presented in 1998 turned a surplus of S$2.7 billion budgeted for the year into an estimated deficit of S$0.8 billion.
[26] Evidence provided includes unification of stock exchanges in 1980 and intervention in the money market in 1981.
[27] Prior to 1972, the Hong Kong dollar was linked to the pound sterling. In June 1972, the linkage was severed after Britain floated the pound sterling. The Hong Kong dollar was subsequently linked to the US dollar for one month but eventually floated as the US dollar also devalued (Chan and Kwok, 1998, pp. 148–149).

After the handover in 1997, neither the PRC nor the Hong Kong government would like to be seen as incompetent or irresponsible in handling Hong Kong's economy. The Asian economic turmoil put the Hong Kong government to a most stringent test. In July 1997, numerous Asian economies, including Singapore and Hong Kong, found themselves the targets of speculative attacks in currency and stock markets. The attacks continued for more than a year and are still threatening to return. The Hong Kong government intervened heavily in both the money and stock markets to defend against the attacks. The attacks, although unsuccessful in breaking the linked exchange rate, caused an economic downturn which led the government to use expansionary fiscal measures, for the first time, in an attempt to revive the economy.

In comparison, the Singapore government chose not to defend its money and stock markets during the speculative attacks. As indicated by Lee Hsien Loong, Deputy Prime Minister of Singapore, Singapore will continue to allow free capital flows, encourage foreign investments, and plug itself into the mainstream of the global economy (Porter, 1998). Prime Minister Goh Chok Tong has made similar statements, although he also hinted at the possibility of stricter economic controls.[28]

CHANGING ECONOMIC PHILOSOPHY AND APPROACH

The above historical analysis provides ample evidence that both Singapore and Hong Kong had changed their economic approaches. In Singapore, it has changed from direct intervention to developing partnerships with business and labour. In Hong Kong, the government has abandoned its laissez-faire approach and become more interventionist.

The Singapore government placed very little attention on social needs prior to the PAP coming into power. For example, Goh (1956, pp. 2–3) observed that the colonial government ignored the housing problem after the war and held the position that 'housing the poor classes is unprofitable'. The government's economic approach became distinctively interventionist after the PAP came into power. Ng (1989) indicates that this approach was necessary to get some industries started. Bellows (1993, p. 118) also suggests that 'Singapore could not afford the specious luxury of quasi laissez-faire with the occasional Keynesian nudge'. Their views are consistent with that of Goh Keng Swee, PAP's first Finance Minister, who considered government intervention essential in bringing about political and economic stability (Drysdale, 1986, p. 215). As a result of its economic success in the 1960s, economic intervention evolved into a broader motif in subsequent years as it was considered the most efficient means to rapid industrialization (Sikorski, 1989). Although Dr Tony Tan, the Finance Minister of the 1980s, recognized the adverse effects of excessive intervention, he also indicated that 'If the Government had not taken the initiative in areas where the private sector was hesitant, especially in the earlier years when the political climate was unsettled, our economic framework today would be a far cry from the strong, resilient structure which has enabled us to weather so many economic storms' (quoted in Thynne, 1989, p. 71).

During the last four decades, Singapore's economic intervention had shifted from using direct to indirect means, through a large number of statutory boards, public corporations and government companies. Although statutory boards existed long before the PAP came into power,[29] they became efficient vehicles for carrying out development tasks without the constraints of the civil services (Quah, 1987). Thynne (1989) indicates that discussion of Singapore's administrative organizations must necessarily recognize statutory boards, public corporations, and government companies, and that their staff, although not designated as public officers, should be regarded as government employees.[30]

[28] *South China Morning Post*, 27 September 1998, Money section, p. 1.
[29] The Board of Commissioners of the Currency (BCC), the earliest statutory board in Singapore, was created in 1899. See Quah (1987, pp. 123–128) for a brief history of statutory boards in Singapore.
[30] This is consistent with a recommendation made by the Public Sector Divestment Committee. See Public Sector Divestment Committee, *Report*. Singapore National Printers: Singapore, 1987, p. 11.

In spite of its extensive government intervention, the Singapore government did not share the socialist view of nationalizing industries. Instead, it recognized the importance of rebuilding the economy through the private sector (Drysdale, 1984, p. 230). Singapore adopted an open-door policy and offered generous incentives to attract foreign investors to set up factories in Singapore and to provide jobs (Tan, 1996, pp. 9–10). Free trade with other countries was also encouraged, although the government imposed certain trade restrictions when Singapore was part of the Federation of Malaysia. The restrictions were lifted after its separation from Malaysia. Although the extent of government intervention in Singapore can be considered excessive and intrusive (Simone and Feraru, 1995),[31] the economic interventions were generally market-facilitating rather than market-distorting.[32]

In Hong Kong, the colonial government was equally unconcerned about social needs in the early years. This is best characterized by the following statement of Dr E. J. Eitel, General Inspector of Schools 1879–1897:

> Indiscriminate and lavish aid afforded in Hong Kong to destitutes . . . would act like a magnet attracting from all nooks and corners of the Canton Province swarms of professional beggars and lepers to a colony like this where money is more plentiful than anywhere in the province of Canton. (Jones, 1990, pp. 121–122)

Although Hong Kong also experienced phenomenal economic growth in the last four decades, the government did not play as significant a role in managing the economy as its Singapore counterpart. First of all, the government had never used fiscal expansion (the Keynesian approach) to stimulate economic growth. Instead, fiscal prudence was emphasized in times of economic crisis. For example, during the first oil crisis, the government emphasized controlling recurrent expenditure. Sir Haddon-Cave, in the 1974–75 budget speech (p. 3), stressed that 'Hong Kong is no longer poor but not yet rich' and that the government 'should not be locked into over-generous recurrent expenditure with the inevitable outcome of drastic increase in taxation'. During the 'golden era of social development', the government capped recurrent expenditure to finance the increase in capital spending. The 1977–78 budget speech (p. 41) states that 'If capital account is to be financed without recourse to substantial borrowings, recurrent expenditure must not absorb more than a certain proportion of recurrent revenue'. The government later stipulated in the 1979–80 budget that recurrent expenditure should not absorb more than 80% of recurrent revenue, and that 60% of capital expenditure should be financed from surplus on the recurrent account.

