

HONG KONG AND SINGAPORE: A TALE OF TWO CITY STATES

Is Confucian Capitalism Superior to Western Models?

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People in these economies have simply studied harder,
worked harder, and saved more than people in other countries.

--World Bank report

The welfare system in rabidly capitalist Hong Kong is more generous
than on the Communist mainland.

--*The Economist* (August 21, 2010)

In his popular book and PBS-TV series “Free to Choose” Milton Friedman begins his celebration of free market capitalism with a visit to Hong Kong. Although thirty years have passed since Friedman boasted about the city state’s stellar economic performance, Hong Kong still ranks at the top of the world’s Economic Freedom Index, published by the conservative Heritage Foundation.

When the British government relinquished control over Hong Kong in 1999, there was much anxiety about what the Beijing government would do with this prosperous port city that was essential to its economic revival. The Communist government, while putting some controls on political freedom, has allowed the former colony an amazing amount of economic independence.

Over the years, even when the British Parliament urged its Hong Kong administrators to increase government spending and control, they generally refused to do so. Sir John Cowperthwaite, the colony’s financial secretary from 1961-71, rejected subsidies for new businesses, refused to save failing banks, and rejected the idea of industrial policy. Indirectly referring to the famous Scottish economist Adam Smith, Cowperthwaite declared that it was “better to rely on the hidden hand [of free enterprise] than clumsy bureaucratic fingers.”

With regard to taxation Hong Kong appears to be a libertarian’s dream. The highest income tax rate is 17 percent and those making \$13,000 pay no taxes at all. There is no sales tax, no tax on capital gains or inheritance, and corporations pay 17.5 percent on their earnings. The tax laws take up only 200 pages long, and, although I could find no data on this, I suspect that a simple tax code means less fraud.

During the Asian financial crisis of 1997-98, the Hong Kong government was forced to bail out its banks and it still holds \$50 billion of their stocks. In 2000 the government finally required companies to put aside 5 percent of wages for employee retirement, and a minimum

wage, set just above fast food salaries, will soon go into effect. The most significant government intervention was a recent stimulus package that amounted to 5.2 percent of Gross Domestic Product (GDP), which compares to 6 percent for Obama's stimulus. If Obama is a socialist for his plan, does this make the Hong Kong government Marxist for doing the same?

Milton Friedman did not mention the fact that 85 percent of Hong Kongers receive their medical care from a system based on the British National Health Service. After the British system was taken over by the public Hong Kong Hospital Authority in 1990, the quality of care has increased and costs have come down. There are 50 public hospitals and 12 private ones. The top specialists, who draw patients from around the world, prefer to work at the public teaching hospitals. About 15 percent of the population pays high premiums for private care that allows immediate attention for non-emergency surgery and other procedures.

Hong Kong's public health system is amazingly efficient in that it takes only 3 percent of the city state's GDP. The 15 percent who pay for private services add, incredibly enough, another 3 percent of GDP for their medical costs. Comparable figures for the U.S. are 16 percent of GDP (highest in the world) and 10 percent for the Canadian equivalent of Medicare. American private insurers charge 2-3 times more for administration than Medicare does. It seems that some bureaucratic fingers are not so clumsy after all.

About 1600 miles south as the crane flies is the city state of Singapore, which has 4 million people compared to Hong Kong's 7 million. Singapore gained its independence from Great Britain in 1963 and since that time it has been ruled by the People's Action Party (PAP), which has won every single election since 1959. Initially styling itself an anti-Communist and Social Democratic, the PAP was expelled from the Socialist International in 1976 because it suppressed dissent and jailed opposition party leaders.

With regard to political freedom, Freedom House describes Singapore as "partially free" because of the PAP's stranglehold on elections, press censorship, and sometimes bizarre attempts to control citizen behavior. (Most people were aghast to learn that Singapore had banned chewing gum and caned a foreign tourist for breaking the law. The innocent habit is now legal as long as it is done for a medical purpose!) Hong Kong also receives the "partially free" designation, principally because of past British and now Chinese constraints on full democratic governance.

Singapore is second behind Hong Kong on the Economic Freedom Index. Four other social democratic countries are ranked ahead of the U.S. and Denmark closely follows in 9th place. For the Swiss-based IMD Business School Singapore and Hong Kong are first and second in economic competitiveness with the U.S. ranking third with five other social democratic countries found in the top ten. Adjusted for purchasing power, in 2009 each Singaporean shared over \$50,000 of national income compared to each American at \$46,000 and each Hong Konger at \$42,000. (Approximate reading from a graph in the *Economist*, July 17, 2010, p. 74).

