

# 香港亞太研究所

## *The Politics of Laissez-faire*

### *Hong Kong's Strategy of Industrialization in Historical Perspective*

Stephen Chiu

#### **Hong Kong Institute of Asia-Pacific Studies**

The Hong Kong Institute of Asia-Pacific Studies was established in September 1990 to promote multidisciplinary social science research on social, political and economic development. Research emphasis is placed on the role of Hong Kong in the Asia-Pacific region and the reciprocal effects of the development of Hong Kong and the Asia-Pacific region.

Director : Yeung Yue-man, PhD(*Chic.*), Professor of Geography

Associate Director : Lau Siu-kai, PhD(*Minn.*), Professor of Sociology

HK\$30.00

ISBN 962-441-040-2

**Hong Kong Institute of Asia-Pacific Studies**

The Chinese University of Hong Kong

Shatin, New Territories

Hong Kong

**The Politics of *Laissez-faire***  
**Hong Kong's Strategy of Industrialization**  
**in Historical Perspective**

Stephen Chiu

Hong Kong Institute of Asia-Pacific Studies  
The Chinese University of Hong Kong  
Shatin, New Territories  
Hong Kong

## About the author

Dr. Stephen Chiu is a Lecturer at the Department of Sociology, The Chinese University of Hong Kong.

## Acknowledgements

The author wishes to thank Prof. Gilbert Rozman, Prof. Gene Burns and Prof. Frank Dobbin of Princeton University for their supervision and guidance in writing the doctoral dissertation on which this paper is based. Thanks are also due to Dr. T.L. Lui, Mr. David Levin, and Mr. Yau Kin-Chung for their comments on earlier drafts of the paper. The research for this paper is partially funded by a Summer Research Grant from the Social Science Faculty of The Chinese University of Hong Kong which enabled the author to conduct research at the Public Records Office in London in 1992.

Opinions expressed in the publications of the Hong Kong Institute of Asia-Pacific Studies are the authors'. They do not necessarily reflect those of the Institute.

© 1994 Stephen Chiu  
ISBN 962-441-040-2

All rights reserved. No part of this book may be reproduced in any form without written permission from the author.

# The Politics of *Laissez-faire*

## Hong Kong's Strategy of Industrialization in Historical Perspective

### Abstract

In contrast to other late-industrializers, the colonial state of Hong Kong never pursued, nor even attempted, an interventionist development strategy during Hong Kong's postwar industrial take-off. In particular, it never interfered with the inter-sectoral flow of resources and did not provide special aid for the development of manufacturing industries. This paper argues that part of the cause of the (comparatively) more thorough adoption of a *laissez-faire* approach to industrialization can be found in the financial capacity of the state. Both the capitalist and the colonial nature of the Hong Kong state led to a low level of financial capacity. The other condition for *laissez-faire* in Hong Kong was the particular configuration of the governing coalition. When manufacturing industry was about to 'sprout' in the 1950s, the state's dominant coalition partner was the financial and commercial bourgeoisie while manufacturers occupied a marginal position in the power structure. The second part of this paper attempts to substantiate these contentions by taking a fresh look at two policy episodes surrounding the issues of industrial land and finance. It is argued that in both cases a combination of financial constraints over the state and the alliance between the colonial bureaucracy and the leading commercial and financial bourgeoisie worked to defeat both proposals for state allocation of industrial land at preferential terms (instead of by the market at the going rate through public auctions), and for the establishments of an industrial bank to supply long-term credit to manufacturers. These political defeats of the manufacturers laid the foundation of the *laissez-faire* strategy and steadfastly steered the state away from an interventionist industrial policy.