However, it is undeniable that the government has become interventionist since 1954 when it began to provide public housing. Leung (1998, pp. 4–12) suggests that, while laissez-faire might be an accurate description of Hong Kong prior to 1953, ad hoc intervention is a better description of the period between 1954 and 1972, Sir Haddon-Cave, Financial Secretary 1971–1980, also found the term 'laissez-faire' too passive and preferred to call the Hong Kong approach 'positive non-interventionism'. He (Haddon-Cave, 1980, p. xii) indicated that 'in the greater majority of circumstances it is futile and damaging to the growth rate of the economy for attempts to be made to plan the allocation of resources available to the private sector and to frustrate the operation of market forces which, in an open economy, are difficult enough to predict, let alone to control'. However, he also believed that 'complex socio-economic and socio-political forces operating within modern societies must be quietly accepted' (p. xii) and that 'for the sake of social justice and stability, as well as the efficient allocation of resources, there must be a sense of social responsibility towards those who, for one reason or another, are unable to take advantage of the offered opportunities' (p. xiii). In other words, positive non-interventionism implies that economic intervention is acceptable for the sake of social justice, stability, and efficient allocation of resources. The increasing government intervention in the 1980s has caused some social scientists to call Hong Kong's

[31]Although Simone and Feraru (1955, pp. 143–144) praise the benevolent paternalism, competency and uncorrupted bureaucracy of the Singapore government, they are also critical of the government's heavy-handed approach in handling its critics and its paternalistic intrusion into aspects of people's lives, such as severe fines for speeding, smoking, gum-chewing, and failure to flush toilets. Cima and DeGlopper (1991) indicate that Singapore had too many laws that were too easy to break, but they explain that these laws were necessary for preventing excessive individualism. The EIU's *Country Report: Singapore* (2nd quarter, 1998, p. 11) reports that amendments had been passed to ban the making and showing of political videotapes and films.
[32]Fong and Low (1996, pp. 406–409) offer an analysis of Singapore's intervention policies on economic and business development.

economic approach 'intervention by discretion' (Ng, 1982, 1992) or reluctant interference (Fung, 1982, pp. 45–47, 62, 81–83).

Since the 1997 Asian economic turmoil, the economic approaches of the two cities have become increasingly similar. The two governments have made similar emphases and proposed similar policies to deal with the effects of the economic turmoil in their 1998–99 budgets.

1998–99 BUDGETS

Both the Singapore and Hong Kong governments have used fiscal measures in their attempts to deal with the economic downturn triggered by the Asian economic turmoil. Although their 1998–99 budgets may appear to be different in tone,[33] the substances of the two budgets bear more similarities than differences.[33]

General emphasis of 1998–99 budgets

Both the Hong Kong and Singapore governments have considered preserving domestic and international confidence in the economy an important role of their budgets. Both budgets proposed expenditure increases[34] and advocated fiscal prudence at the same time. Furthermore, both budget speeches emphasized the importance of credible policies and stressed the role of government in restoring economic competitiveness and in enhancing economic growth (see Table 2). These emphases were consistent with Singapore's previous budget practices. The Hong Kong government, on the other hand, was not known for using expansionary fiscal policy in economic downturns. The Hong Kong government also rarely emphasized its role in economic planning. The changes in Hong Kong's fiscal policy and its similarities to that of Singapore become more obvious when the policy focuses of the two budgets are compared.

Expenditure measures

More similarities can be observed in the policy focuses of the two budgets (see Table 3). Singapore's strategy for economic revival was to invest wisely to improve education, economic infrastructure and national defence. The budget proposed a 30% increase in overall education expenditure, raising it from 3% to 3.67% of GDP. The development expenditure for education was a dramatic 80% increase due to the construction of new schools and campuses. Spending on economic and infrastructure development increased from 6.3% to 7.5% of GDP. For the second consecutive year, it accounted for more than 20% of the proposed budget. Spending on defence also increased from 4.4% to 4.6% of GDP. Overall the budget showed a 15% increase in total expenditure which amounted to S$27.2 billion and was more than twice the estimated nominal GDP growth rate.[35] The increase in development expenditure was 25%, compared to a much more modest increase of 7.8% in operating expenditure.

The Hong Kong budget placed equally heavy emphasis on education and infrastructure development. It presented public expenditure increases of 15.3% in education, 12.1% in infrastructure, and 9.6% in economic services.[36] In total, the Hong Kong budget presented an 18.4% increase in public expenditure. Similar to the

[33]For example, in explaining economic forecasts for budget decisions, the Singapore government 'targets' for a modest growth rate (2.5–4.5%) while the Hong Kong government 'expects' a similar growth rate (3.5%). Although the forecasts are similar, the words 'target' and 'expect' convey active and passive tones consistent with the difference in their budgetary traditions.

[34]Singapore's budget showed a 15% increase in expenditure. The Hong Kong budget showed an 18% increase in public expenditure and a 42% increase in government expenditure.

[35]The GDP growth rate had been adjusted downward since the budget was presented.

[36]Many of the increases would become reductions if they were expressed as a percentage of the budget's GDP projection. The GDP projection, based on trend assumptions, indicated a nominal growth rate of 12.9%. The past trend obviously had not repeated itself since the Asian economic turmoil, as the Hong Kong government eventually reported negative growth for 1998. The GDP projection presented in this budget was inaccurate and unreliable.

