

Presentation given at the followings : -

- Zonta Club
- 1999 Accountancy Conference, Vocational Training Council on October 8, 1999
- The Society of Hong Kong Scholars Dinner on March 28, 2000

Economic Transformation and Recovery in Hong Kong and Singapore

Y C Richard Wong

School of Economics and Finance
The University of Hong Kong
Pokfulam Road, Hong Kong
Tel.: 547-8313 Fax.: 2548-6319
Email : rycwong@econ.hku.hk

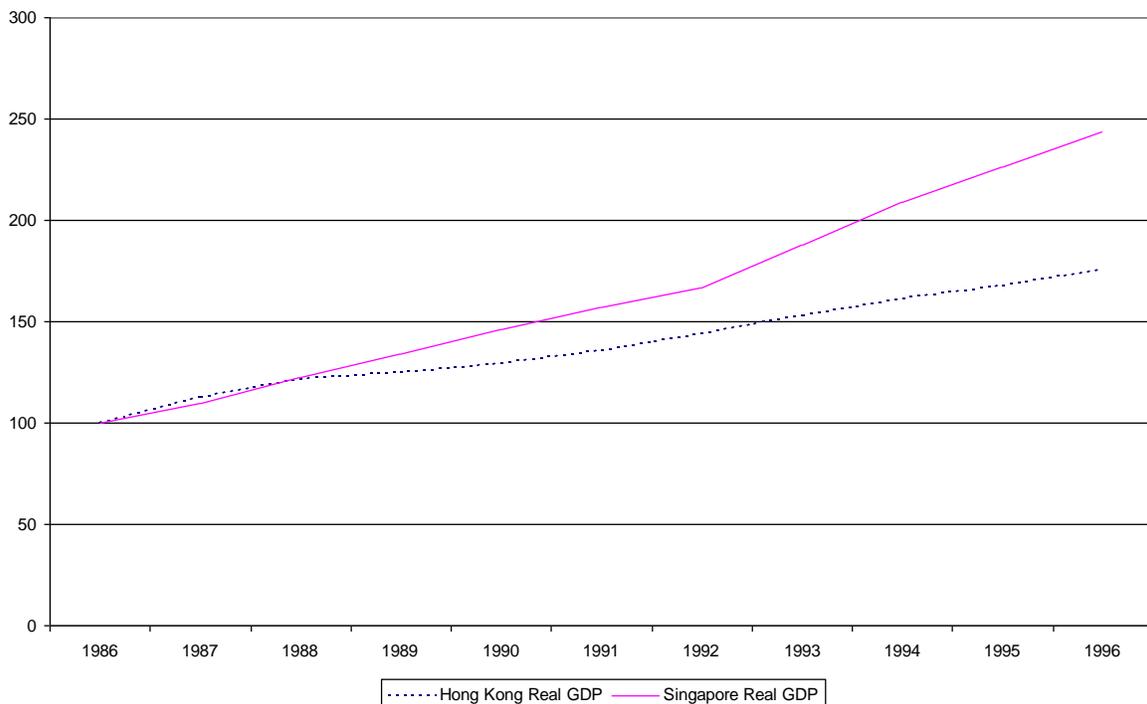
Economic Transformation and Recovery in Hong Kong and Singapore

Y C Richard Wong
The University of Hong Kong

Economic Situation: Differences and Similarities

Both Hong Kong and Singapore have experienced rapid economic growth measured in real gross domestic product per capita. They have both traversed somewhat similar growth paths. Both started as major entrepots in the Far East, became significant exporters of labor intensive manufactured products, have increasingly dominant service sectors, including finance, telecommunication and transportation, and are prepared to develop other innovative high value added economic activities. In the past decade, Singapore's growth rate has risen slightly faster than Hong Kong's rate (see Figure 1). This probably reflects Hong Kong's much more rapid economic transformation towards a service economy during this period. It is well known that measured rates of productivity change in the service sector tend to be lower than the manufacturing sector and this may have negatively impacted measured rates of GDP growth.

Figure 1 Hong Kong and Singapore Real GDP



Figures 2a and 2b show that in the past decade Hong Kong's service sector had expanded from 73% to 83% of GDP from 1986 to 1996. The corresponding figures for Singapore is from 70% to 71%. From Figures 2a and 2b we can see that the Hong Kong's service sector growth is due almost entirely to the expansion of producer services rather than consumer services. Hong Kong's producer services sector had expanded from 45% to 56% of GDP from 1986 to 1996. The corresponding figures for Singapore is from 50% to 52%.