By now, the miraculous growth of Hong Kong from an entrepot to an industrial economy is well known. In particular, that this 'miracle' has been premised on a *laissez-faire* approach of the colo-

nial state to the economy has been well rehearsed (Friedman and Friedman 1980, Rabushka 1979, and Riedel 1974). Throughout the postwar decades, the colonial state of Hong Kong has firmly committed itself to the free play of market forces. Looking back at the industrial revolution, the government proudly attributed Hong Kong's success to such an approach to economic management:

The major factors that have given Hong Kong its international reputation as a leading manufacturing and commercial centre continued to work well. Among these are the consistent economic policies of free enterprise and free trade.... Apart from ensuring the provision of the infrastructure, either through direct services or by co-operation with privately-owned public utility companies and autonomous bodies, the government's principal role in the economy is to ensure a suitable framework in which commerce and industry can function efficiently and effectively with minimum interference. The government normally intervenes only in response to the pressure of economic and social needs, and neither protects nor subsidizes manufactures. (*Hong Kong Annual Report* 1985, p. 71)

Indeed, in Hong Kong *laissez-faire* has assumed an air of inevitability. It has been perceived by the government and most observers as the only way to manage the economy, and that it is only natural for Hong Kong to develop such a style of economic and industrial development. Recently, the principal component of *laissez-faire*, a balanced budget, has even been enshrined in the Basic Law, the future mini-constitution for the Special Administrative Region government to be established in Hong Kong after the restoration of Chinese sovereignty in 1997.

Under such circumstances, it is easy to forget that *laissez-faire* as any development strategy pursued by the state, is a political product. It seems that everything is fine and everybody is happy under such a strategy. Nonetheless, in the 1950s when Hong Kong had still been on the edge of its industrial revolution, the nascent manufacturing sector had lobbied intensely for an entirely different model of state-industry relationship. Industrialists were press-

ing for state intervention in two areas: land and finance. In order to alleviate the bottlenecks of industrial growth, they demanded the state to supply land and finance to manufacturing industries at concessionary terms. Had the state concurred with the manufacturers, we would have seen the emergence of something resembling an industrial policy, which can be defined as 'a national policy aimed at developing or retrenching selected industries to achieve national economic goals' (Hawley 1986, p. 63). Therefore, when Hong Kong was about to embark on its industrial take-off, the colonial state was actually presented not only one, but two, opportunities to take a more active role in the structural transformation of the economy from a trading port to an industrial city. Instead, the colonial state rejected demands for *selective assistance* in the supply of both industrial land and finance, and this epitomized the state's *laissez-faire* approach to industrial development. In other words, while commonplace (but with different degrees of success) in many other late industrializers, in postwar Hong Kong there is no 'industrial policy' designed to change the pace, direction and pattern of industrial development.

Hong Kong thus constitutes a deviant case and a puzzle to the study of comparative development. A host of studies has demonstrated that facing the situation of relative backwardness *vis-à-vis* the advanced countries, late-industrializers often have to resort to heavy-handed state interventions in order to push ahead industrial development (Gerschenkron 1962; Rueschemeyer and Evans 1985; Onis 1991). Why, confronting the task of late industrialization, did the state in Hong Kong not follow the other Third-world countries in leading (or at least attempting to lead) the industrial revolution? How can we explain this 'Hong Kong exceptionalism'? In this paper, I attempt to take a fresh look at the policy episodes surrounding the two issues of industrial land and finance in order to decipher the political origin of the strategy of industrialization in Hong Kong. To anticipate the following discussion, I shall argue that in both cases, a combination of financial constraints over the state and the alliance between the colonial bureaucracy and leading commercial and financial bourgeoisie

worked to defeat both proposals for state allocation of industrial land at preferential terms (instead of allocation by the market at the going rate through public auctions), and for the establishments of an industrial bank to supply long-term credits to manufacturers. These political defeats for the manufacturers laid the foundation of the *laissez-faire* strategy and steadfastly steered the state away from an interventionist industrial policy.

By pointing to the political calculations and institutional basis for the state's decisions to refrain from offering selective assistance to the nascent manufacturing sector, we can restore the political nature of the *laissez-faire* strategy and make sense of the 'Hong Kong exceptionalism' in development. By explicating why Hong Kong became so different from other late-developing states, we can have a more comprehensive understanding of the political economy of comparative development. In the first section, the colonial state's role in industrialization will be delineated. In the second section, existing perspectives on Hong Kong's *laissez-faire* strategy are reviewed. Then I sketch an alternative argument focusing on the particular organization of the polity as the determinant of industrial strategies in the Third World. Two variables, the state's policy capacity and the relationship between the state elite and powerful social groupings, especially the bourgeoisie, are highlighted. Both variables, I argue, are a product of the long historical process of state formation and we outline their evolution in Hong Kong. Finally, the two cases, industrial land and finance, are discussed in turn to elucidate how state policy capacities and state-bourgeoisie relationship shape the contour of industrial policies in early postwar Hong Kong.