Table 2. Keywords and phrases illustrating general emphases in the 1998–99 budgets of Singapore and Hong Kong

Emphasis	Singapore	Hong Kong
Fiscal prudence	Fiscal prudence (5)	Fiscal prudence (2, 12)
	Policy vigilance (4)	Keeping growth in government expenditure within the trend rate of growth of the economy over time (22)
	Conservative fiscal stance (4)	
Preserving confidence and continuity	Preserving and instilling confidence internationally and domestically (4)	[Give] assurance of continuity (1) Bolster confidence (2)
	Maintaining . . . framework for economic activities (4)	Give back confidence to individuals to invest, to spend and to develop new skills (2)
	Build up . . . confidence and trust of investors (4)	
Credible policies	Policy vigilance (4)	Approach to the economy must be based on sound premises (1)
	Credible, consistent and pro-growth policies (4)	
	To effect rational measures judiciously (4)	
Restore competitiveness and enhance growth	Enhance economic capabilities and competitiveness to support future growth (4–5)	[Provide] incentive for new growth (1)
	Invest wisely, restructure, consolidate and build up our capabilities and productive capacities (9)	Propagate competitive, enterprising business activities (2)
		Renew Hong Kong's distinctive strength (2)

Note: page references to the respective budget speeches are shown in parentheses.

Singapore budget, the increase was accounted for largely by non-operating expenditure. The increase in recurrent (similar to operating) expenditure was 12.3%, much less than the 34.6% increase in non-recurrent expenditure. In addition to government expenditure, the budget provided HK$62.9 billion for capital projects to be funded through the Capital Works Reserve Fund, with work to commence in 1998–99. The budget also provided for transfer of HK$34.1 billion to the Fund.[37] The evidence suggests that the Hong Kong government, similar to its Singapore counterpart, was using counter-cyclical public spending to stimulate economic growth. Furthermore, both concentrated their expenditure increases in capital projects, such as infrastructure development.

Counter-cyclical spending was a typical strategy used by the Singapore government in times of economic downturn. In dealing with the first oil crisis, the Singapore government increased expenditure in social and economic development, resulting in budget deficits for a long period after 1974.[38] In 1985 and 1986, when Singapore experienced another economic downturn, government expenditure continued to rise and reached S$22 billion in 1986. The expenditure increased to 57% of GDP and is still the highest on record. It was a 17% increase from the level of the previous year and created a deficit of 3.2 billion, equalling 8.3% of GDP.

The Hong Kong government, on the contrary, was not known for using this strategy. Sir Philip Haddon-Cave (1980, p.xii) believed that government intervention in most cases would be futile and damaging to economic

[37]A number of public functions have been separated from the government into self-sustaining funds. The budget provided for money to be transferred to some of the funds. In analysing Hong Kong's public expenditure, these funds were included.
[38]Prior to 1977, Singapore's budget estimates did not provide an overall surplus or deficit figure. Surplus or deficit can be calculated by subtracting the drawing down in the Development Fund from the surplus in the main estimates.

Table 3. Policy focuses in the 1998–99 budgets of Singapore and Hong Kong

	Singapore	Hong Kong
Economic growth	Target for a modest growth (5) Growth forecast is 2.5% to 4.5% (4)	Expect moderate GDP growth of 3.5% (8)
Policy philosophy	Government cannot intervene to support companies which are indifficulty without paying a high price in terms of misallocated resources and moral hazard (4)	Government will not impose an unnatural economic strategy (2)
	Market force will compel industries to consolidate and restructure (4)	Reduce burden on individuals so that they will spend (2)
Strategy	Restructure economy towards higher value-added activities (4)	Maintain sound economic fundamentals (12)
	Invest wisely, build up capabilities and capacities (9)	Provide consistent monetary policy (12)
	Counter-cyclical spending to take advantage of lower construction costs in economic downturn (5)	Remove constraints; provide a common stock of education, social services and infrastructure; institute sound, efficient regulation (2)
	Education, economic infrastructure and defence are identified as key fiscal policy areas (5)	Reduce personal and business taxes and increase allowances (23–39)
	Tax incentives to promote the financial sector, tax rebates, etc. (15–24)	Freeze fees and charges (39)
Education	Through education to build up human talent for knowledge base economy; comprehensive plan to upgrade hard and soft aspects of school infrastructure; impart thinking, learning and communication skills through the use of information technology (5)	A $5 billion Quality Education Fund and a proposed $80 million grant to the Construction Industry Training Authority are examples (19)
Infrastructure	Continue to invest in infrastructure; key projects include land reclamation and industrial parks upgrade and development (5)	$60.9 billion worth of major capital projects to commence during the fiscal year and $15.2 billion to be provided as equality for a railroad project (18)
National or economic defence	Emphasis is on building up a professional and effective [military] defence force to provide a framework of stability and security; to build up credible defence capability through prudent and consistent investment over time (5)	Build up reverse for financial stability (16–19)
		Defend the linked exchange rate system (9–12)
		Counter-measures to regulate stock and security markets (13–14)
Others	Wage restraint and skill upgrade (5–7)	Tax incentive for home ownership (25–26)
	Financing local enterprises (7)	Tax incentive for helping elderly parents, grandparents, and disabled dependants (27)
	Rental concessions for industrial and commercial tenants (8)	A government programme to help business and services promotion (30)
	Defer land sales and reduce land supply to help the property market (8–9)	Tax incentives for tourism (36–37)

Note: page references to the respective budget specches are shown in parentheses.

growth. In dealing with the first oil crisis, he stated that the government 'should not be locked into over-generous recurrent expenditure' (1974–75 Budget Speech, p. 3). In the 1975–76 budget, he proposed tax increases in four categories and 26 items, including profit tax, general rates, and stamp duties, to produce a balanced budget. This was followed by further control measures, including guidelines for managing recurrent and capital expenditures as previously discussed. Expenditure control measures were also used in the mid-1980s by his successor when Hong Kong experienced another economic slowdown. Hong Kong experienced a short period of economic turmoil after the failure of the Sino-British negotiation in 1982. The Hong Kong government responded to the slowdown by dropping the proportion of total expenditure on social and community services from 69.2% in 1983–84 to 51.2% in 1984–85.