Singapore's tax rates are low, topping out at 20 percent for both individuals and corporations. Since 1955, however, both companies and their workers have contributed to the Central Provident Fund, which now requires a 20 percent deduction matched by 15.5 percent from the employer. These are essentially compulsory savings accounts that Singaporeans can use for paying for higher education, health care, buying a home, and retirement.

Libertarians would hold that such a scheme would slow economic growth and increase unemployment, but just the opposite has happened. The economy of Singapore has grown much faster than Hong Kong's: 7.8 percent on average from 1965-2009 compared to 5.4 percent from 1962-2006. Unemployment in Singapore averaged 3.9 percent from 1995-2006 in contrast to Hong Kong's 5.1 percent during the same period. Like most all countries, both were hit by the Great Recession, but Singapore has had a much better recovery. Singapore's economy is expected to grow as much as 6.5 percent in 2010 and unemployment is now below 3 percent.

Singapore is home to 7,000 multinational corporations and is the fourth largest foreign exchange center in the world. In February 1997 currency traders in Singapore decided to bet against the Thai baht, and their recklessness almost brought down the East Asian economy. All of the East Asian currencies lost considerable value, and the worst hit was the Indonesian rupiah, which went down 75 percent.

Singapore spends even less on health care than Hong Kong does: only 3.7 percent of GDP vs. 6 percent for Hong Kong. The quality of care is just as high and the health statistics are impressive. Singapore's infant mortality rate is 2.3 per 1,000 births (2.1 in Hong Kong) while the U.S. rate is 6.4. Foreign workers make up 40 percent of Singapore's population and it also, like the U.S, has a high level of economic inequality, so one cannot argue that these are the reasons for America's high infant mortality rate. Universal medical care at a reasonable cost is obviously the key.

From 1984 Singapore added Medisave to the Central Provident Fund. From each citizen's account the government pays his or her medical bills, but only up to a certain level. Citizens must buy catastrophic medical insurance from Medishield to cover prolonged illnesses. President George W. Bush claimed that medical savings accounts such as Medisave would lower costs because people would be wiser consumers of health care. But medical costs have gone up Singapore's system, and low wage earners have not been able to afford the high deductible, high premium Medishield insurance.

In 1993 the government set up Medifund, which now pays \$218 million dollars a year to subsidize health care for the poor and indigent. (Calculating for population, this is comparable to Medicaid budgets more than three times higher than the states and the federal government now have.) Breaking completely with free market principles, the government has now placed price controls on all procedures in hospitals, 80 percent of which it owns. For more details see www.healthbeatblog.org/2008/07/health-care-in.html

Most of children of the two city states go to public schools based on the British system, and most private schools receive government aid. These school systems produce some of the best students in the world. Singapore's math curriculum is so successful that it is has now been adopted throughout the world. In 2007 Hong Kong 4th graders scored the highest on international math exams with an average score of 607 compared to 550 for Americans of European extraction. The result for Asian American students was 582.

During two research trips to Hong Kong in 1992, I found the library at the Chinese University of Hong Kong an excellent resource. Only two of the 11 universities in the city are privately funded, and even the Hong Baptist University has been taken over by the government. (Most private primary and secondary schools receive government aid.) Tuition at the public

universities range from \$5,200 to \$6,400 per year, and these reasonable fees and high quality attract thousands of foreign students.

A friend of mine who teaches at one of Hong Kong's universities has offered these qualifications: "The people in academia here are outrageously hierarchical and bullying of younger faculty is a way of life. Students are given a very poor education if the standard is a liberal arts ideal in which the whole person is equipped and encouraged to think for herself or himself. If the schools here are so good, why do all my colleagues work so hard to send their children overseas for their education?"

Milton Friedman also neglected to point out that half of Hong Kong's residents live in public housing with subsidized rents or ownership. While apartments and houses may be privately owned, all the land in Hong Kong, even before the Chinese take-over, is held by the government. This is also true for 80 percent of Singapore's land, on which 88 percent of citizens live in public housing and 92 percent own their own houses or apartments. This allows the two governments to keep land values at artificially high levels and then draw huge revenues from them. Singapore charges a 12 percent land tax on all commercial lease holders.

Even though it is 54 percent government owned, Singapore Airlines is one of the most successful airlines in aviation history. Wikipedia reports that in 2009 the airline "ranked 33rd in *Fortune* magazine's World's Most Admired Companies," and is sixth "in the world for international passengers carried." Singapore Airlines was the first to fly the double-decker Airbus 380, which, with its fuel efficiency and large capacity, will revolutionize air travel for the masses. The airline's Airbus 340-500s hold the long-distance record for their 9,530-mile, non-stop flights to Newark.