### *Laissez-faire* and Industrialization in Hong Kong<sup>1</sup>

That manufacturing industries experienced phenomenal growth after the Second World War should require little reiteration here. The drastic decline in the traditional sources of income as a result

of the Korean War and a dramatic increase in the labor force due to the Chinese Revolution generated the need for an alternative source of employment and income other than entrepot trade. In this context, industrial development provided the perfect relief. World market situations benefitted the growth of Hong Kong industries: the prosperity in the Western world and the relatively liberal international trade regime (Chiu 1994). Due to the earlier venture of Hong Kong's industries into the export market, Hong Kong's manufactured products were also able to capture much of the Southeast Asian markets in the 1950s, though the rising tide of economic nationalism in the late 1950s largely closed Hong Kong products off to the Southeast Asian countries. Hong Kong exports then began to go to the Western markets.

The apparently unlimited demand for low-priced consumer products and the relatively low-cost and abundant supply of labor stimulated investment in manufacturing undertakings. By 1961, Hong Kong's transformation from an entrepot to an industrial economy had more or less been completed. Though manufacturing only accounted for about a quarter of the GDP in the financial year of 1960-1961, it had become the largest sector in terms of employment (Chang 1969, p. 66). In the 1961 census, it was found that some 42 percent of the economically active population were engaged in the manufacturing sector (*Hong Kong Annual Report* 1961, p. 74).

What were the patterns of public policies pursued during Hong Kong's industrial revolution in the 1950s? What exactly were the concrete manifestations of *laissez-faire* in Hong Kong? Of course, it did not entail the state doing nothing in the development process, but what did the Hong Kong state do? What did it not do?

### *The Colonial State and Industrial Growth*

Compared with the other late industrializers, the role of the colonial state in Hong Kong's industrial development was minimal. Indeed, a low level of state intervention in the economy had been

the dominant style of economic management in the period of industrial take-off and only limited changes were witnessed afterwards. What the colonial state actually did to promote industrial growth reveals a relatively limited scope of state action, and a very low level of assistance to the development of industrial firms.<sup>2</sup> Most of the promotion efforts were connected to the marketing of products overseas. The first one was the establishment of a system of certification of origin of Hong Kong manufactured exports. Despite Hong Kong's early start in export manufacturing, selling Hong Kong manufactured products in overseas, especially Western, markets was not a straightforward matter in the 1950s. For example, there had been allegations from Commonwealth countries that some exports from Hong Kong had merely been re-exports of Japanese products falsely declared and labelled in order to enjoy the advantages of Imperial Preference. This necessitated the establishment of a system of certifying the origin and local content of Hong Kong exports. Furthermore, under the Korean War embargo, the United States government enacted a Foreign Assets Control Regulations in 1952, banning the import of goods originating from China or North Korea. Since Hong Kong produced a lot of traditional commodities that were also supplied by China, the colonial state had to set up a system of inspection and certification of such goods manufactured in Hong Kong.

The other important aspect of industrial promotion by the Hong Kong government was an extensive publicity campaign about Hong Kong's manufacturing industries. The first such venture was Hong Kong's participation in the 1948 British Industries Fair. Subsequently, Hong Kong had an exhibit at the annual Fair for the next seven years. From 1954 onwards, the colonial state arranged displays of locally manufactured products in Seattle, Toronto, Frankfurt, and New York. Apart from participation in trade fairs, the colonial state published various guides to foreign buyers, furnishing them with commercial information concerning Hong Kong. From 1953, the state also published the *Commerce, Industry and Finance Directory*, an irregular publication containing useful information about Hong Kong's economy to foreign buy-

ers. Then in 1954, the Commerce and Industry Department began to publish a monthly *Trade Bulletin*, circulating among overseas businessmen.