Historical evidence, therefore, shows that counter-cyclical spending was not the traditional strategy used by the Hong Kong government. The 1998–99 budget suggests a paradigm shift in Hong Kong's fiscal practice and economic approach.

Revenue measures

Futher similarities between Singapore and Hong Kong can be observed in their revenue measures. The Singapore budget provided a number of tax concessions. The concessions concentrated on enhancing the financial services sector, such as tax incentives for promoting fund management and the bond market, tax exemption or syndicated offshore credit and underwriting facilities, and tax deduction for general provisions made by banks and merchant banks. Tax incentives were also provided for promoting venture capital, transport and logistics, Internet electronic commerce, and exhibition and trade fairs. A one-year accelerated depreciation scheme was provided for industrial noise and chemical hazard control. Double tax deduction was introduced to encourage employing talents abroad. Furthermore, wage restraint was introduced, rental concessions were provided to industrial and commercial tenants, land sales were deferred and land supply was reduced to help the property market.

The Hong Kong budget, similarly, proposed numerous tax concessions, including changes in tax allowances to encourage private sector spending. Both earnings and profit taxes were cut by half a percentage point. General rates were adjusted downward by half a percentage point for one year. Other measures included an increase in salaries tax thresholds, mortgage relief, cuts in stamp duty, airport departure tax and hotel tax. Most government fees and charges were frozen. The budget also provided for increased allowances for elderly and disabled dependents.

Both budgets, therefore, proposed tax concessions that had similar effects of stimulating economic growth. This was again not the traditional approach of the Hong Kong government. For example, in dealing with an economic downturn, the 1984–85 budget proposed to increase the fees for taxi licences and taxi registration. Although this proposal led to social unrest and was subsequently rejected by the LegCo, a number of revenue measures were introduced a month later, including increases in profit tax, general rates, and alcohol and transportation-related taxes (Chan and Kwok, pp. 298–299).

Recent economic approach

In certain aspects, the Hong Kong government might have surpassed its Singapore counterpart in being interventionist. Singapore's 1998–99 budget speech (p. 4) states that:

> Weak and over-extended companies may have to merge or fold. We must accept this. It is the normal process of adjustment to new economic conditions. The Government cannot prevent it from happening, or intervene to support companies which are in difficulty, without paying a high price in terms of misallocation resources and moral hazard.

Hong Kong's budget speech (p. 2), on the other hand, states that:

> Government, while exercising imagination, will not impose an unnatural economic strategy. We will direct our actions to removing constraints, to providing a common stock of education, social services and infrastructure; and to institute sound and efficient regulation.

The budget speech did not explain with sufficient clarity what constituted 'unnatural economic strategy' and how the government was going to exercise its imagination. It seems that the Hong Kong government was intentionally vague on stating its role in economic planning. This suggests that the government might be assuming a more prominent role in managing the economy, an aspect that becomes more evident when considering the heavy emphasis on economic defence shown in the budget speech.

Economic defence

There is one area where Singapore and Hong Kong would be inherently different. Singapore, as a sovereign state, is responsible for its national defence. The Singapore government calls its defence system 'Total Defence', which comprises of five integrated aspects: psychological, social, economic, civil and military (Ministry of Defence, 1998). This integrated approach is unique and Singapore, in this regard, should be treated as a special case.

Due to its unstable relationship with neighbouring countries, the Singapore government considered economic prosperity to be closely tied to national security. Its 1998–99 budget speech (p. 5) indicates that:

> Economic prosperity depends on a framework of stability and security . . . Defence spending must be seen as a long-term investment, not dependent on the ups and downs of the economy from year to year. A credible defence capability is the pre-condition for Singapore's continued peace and prosperity.

Although economic defence is part of its 'Total Defence' system, the budget speech made no indication of defending its money and stock markets against speculative attacks, in spite of the fact that these attacks started the Asian economic turmoil.

Hong Kong, on the other hand, is not a sovereign state and national defence is the responsibility of the PRC. The Hong Kong government, however, could assume responsibility in defending its economy against undesirable influences. Its 1998–99 budget speech (p. 13) states that:

> Hong Kong is an international financial centre and an integral part of the world's financial market. We cannot immunize our markets from the volatilities that the rest of the region and the world experience. But there are suggestions that the combined effects of a number of trading activities might have exacerbated market volatility . . . . We are examining these suggestions very carefully. In particular, we are looking at allegations of market manipulation. We will take appropriate counter-measures where these are justified.

The budget speech made extensive arguments for building up a reserve for economic defence (pp. 16–19), for defending Hong Kong's currency against speculative attacks (pp. 9–12), and for regulating the stock and security markets (pp. 13–14). The government's intention to defend its economy, as shown here, was unambiguously stated.

Therefore, there were similarities and differences in the 1998–99 budgets of Singapore and Hong Kong. Whether it is similarity or difference, the observed evidence indicates that the Hong Kong government was becoming more interventionist while the Singapore government was moving towards the free-market approach. Their economic approaches, coming from two extremes since the 1960s, are becoming increasingly similar in many aspects.

ECONOMIC REVIVAL PLANS

The budgetary measures mentioned above were evidently inadequate to revive either the economy of Singapore or that of Hong Kong. In June, both governments proposed further plans for reviving their economies.