Figure 2a Hong Kong Real GDP Components

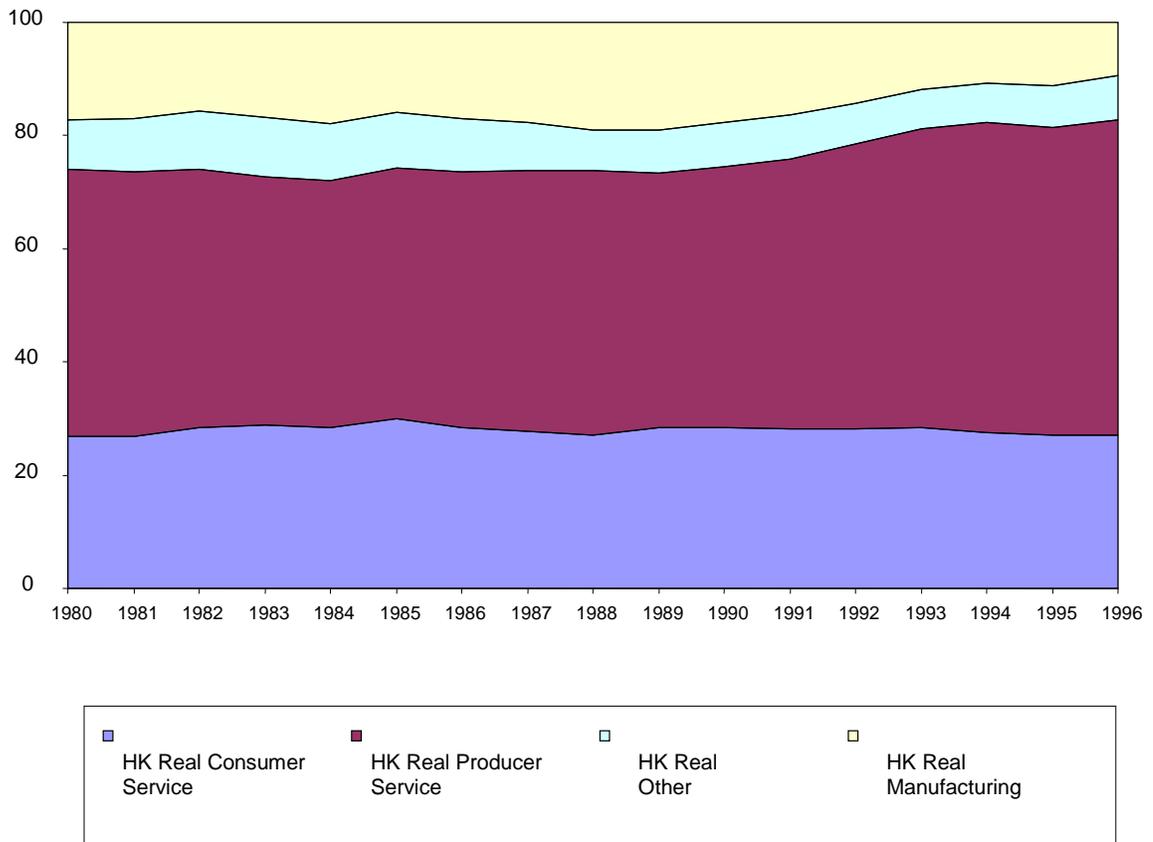