Certification of origin, participation in trade fairs, and trade publications more or less exhausted what the colonial state did to specifically promote industrial growth. On the other hand, state action was in general directed to provide a favorable environment for *all* kinds of entrepreneurial activities. Firstly, it offered an attractive regulatory framework in which businessmen could operate. Laws and statutes followed the British system, with its unambiguous commitment to and definition of private property. The merits of this legal system were to allow private transactions to be relatively free of administrative encumbrance, and yet to offer protection against fraud by the legal enforcement of contracts. The statutes regulating the economy were also clear and simple, facilitating business calculations. The formation of companies, public or private, limited or unlimited, was easy and straightforward. Secondly, the colonial state supplied the basic infrastructure for economic activities. It built and managed roads, railways, harbors, an airport, and other transport facilities. It was also the owner of the most precious factor of production in Hong Kong, land. Thirdly, the colonial state was responsible for the maintenance of law and order, as well as the protection of private property. Although the colonial state, unlike the other East Asian Newly Industrialized Countries (EANICs), did not directly control or suppress union activities, it did try its best to contain the activities of the left-wing labor movement in the 1950s. Finally, beginning from the late 1950s, the colonial state assumed an increasing responsibilities over the provision of means of collective consumption, especially that of housing. The massive public housing program provided low-cost accommodation to close to half of the households in the colony and helped keep wage inflation low.

A smaller but increasing group of 'revisionists' has disputed the characterization that Hong Kong has been a *laissez-faire* economy and that the colonial state has really stayed away from inter-

fering in the process of economic growth (Schiffer 1991; Youngson 1982). While providing a useful corrective to the chorus of praise for *laissez-faire*, the revisionist account cannot deny the limited economic role played by the state from a comparative point of view. Hong Kong may be a far cry from the neo-classical utopia that has never existed, but the weight of the colonial state in the economy hardly matches its counterparts in other late industrializers. State interventions were never strong enough to alter the market advantages or disadvantages facing the individual sectors or firms. This is particularly the case when we focus on the manufacturing sector. In contrast to the other EANICs, Hong Kong did not have the sector-specific or micro-level industrial policy that sought to foster the growth of manufacturing as a whole, a specific sector in manufacturing, or certain 'national champion' firms. When individual firms or sectors collapsed or threatened to collapse, which happened very often in Hong Kong's postwar history, the state refused to engineer any 'rescue mission'. What was most important was that, the state's support of private capital accumulation normally benefitted all sectors and types of enterprises, not manufacturing alone. Simply, the Hong Kong style state intervention was close to a general supply-side policy which lowered the cost of operation of all firms no matter their sector, ownership and size attributes. Therefore, as we shall see in the cases of industrial land and finance, the state consistently denied demands for sectoral policies to foster industrial growth. As studies of comparative political economy now abound, the contrast between Hong Kong's industrial policy (or lack of it) and other late industrializers' should be beyond any dispute.<sup>3</sup>

What was more conspicuous from a comparative perspective, however, was not what the colonial state did, but what it did not do. The colonial state refrained from the provision of basic utilities for industrial production. Electricity, transportation, and telephone and cable services were all operated by franchised private companies. The supply of crude oil, petroleum, and natural gas was also the responsibility of a number of multinational oil com-

panies, such as British Petroleum and Esso. Even for the training and education of labor, state provision of compulsory free primary education came rather late in the mid-1970s, and technical and vocation training by public agencies was relatively rare in the 1950s.