On 22 June 1998, the Hong Kong government announced an expensive plan for reviving its economy. A week later, the Singapore government announced a less expensive but similar plan. Although there were differences in specific strategies, the general emphases made in the two plans, like their 1998–99 budgets, had a lot in common. There were three similar emphases between the two plans: (1) stabilizing the property market; (2) stabilizing the financial sector; and (3) stimulating business activities (see Table 4).

1. *Stabilizing the property market:* Since the beginning of the economic turmoil, the market values of property and financial assets had dropped rapidly. Both the Singapore and Hong Kong plans proposed to suspend government land sales until the end of the fiscal year. To further reduce property supply, the Singapore plan proposed measures to permit and encourage developers to defer the completion of construction projects. On stimulating demand, stamp duty was deferred for purchases of uncompleted properties. In addition, the Hong Kong government used demand-side strategy by raising the number of people eligible for the starter loan scheme and the home purchase scheme.
2. *Stabilizing the financial sector:* The Singapore plan aimed at encouraging banks to make adequate provisions for loan exposure to the region. The plan lifted a 3% limit on tax deduction for general provisions made by banks and merchant banks. Stamp duty on contract notes was also suspended. The Hong Kong plan proposed tax exemption for local interest earnings in order to encourage repatriation of offshore deposits, estimated at HK$200 billion. This strategy would provide liquidity for the banking sector and increase the supply of Hong Kong dollars.
3. *Stimulating business activities:* Both plans proposed tax rebates to reduce business costs. The Singapore plan proposed to add a 40% tax rebate on top of the 15% provided in the budget for commercial and industrial properties. Rental rebates were provided for tenants and leeses of government-operated industrial estates. Other incentives included reduction and rebates of tariff and suspension of car park surcharge. The Hong Kong plan also proposed cost reduction measures, including rate rebate and lowering diesel duty. Charges paid by importers were also reduced. The plan also aimed at helping small and medium-size businesses to obtain loans. This strategy might have reduced the rate of bankruptcy and assist the middle-class unemployed to start their own businesses, which was encouraged by the Hong Kong government since the unemployment rate started to climb.

Further expansionary fiscal measures were proposed in the Singapore plan. The government sped up infrastructure projects, expanded teacher recruitment, and provided more funds for various assistance schemes. The Hong Kong plan, on the other hand, proposed to freeze the salaries of the highest-paid executives and senior staff in the public sector. This might be a political rather than economic move since there had been increasing criticism from the business community on the continuing large pay rises for civil servants.[39]

[39]The General Chamber of Commerce criticized the 5.79% and 6.03% pay increases approved for civil servants and indicated that the government should take the lead in wage restraint (*South China Morning Post*, 4 June 1998, p. 1).

Table 4. Comparison of the economic revival plans of Singapore and Hong Kong in 1998

	Singapore	Hong Kong
Property market	Suspend government land sales until the end of 1998–99	Suspend government land sales until the end of 1998–99
	Defer stamp duty on purchases of uncompleted properties	Provide $3.6 billion to double the number of first-time home buyers from the starter loan scheme
	Allow reassignment of government land sale parcel until the end of 1999 to permit deferring project completion	Provide $3.3 billion to increase the number benefiting from the home purchase scheme by 2.2 times
	Suspend 5% p.a. charge for extension of project completion period	
Financial sector	Remove cap on tax deductibility of general provisions by banks and merchant banks for year of assessment 1999	Exempt interest earned locally from profit taxes, aiming to provide an extra $200 billion in liquidity for the banking sector through repatriation of offshore deposits
	Suspend stamp duty on contract notes	
Other business incentives (some of these incentives may also benefit families and individuals)	Additional property tax rebates on commercial and industrial properties	Set up $2 billion scheme to help non-export-related small and medium business to obtain loans
	Rental rebates for tenants and leeses of JTC, HDB, CAAS	Rebate of first quarter rates
	Tariff reductions and rebates (Singapore Telecom, Singapore Power, Jurong Port)	Cut duty on diesel by 30%
	Suspend car park surcharge scheme	Reduce by $200 million annually the charges paid by importers and exporters
	Tax allowance for hotel refurbishment	
Expenditure increases	Speed up infrastructure projects	
	Expand recruitment of teachers	
	Additional funds for economic (EDAS), financing (LEFS), skills redevelopment (SRP) and other assistance schemes	
Expenditure restraint		Freeze pay for 331 directorate officials with monthly salary of HK$127 900 or above, plus chief executive and senior staff from the judiciary, ICAC and subsidized sector
Total impact	S$2.04 billion	HK$43.9 billion
Proposed budget surplus (before revival plan)	S$2.7 billion[a]	HK$10.7 billion[b]
Revised budget deficit (after revival plan)	S$.8 billion	HK$21.4 billion

[a]Operating surplus, including development budget, based on 1998–99 budget speech.
[b]Consolidated surplus based on 1998–99 budget speech.

The economic revival plans would cost the Singapore and Hong Kong governments S$2.04 billion and HK$43.9 billion, respectively. With exchange rates considered, the cost of the Hong Kong plan was about 4.5 times that of its Singapore counterpart. The plans eliminated the surpluses previously budgeted by both governments. Instead of a surplus of S$2.7 billion, the Singapore government had a budget deficit of S$0.8 billion. The Hong Kong government had a record budget deficit of HK$21.4 billion, compared to the HK$10.7 billion surplus previously budgeted.

The two economic revival plans, hence, provide further evidence that Singapore and Hong Kong were using very similar economic approaches. In November 1998, the Singapore government, in response to the recommendations of the Committee on Singapore's Competitiveness, produced another economic revival plan. The plan proposed a comprehensive $10.5 billion cost reduction package covering all key elements of business costs, including wages, rentals, utilities and transportation.