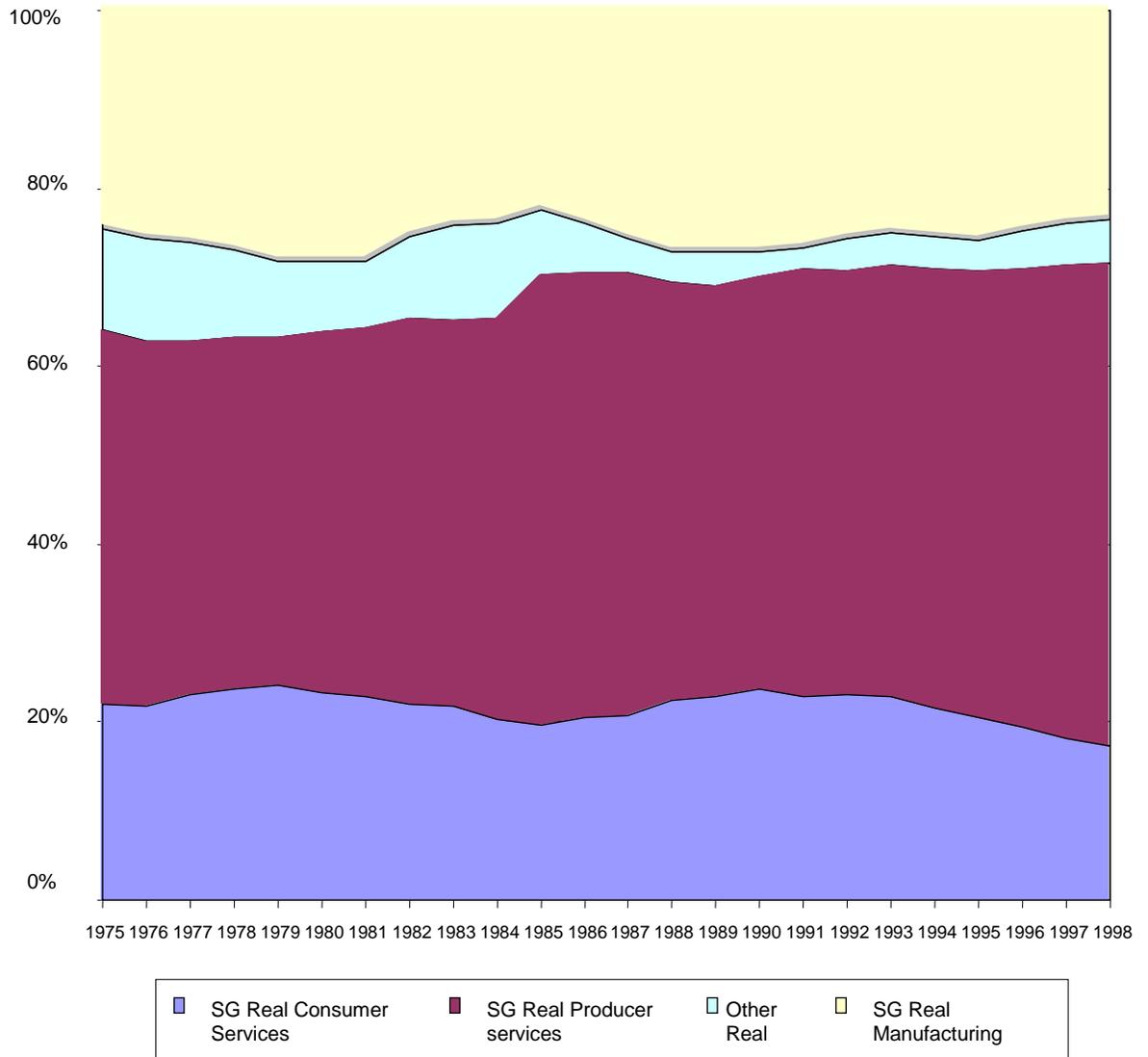