Under British protection for 168 years and now part of Communist China, Hong Kong has never paid for its own defense. But one-third of Singapore's national budget is devoted to military expenditures. Located in the strategic Straits of Malacca, the country has invested in some of the most sophisticated planes, ships, and missiles available. Singapore has 55,000 career military personnel with an additional 300,000 conscripts and reservists. The U.S. considers Singapore to be a strong ally for its interests in Southeast Asia.

On the negative side, both Hong Kong and Singapore have high rates of economic inequality. (It may in part be due to a high number of foreign workers in both populations.) On the Gini Index where 100 is complete inequality and 0 is full equality, Hong Kong's score is 54, Singapore's is 48, the U.S. is at 45, and the Nordic countries are most equal at 27. Generally speaking, there is a strong correlation (and arguably causal) relationship between economic inequality and many social and health problems. See my column at www.home.roadrunner.com/~nickgier/SpiritLevel.htm

Hong Kong and Singapore are exceptions to this study in several categories. Unequal countries usually have high homicide rates, but Singapore's is comparable to the low European rates. Finland's high murder rate correlates with it having the highest gun ownership per person, while Singapore's low homicide rate may be because it has the world's fewest guns.

Economically unequal countries also have the highest incarceration numbers, and Hong Kong and Singapore do have very high rates. For every 100,000 citizens the U.S. imprisons 738, Singapore locks up 350, and Hong Kong jails 168. These rates are far higher than Communist

China at 118, South Korea at 97, the Nordic countries at 68, and Japan the lowest at 62 citizens per 100,000 people.

Just like the U.S., Hong Kong and Singapore have a large number of drug offenders in their prisons. Hong Kong abolished capital punishment in 1993 (Beijing has not reversed their brave decision), but Singapore has the highest execution rate in the world. Over 70 percent of those hung-by-the-neck-until-dead were convicted for drug violations. Just as capital punishment does not deter murders, neither does it convince drug users in Singapore to give up their habits.

Recently Newt Gingrich was on Fox New with Bill O'Reilly, and O'Reilly said that Singapore's tough drug policies worked "swell"—especially with regard to mandatory drug abuse treatment—but that Americans would not have the "stomach" for such draconian measures. O'Reilly is simply wrong when he stated that Singapore's tough laws stopped drug trafficking or drug use.

Gingrich's response to O'Reilly was: "Well, I think it's time we get the stomach for that, Bill. I would try to use rehabilitation, and I'd make it mandatory." I'm of course not suggesting that Gingrich believes that drug dealers should be executed, but his position demonstrates the lack of respect for basic human rights that one often finds among conservatives. I'm afraid that too many Americans would agree with one of Singapore's "Outrages of Decency" laws that stipulates a two-year prison term for any male having sex with another male. Recently the Singapore Parliament passed a law legalizing oral and anal sex between heterosexual partners, but it is still a crime for homosexuals!

In conclusion something should be said about "Confucian" capitalism and the claim that it may be superior to Western models. (Singapore is 74 percent Chinese.) Confucian culture, strong even in Buddhist countries such as South Korea, Japan, and Vietnam, rejects Euro-American individualism and focuses on family values and civic as well as personal virtues. Presumably a Confucian capitalist would make investments with long-term benefits in mind rather than just short-term gains.

Stressing the fact that South Korea has preserved Confucian values better than any other Asian country, Chan Sup Chang claims that South Korea, along with Taiwan, has achieved, without sacrificing economic performance, much more income equality through "profit-sharing" capitalism than Hong Kong or Singapore. (South Korea's Gini number [explained above] is 31 and Taiwan's is 33 as opposed to Hong Kong's 53 and Singapore's 48.) Chang also believes that the lack of caste hierarchy, the high respect for scholars and learning, and an emphasis on harmony in human relations are Confucian values that have led to South Korea's cultural and economic successes. Read Chang's article in the *Journal of Third World Studies* (Fall, 1998).

Surveys, however, simply do not support the claim that the Confucian tradition has made businesses or other institutions more moral. According to the rankings at NationMaster.com, the least corrupt countries in the world are in Europe, New Zealand, and Australia with scores 9.1 and above on a 10-point scale. The exception is Singapore with a 9.4 with Hong Kong receiving 8.3. The other Confucian countries do poorly: Japan (7.3), Taiwan (5.9), South Korea (5), China (3.2), and Vietnam (2.6). The U.S. score is a disappointing 7.6. Citizen perception of corruption gives similar results, which can be found at www.transparency.org.

Perhaps researchers at the World Bank have a simpler answer: "People in these economies have simply studied harder, worked harder, and saved more than people in other countries." Whatever the reason we should nevertheless admire and learn from these Asian countries. It is very clear that in the 21st Century Asians from South Korea down to India and Indonesia will not only excel but dominate in economic, technological, and cultural affairs.

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