MARKET INTERVENTION

The stock market intervention in 1998 was the clearest evidence that the Hong Kong government has become interventionist. Ever since the beginning of the Asian economic turmoil, the Hong Kong government sternly defended its linked exchange rate system, although some experts questioned the long-term effects of this move (e.g., Krugman, 1998). Defending the currency, however, was inadequate to deter speculative attacks as speculators used a two-pronged approach that attacked both money and stock markets. On 27 and 28 August 1998, the Hong Kong government used its reserves to engage in massive interventions in the stock market to protect the Hong Kong dollar and its stock market from speculative attacks. It was estimated that on 28 August alone the Hong Kong government spent HK$71 billion to absorb 90% of the transactions on that business day, setting a historical record.[40] The stock market intervention provided the government with large holdings of key securities that could be used to further regulate the stock market. A week later, on 5 September, the Hong Kong Monetary Authority unveiled a 7-point plan to battle currency and stock market manipulations.[41] On 7 September, the government released a 30-point plan to tighten the rules on the exchange market, to increase the cost of large-scale stock market manipulations, and to form an information network among the authorities in the exchange market to detect and forewarn of speculative attacks.[42] On 11 September, the stock exchanges agreed to become public bodies and, consequently, came under the Prevention of Bribery Ordinance as well as making its books accessible to the Independent Commission Against Corruption.[43] In March 1999, the government presented a policy paper on reforming the securities and futures markets. In the 1999–2000 budget speech (pp. 10–13), far-reaching reforms of the securities and future markets and close supervision of the banking industry were proposed. The Hong Kong government considered these interventions essential in preserving Hong Kong's status as an international financial centre, as the budget speech (p. 13) states that:

> These reforms are substantial and their implications far-reaching. Some of the proposals are controversial and I [Financial Secretary Donald Tsang] do not underestimate the difficulty and resistance ahead . . . However, the status quo is not an option for Hong Kong. We must be prepared and be committed to confront and overcome the challenges we face . . . Our mission to excel as an international centre must prevail.

It is obvious that the Hong Kong government was committed to continue its intervention in the financial sector. The Singapore government, on the contrary, defended neither its currency nor its stock markets. Instead, it took a predatory view that Hong Kong's market interventions would open up an opportunity for Singapore to improve its

[40] *South China Morning Post*, 27 October 1998, p. 1.
[41] *South China Morning Post*, 6 September 1998, Money section p. 1.
[42] *South China Morning Post*, 8 September 1998, p. 2.
[43] *South China Morning Post*, 12 September 1998, Business Post. p. 1.

competitiveness against Hong Kong in the financial sector. The Singapore International Monetary Exchange (Simex) followed this view through by launching futures of the Hong Kong stock index which could undermine the efforts taken by the Hong Kong government to defend against future speculative attacks.[44] There was evidence that Singapore did gain certain areas at Hong Kong's expense.[45]

1999–2000 BUDGETS

The 1999–2000 budgets of Singapore and Hong Kong provide further evidence of their similar economic approaches (see Table 5). Singapore's budget speech (pp. 3–4) emphasized enhancing economic competitiveness by improving access to working capital, diversifying export markets, and promoting investment. The budget speech considered cutting business costs very important, citing the comprehensive cost-cutting measures introduced in November 1998 and that labour costs should plunge back to the 1992–93 level (pp. 2–3). Upgrading physical infrastructure and human capital were also emphasized with key initiatives in continuous education, skills redevelopment, and manpower development in leading-edge technologies (p. 4). These fiscal measures raised development and operating expenditures by a total of S$1.5 billion to a budgeted amount of S$29.1 billion. Among various tax incentives, a 10% rebate was provided on personal tax, up from the 5% in the previous year, and on corporate income tax excluding Singapore dividends.

As mentioned previously, Hong Kong's budget speech emphasized economic defence heavily. In this budget, the government's involvement in the money and stock market was defended and further reforms in the financial sector were proposed (pp. 8–13). Although there was no mandatory wage adjustments, wage reduction was similarly considered important in regaining economic competitiveness, as the budget speech (p. 8) states that:

> Viewed from a macro-perspective, moderation is wages in necessary and unavoidable in order to uphold our competitiveness against other economies in the region. It is however important that these wage adjustments are undertaken in a smooth and amicable manner aimed at preserving harmonious labour relations.

The budget speech also proposed an Enhanced Productivity Programme to improve efficiency (pp. 19–20), a civil service reform to improve performance (pp. 20–22), and a pay freeze in the civil service (p. 29). Similar to the emphasis made in Singapore's budget speech, upgrading human capital was also considered 'a critical ingredient in enhancing competitiveness and promoting the development of technology-based industries' (p. 14). In addition to the education and training initiatives proposed in the Chief Executive's 1998 Policy Address (pp. 30–38), the budget speech (pp. 14–15, 48) proposed to remove immigration restrictions on mainland scientists and technologists to enhance Hong Kong's talent pool. The budget increased total public expenditure by HK$15 billion to an estimate of HK$290 billion. The budget also provided a 10% rebate on profits, earnings and property taxes, similar to the strategy used in Singapore. The budget speech revealed a government initiative to set up a Cyperport for developing hi-tech information technology, the negotiation with Disneyland to set up a theme park, and a feasibility study to construct a fisherman's wharf in Aberdeen. The idea of setting up publicly run casinos was briefly entertained by the Financial Secretary later in the year, until it was disapproved by the PRC.[46] These are all clear indications of the government changing its economic approach and becoming more interventionist.

CONCLUSION

The evidence presented in this article indicates that Singapore and Hong Kong, two very similar British colonies initially, which had adopted very different economic approaches since the 1960s, are becoming similar again. The

[44] *South China Morning Post*, 4 November 1998, Business Post, p. 1.
[45] *South China Morning Post*, 27 June 1999, Family Money section. p. 8.
[46] *South China Morning Post*, 15 September 1999, p. 1; 2 October 1999. p. 1.