Figure 2b Singapore Real GDP Components



Producer services are all those services that are not used directly by final consumers. They are intermediate inputs purchased by businesses to help produce other goods or services. It is not useful to think of producer services as any particular type of service, like financial services or business services. In fact, almost all goods and services are partly used by final consumers and partly used by other businesses as intermediate inputs. For example, accounting services are regarded as final consumption when employed by an individual to work on the accounts of his household, but as an intermediate input when hired by a company to work on its account. The distinction is therefore determined on the demand side and not the supply side. In both Hong Kong and Singapore accounting services are almost exclusively producer services.

The rapid growth of producer services in Hong Kong in the past decade reflects the growing integration of Hong Kong's economy with the rest of the region and especially the Chinese hinterland. These producer services support primarily the manufacturing production base that has migrated offshore. The process has taken place to a much greater extent in Hong Kong than Singapore. The change is also reflected in the different structure of exports in the two economies. The proportion of re-exports in total exports had risen from 34% to 73% from 1986 to 1996 in Hong Kong. The change is much less pronounced in Singapore, where re-exports had only grown from 34% to 38% over the same period. (see figures 3a and 3b below).

Figure 3a Hong Kong

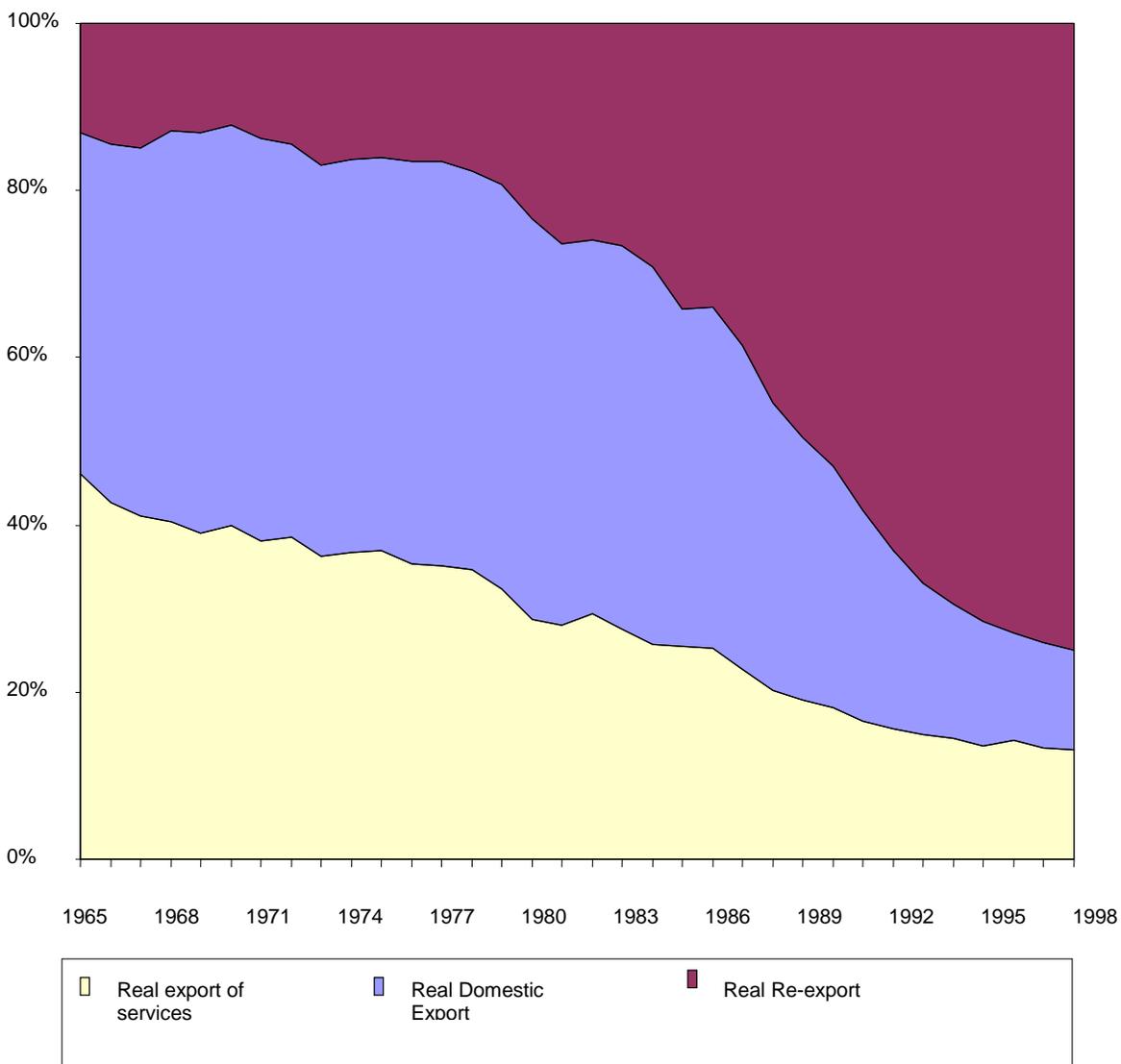
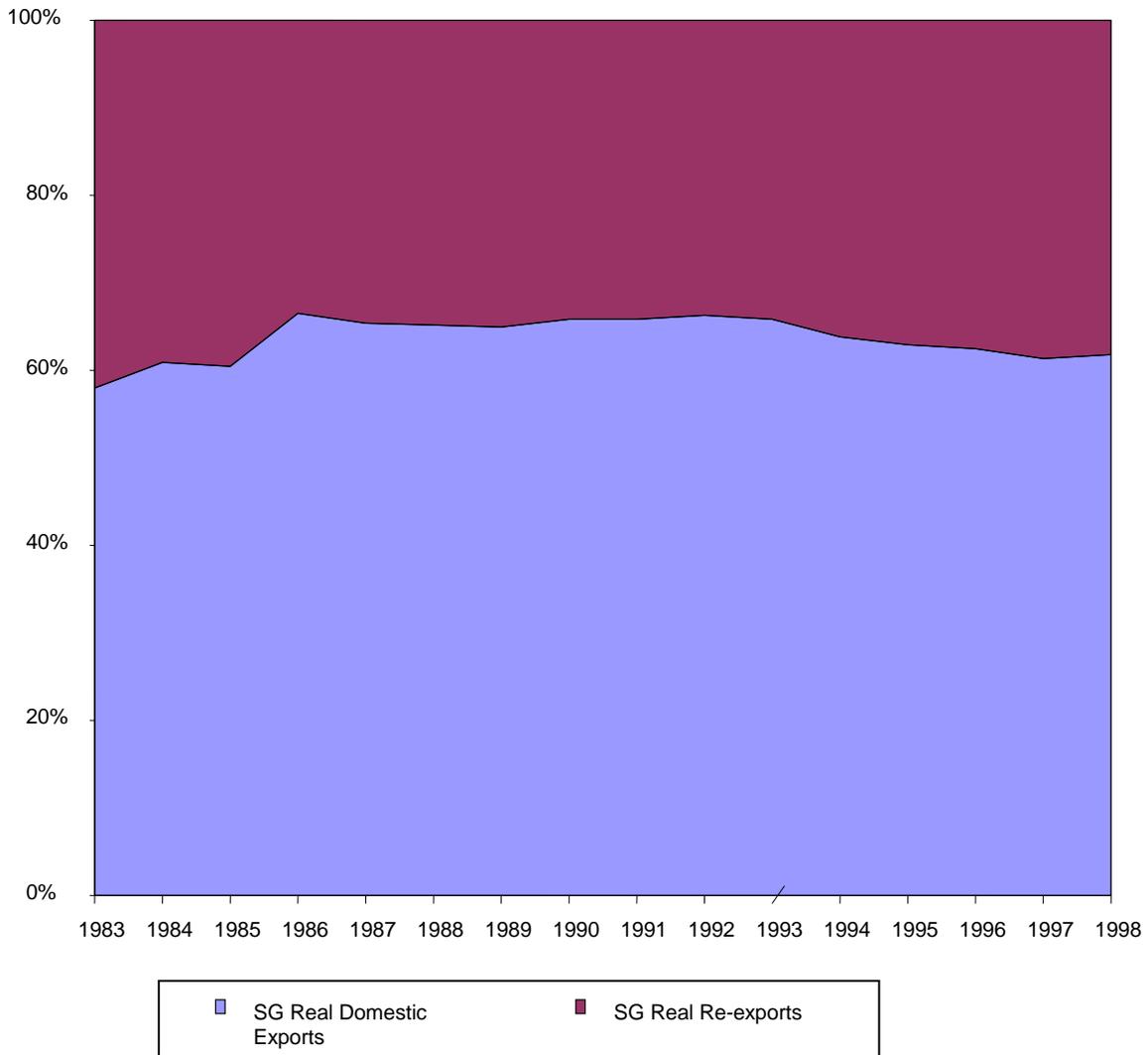