Table 5. Comparison between 1999–2000 budgets of Singapore and Hong Kong

Features	Singapore	Hong Kong
Estimated revenue	S$24.1 billion	HK$207.8 billion
Estimated expenditure	S$29.2 billion (52% operating; 48% development)	HK$232.9 billion (77% recurrent; 33% non-recurrent) Plus HK$11.4 billion of other measures
Estimated deficit	S$5.1 billion (3.5% of GDP)	HK$36.5 billion (2.8% of GDP)
Estimated expenditure by sector	Social and community: 40%	Social welfare, education, health, housing, environment, and Community & External Affairs: 64%
	Economic and Infrastructure: 19%	Economic and infrastructure: 14%
	Security: 32%	Security: 10%
	General services: 9%	Support: 12% (Based on public rather than government expenditure)
Business and personal income tax rates	Corporate tax: 26%	Corporate profits tax: 16%
	Personal income tax: max. of 28% after the first S$600,000 of chargeable income	Unicorporate business tax: 15%
		Salaries tax: max. of 17% after the first HK$120 000 of chargeable income, with a max. flat tax at 15% of total income
Other major taxes and charges	Goods and services tax: 3% of receipts	Stamp duty: depends on classification
	Property tax: 12% for rental, 4% for owner occupied	General rates: 4.5% of rateable value of landed properties
	Betting duty: 20% of gross profit	Properties tax: 20% of rents, exempted for owner-occupied business property
	Private lotteries duty: 30% of gross receipts	Bets and sweeps tax: 12% or 18% on amount of bet and 20% on proceeds
	Water conservation tax: max. of 40% for domestic users and 30% flat tax for non-domestic and shipping sector	Estate duty: 5% to 15%
	Customs duty: depends on goods	Customs duty: depends on goods Motor vehicle taxes: depends on type
Other major revenue sources	Fees and charges for services	Fees and charges for services
	Investment income	Land transactions (incl. land sales)
	Land sales	Investment income
	Loan repayments	Royalities and concession
Major policy emphases	Cut business costs (2)	Strengthen economic foundations and improve competitiveness (1, 8)
	Improve access to working capital (3)	Enhance market robustness (1, 10–13)
	Market diversification to maintain competitiveness (3)	Develop technology and info. services (14)
	Improve investment flow into knowledge-driven activities (3)	Enhance talent pool (14–15)
	Building infrastructure and human capital (4)	Revive tourism (17–18)
		Enhance public sector efficiency (19–24)
		Maintain healthy public finances (1, 25–29)

Table 5. (*Continued*)

Features	Singapore	Hong Kong
Major expenditure and revenue measures	10% rebate on income taxes (8)	10% rebate on income and property taxes (36)
	Removal of utility tax	Reduction in rates (37–38)
	Tax concessions and incentives to develop financial market and industries (8–10)	Continue to freeze fees and charges (37)
	Increases in education, manpower training and development expenditures (5–7)	Various measures and incentives to help business (38–41)
		Increases in stamp duty, betting duty, tunnel tolls, parking meter charges, and traffic offence penalties (41–44)
		Civil service reform and pay freeze (20–22, 29)

analysis indicates that the changes were caused by the interaction of political, social and economic factors as the two matured socially and economically.

1. *Political factors:* Political factors played a major role in shaping the changes in Singapore. Anti-British sentiment, combined with economic problems and people's strong identification with the city, provided an opportunity for a radical, interventionist government to come into power after World War II. In Hong Kong, people's shallow roots in the city, combined with economic growth, led to political apathy which allowed the traditional laissez-faire approach to continue after the war. However, political changes were inevitable in Hong Kong as the handover was approaching. This led to the introduction of direct elections, rapid development of political parties, and a government more sensitive to public demands. Furthermore, people developed deeper roots in Hong Kong and exerted more demands on the government.
2. *Economic factors:* Rapid economic development can mask social problems and delay political changes. Hong Kong was benefited economically by its close proximity to the China mainland and the political turmoil there after the war. Hong Kong's economy grew at a phenomenal rate after the war. The economic growth diverted people's attentions away from social and political concerns. Singapore, on the other hand, did not have Hong Kong's geographical advantages. Its economic problems fuelled social discontent and quickened the pace of political reform after the war. However, as the two economics matured, they faced economic problems that needed different treatments, which led them to different economic approaches. In the case of Singapore, government interventions contributed to economic successes as well as creating economic problems. The government responded to the economic downturn in the mid-1980s by relaxing its control of the economy. Hong Kong, on the contrary, needed government intervention to deal with failure in the housing market, crises in the financial sector, and market uncertainty caused by political tensions during the Sino-British negotiation.
3. *Social factors:* The poor social conditions in Singapore after the war fuelled political discontent and led to the emergence of a radical government with socialist ideals. Economic growth allowed Hong Kong to improve its social conditions, particularly in housing, which dissipated political discontent. However, social concerns cannot be totally ignored disregarding the philosophy of government. As the society matured, the Hong Kong government could not maintain its non-interventionist stance. Hence, government interventions have become justifiable under the term 'positive non-interventionism' for reasons of social justice, instability, and efficient allocation of resources. Hong Kong, arguably, had departed from the traditional laissez-faire approach since the 1970s.

Therefore, the evidence suggests that political, economic and social forces will lead a democratic government[47] towards a hybrid economic approach of mixing free-market with interventionist strategies as its economy and society mature. The two extreme cases of Singapore and Hong Kong prove this point.

FUTURE OUTLOOK

Would the Singapore government continue to move towards the free-market approach? Would the Hong Kong government become more interventionist? Based on the current trends of political, economic and social changes, they would most likely continue in the current directions.