Figure 3b Singapore



Manufactured value added has continued to maintain its relative contribution to GDP in Singapore as a consequence of a number of factors. First, Singapore's manufacturing base has not relocated offshore by as great an extent as Hong Kong has. Second, the government of Singapore has more consciously sought to upgrade its manufacturing sector through policy to create high value added manufacturing activities within Singapore. Singapore's experience in this area is controversial in some quarters, but it has helped Singapore to maintain a higher rate of GDP growth than Hong Kong in recent years. It may even help Singapore to recover from the current economic crisis more speedily as well. However, the findings for the growth in real private consumption expenditure for the two cities are quite the opposite when compared with the results for GDP growth rates (see figures 4a and 4b below).

Figure 4a Hong Kong

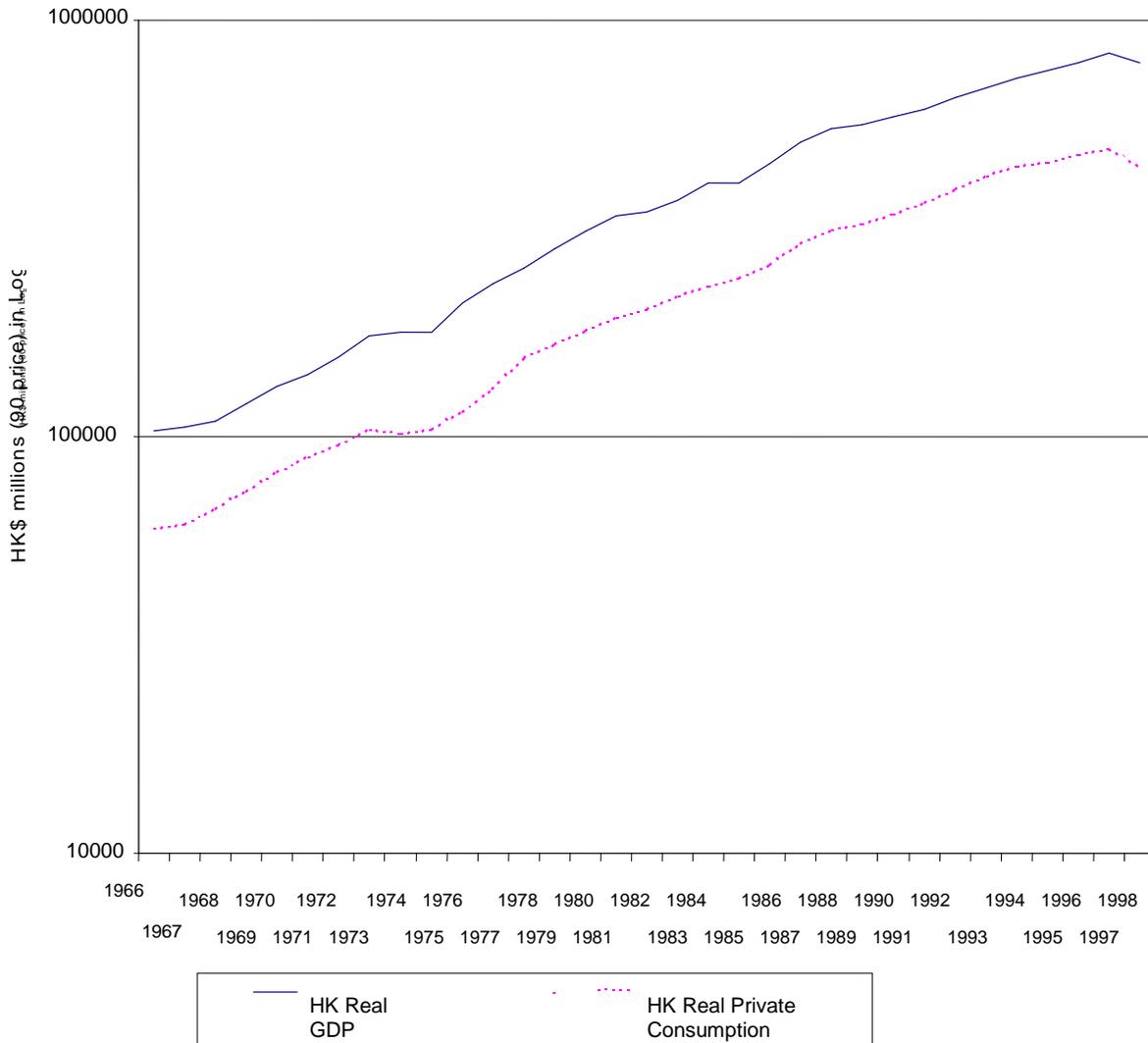
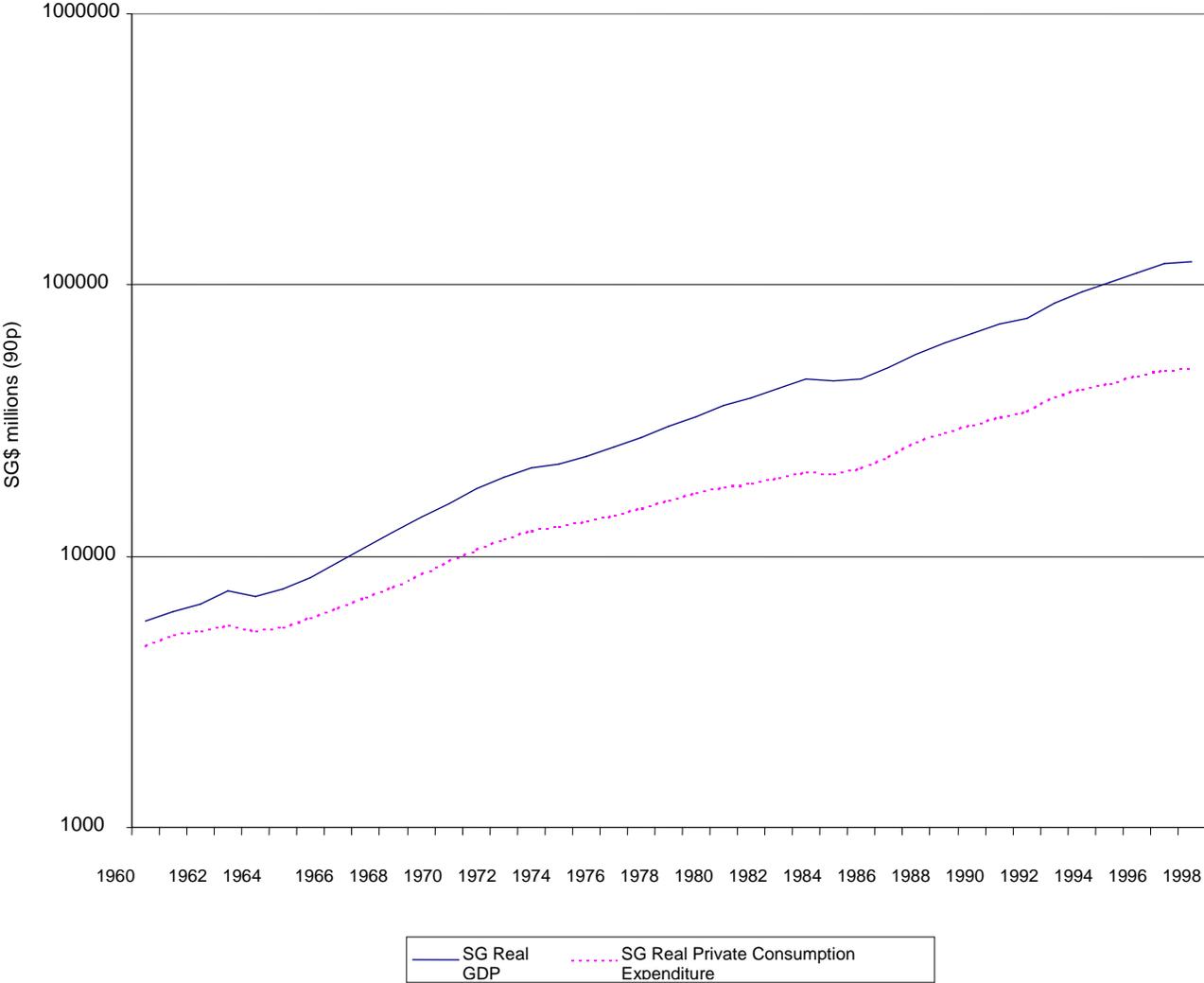