1. *Political factors:* Politically, the Singapore government would come under more pressure to further relax its control on numerous aspects of the society and economy. Bellows (1985) observed that voters are becoming critical of officials who appear to be overly patronizing, impersonal and unwilling to accommodate popular feelings. Sullivan (1991, p. 203) indicates that the PAP government had been criticized for over-regulation, an aspect admitted by its own Economic Committee in a 1986 report (Ministry of Trade and Industry, 1986). Other evidence also suggests that the government would need to become more consultative, as the PAP, still dominant in elections, had received serious challenges in some ridings. Singh (1992, pp. 4–7) observed that popular support for the PAP had declined to about 60% in the 1991 elections although PAP continued to win almost all the seats. Although the PAP won back 4% of the popular vote and two seats in the 1997 election (de Cunha, 1997, p. 117), the victory came from a bruising election campaign that may fuel further discontent.

   Internally, the PAP has to deal with the problem of succession. Richardson (1994, p. 15) suggests that choosing the successor for Prime Minister Goh Chok Tong may not be as smooth a task as it was in 1990 when Lee Kuan Yew stepped down. With changing public attitude towards government intervention, increasing political challenges, and a succession problem to deal with, the Singapore government may become more consultative and relax government controls in certain areas. The Singapore government is more likely to relax economic rather than political controls.

   Unlike Singapore, Hong Kong does not have a dominant political party. The last election resulted in three major parties dividing most of the seats.[48] In order to gain support for the next election, political parties will place heavy demands on the government to meet its socio-economic responsibilities. This is evident in a cross-party meeting in 1998 to discuss strategies for reviving the economy and a subsequent joint proposal made from all seven parties to the government.[49] It is expected that the Hong Kong government will continue to come under social and political pressure to revive the economy. This is already evident in the two government budgets analysed here. The success of its stock market intervention provided credible justification and popular support for continuing the interventionist approach. Although the government did not gain support from some LegCo members initially for the stock market intervention,[50] speculators seem to have retreated as a result and the stocks purchased by the government during the intervention appreciated by HK$28.42 billion in 2 months.[51]
2. *Economic factors:* Singapore could gain on Hong Kong by staying with the free-market approach. Singapore aspires to become a leading financial centre and, as mentioned previously, its government was trying to capitalize on capital outflow from Hong Kong as a result of its stock market intervention. It is therefore most likely

[47]Although it is arguable that whether Singapore truly has a democratic government due to the dominance of the PAP, it cannot be denied that Singapore has democratic elections, providing a means for people to vote out a political party if they so desired.
[48]*South China Morning Post*, 25 May 1998, p. 1.
[49]*South China Morning Post*, 3 June 1998, p. 1.
[50]*South China Morning Post*, 14 September 1998, p. 4, 17.
[51]*South China Morning Post*, 27 October 1998, p. 1.

that Singapore will continue to promote its free-market approach and restrain from exercising economic intervention. However, this does not mean that the Singapore government will give up the mechanisms for economic control. Economic intervention will still be used if it is considered advantageous. For example, the Singapore government reduced the employers' CPF contributions by half in 1998 in an effort to improve its economic competitiveness.[52]

After the handover, the new government has been under pressure to show that it can run Hong Kong as well as the colonial government. The Asian economic turmoil and a number of other events (e.g., opening of the new airport) had already caused embarrassment to the government. The stock market intervention turned out to be one of the few notable successes the government had. The Exchange Fund Investment (EFI) was subsequently formed by the government to manage the portfolio of stocks acquired during the intervention.[53] Although the Hong Kong government firmly denied any intention to continue its market intervention, its method of disposing the purchased stocks as units shares[54] allows further market manipulation through the EFI. The growing similarities between Hong Kong and Singapore are more intriguing in this regard. It seems that the Hong Kong government is trying to build up mechanisms for economic control but not using them unless necessary, as appears also to be the case in Singapore.

3. *Social factors:* In the last four decades, phenomenal economic growth has allowed both Singapore and Hong Kong to improve their social fundamentals. The improvement provided social and political stability but also raised public expectation of the government. In particular, improvement in education heightened people's awareness of social responsibility and quickened the pace of democratization. Quah (1984), based on the observation that the people in Singapore are now better educated, better informed and have higher expectations, suggests that the government should be more consultative and less imposing. Enright *et al.* (1997, p. 311) point out that the new generation of people in Hong Kong are educated and have a higher expectation of the government to fulfil its socio-economic responsibilities. The effects of education improvement, therefore, may manifest differently in the two societies. In Singapore, people would demand more freedom and less government intervention. This will push the government towards either relaxing controls or refraining from using them. In Hong Kong, people would demand the government take an assertive role in guiding Hong Kong's economy. The government's intention for long-term economic involvement is evident in the Chief Executive's 1998 Policy Address, in which the need for a 30-year development plan is advocated.[55] His 1999 Policy Address (pp. 29–46) emphasized environmental protection and making Hong Kong a world-class city, an emphasis amazingly similar to that made in Singapore after the PAP became government in 1959.

The evidence, once again, indicates that Hong Kong will become more like Singapore and Singapore more like Hong Kong, as far as economic approach is concerned. As indicated by the chairman of Singapore's Monetary Authority, the Singapore government believes that 'Singapore's different [market-oriented] approach will be noted by analysts and investors, and be reflected in credit ratings and risk assessments' (Porter, 1998). Hong Kong, on the other hand, will continue to be more interventionist. As Cheung (1998) accurately puts it, 'it seems fair to suggest that the government has reached a stage where withdrawal from interventions are practically impossible, otherwise new political crises may be precipitated which will endanger the economic viability and social stability of Hong Kong'.

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[53] *South China Morning Post*, 1 October 1998, Business Post, p. 1.
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