Figure 4b Singapore



By allowing market forces to drive its economy, Hong Kong is assuming characteristics similar to that of other metropolitan economies like New York. Both Hong Kong and New York have a preponderance of producer services. The growing importance of producer services in Hong Kong and New York City reflects an economic process at work that is crowding out lower value added activities, such as the physical production stages of manufacturing, to the hinterland. Over time, manufacturing gradually plays a less important role in the city's GDP and employment, even though it continues to function as the management and coordination center for a manufacturing base that has been decentralized to other places (see Table 1 below).

TABLE 1 : PERCENTAGE CONTRIBUTION TO GDP IN 1993				
	All Services	Consumption Services	Producer Services	Government Services
Hong Kong	78.1	28.7	42.8	6.6
New York City	77.8	26.1	40.8	10.8

As a metropolitan economy, Hong Kong is subject to the same economic dynamics faced by other cities like New York, London and Tokyo. It is economically less vulnerable to the rise and demise of any specific economic sector, but is sensitive to a general economic contraction such as the current situation in East Asia. For this reason the economic downturn in Hong Kong at this time is particularly severe and is unlikely to rebound until the rest of East Asia starts moving again. Hong Kong is therefore less likely to repeat its previous records of rapid recovery this time. Singapore's somewhat greater presence of export oriented manufactured products may therefore improve its recovery speed when compared with Hong Kong. The situation in Hong Kong is of course not helped by the exchange rate situation in both Hong Kong and the Chinese Mainland. Of course the fact that Singapore's currency had depreciated while Hong Kong's currency have been maintained at its original level vis-a-vis Singapore also helps to account for the prediction of a slower recovery in Hong Kong compared with Singapore. Moreover domestic prices in Singapore have been adjusted downward by administrative fiat while Hong Kong have continued to rely on market forces in a less favorable labor legislative environment

Facing the Future Challenge

The effects of the Asian crisis have prompted both the governments of Hong Kong and Singapore to re-examine their policies and to plan strategically for the future. It is therefore useful to take stock of the future economic challenges both are facing and to see how they are similar and different.

Hong Kong and Singapore obviously compete with each other in many economic spheres. It is important to note that the competition in this area is between firms and not

governments. Competition can often perform the very useful function of helping governments, industries and firms to innovate and remain efficient. Competition is not a zero-sum game or an adversarial rank-order tournament where the winner takes all. To see competition primarily in this manner is far too limiting as a vision for pursuing sustained economic prosperity.

Competition among cities is, however, not the same as competition among firms. While both has to compete by exploiting and enhancing their comparative advantages, the policy objectives of cities are far more complex than that of the firm. The task of the city is less well defined than that of a firm. On the other hand, cities also have at their disposal policy instruments to determine institutional arrangements and to shape their evolution in ways that are not available to firms.

Many great economic cities have been left behind in the march of history, others like London and New York have continued to thrive. Both Hong Kong and Singapore would certainly wish to join the ranks of the successful examples. There are indeed many challenges that is worth thinking about:

1. As city economies both share unique problems and challenges in securing the economic future. Both have long reached the limits of their economic size and seek to serve economies beyond their borders. Hence the ability to reach out and integrate with the global economy is the single most important factor determining the prospect of economic prosperity in the future. Putting in place the requisite policies and institutions is an enormously challenging task, especially in the face of global competition.
2. The growing economic dominance of services in both economies requires an active government role to review extensively and intensively general and specific policy and regulatory regimes in numerous service sectors to enhance competition and its competitiveness. There is much that both governments can learn from each other. In many respects the policy and regulatory frameworks are close cousins of each other with common British legacies making the legal and institutional arrangements similar in many ways. Both city economies are facing the pressures of global competition and have to respond. Hong Kong's future as a metropolitan economy depends to a great extent on the efficiency of its producer services and its ability to transform non-traded services into traded services.
3. Both cities rely heavily on its human resources to support their economic future as a knowledge based economy. Human resource talent is important at all levels. Given that both cities have obvious if not immutable limits on the parameters governing population growth. Augmenting the human resource talent pool, both in terms of size and quality, has an important bearing on the economic future of both cities..
4. Learning is an activity with very large economies of scale. Learning takes place both internally within one's borders and externally from the experiences of other cities. The size of the city economy is important because it provides a larger stock of experience and the presence of an adequate critical mass. Cities should be allowed to grow and along with it to manage and sustain its growth capacity. It is also imperative for city economies to learn from the successes and failures of other cities' experience, to reduce the cost of policy and

institutional innovations, and to avoid the wasteful exercise of reinventing the wheel. There are numerous hidden lessons in concrete and specific areas that have yet to be learned.

Date: Wednesday, October 6, 1999