The colonial state was especially reluctant to offer *selective* assistance to the development of manufacturing industries. There was a long list of industrial policies that, though common in the other EANICs, were never practiced in Hong Kong. In the words of an economist:

In Hong Kong, one finds no five-year plans, no Government-sponsored steel mill or any attempt to promote large-scale operations or to protect cottage industries. Market forces are allowed to shape the economy — selecting the industries to be developed and sizes of the firms composing them. When these forces spell the ruin of many enterprises, or even entire industries such as cement and steel, the Government does not exercise a boxing referee's discretionary function of stopping the fight. No attempt is ever made to distort factor prices in favour of any particular type of development: investment allowances, tax-holidays, loans to small firms, rent controls on industrial premises and minimum wage legislation find no place in a scheme of things in which industries pay the economic value of all factors they exploit. (Owen 1971, p. 155)

For instance, when a request was made of the colonial state to prepare a five-year plan of economic development, it was met with outright refusal by the Financial Secretary:

I must, I am afraid, begin by expressing my deep-seated dislike and distrust of anything of this sort in Hong Kong.... Government should not presume to tell any business man or industrialist what he should or should not do, far less what he may or may not do; and no matter how it may be dressed up that is what planning is. Economic planning is fashionable in countries which need some artificial stimulus to the development of their natural resources and in countries which, for doctrinaire reasons or because they are rich enough to af-

ford the luxury, are more concerned with easing social and economic transitions and with the distribution of wealth than with its maximization. (*Hong Kong Hansard* 1976-77, p. 741)

On several occasions, when particular manufacturing industries faced distress and demanded special relief from the state, the latter also refused to deviate from the principle of market allocation of resources. In 1968, the steel industry, facing competition from imports, demanded the use of locally produced steel in the construction of public housing estates. It was flatly rejected on the ground that 'special treatment for a particular industry would run counter to Government's well tested economic policies and would have to be justified by quite special circumstances' (*Hong Kong Hansard* 1968, p. 431). In 1970, both the enamelware and the wig industries were at the brink of extinction because of the contraction of demand. Again the colonial state rejected requests for a rescue mission (*Hong Kong Hansard* 1970-71, pp. 114ff).

## Conceptual Considerations

### *Existing Perspectives on Laissez-faire in Hong Kong*

There have been very few studies by students of comparative development on why the *laissez-faire* strategy of development was adopted in Hong Kong.<sup>4</sup> Most existing treatments of the subject seek primarily to demonstrate the contribution of the strategy to Hong Kong's development. Consequently, most of the current discussions about the relationship between the state and development in Hong Kong have failed to resolve the comparative puzzle we stated earlier: why was the *laissez-faire* strategy pursued in Hong Kong to an extent so exceptional among developing countries? While there is a lack of full-fledged explanations, there are a number of arguments that can serve as points of reference. The first is an economic one, pointing to the unique economic constraints placed on the Hong Kong government whereby it was

futile to intervene in the marketplace. The small size of the Hong Kong economy, its scarcity in natural resources, and the high dependence on foreign trade have often been alluded to as the natural stumbling blocks to active state intervention. The colonial state itself also justified its own arms-length approach by such an argument, as the Financial Secretary stated: 'We take the view that it is futile and damaging to the growth rate of the economy for attempts to be made to frustrate the operation of market forces, particularly as it is so difficult to predict, let alone control, market forces applicable to an open economy.'<sup>5</sup>

The economic argument, however, is flawed. A comparison with Singapore, an economy similarly dependent (or even more dependent) on foreign trade and similar to Hong Kong in terms of the level of economic development, does suggest that economic circumstances do not dictate the choice of development strategies. Under similar initial economic conditions, the Singaporean state engaged in a 'big push' tactic to promote the investment by multinational corporations in Singapore's manufacturing sector (Rodan 1989; Low 1983). 'Signals' from the economic environment must be 'processed' by conflicts among various social groupings and 'mediated' by political institutions before they become policies. Bureaucrats do not make policies in response to changing economic context in a simple rational manner, they react at the same time to political exigencies impinging on them and their agencies. Even if we granted that bureaucrats in Hong Kong did make the right choice, we have to ask what were the relevant political conditions for such a choice whereas bureaucrats all over the world often made the 'wrong' choices.

A second line of argument attempts to tackle this question by highlighting a particular nature of the Hong Kong's political system: its colonial nature. Lau Siu-kai captures the argument nicely with his postulation of a 'minimally integrated political system' in which the colonial state and the indigenous society are fundamentally autonomous of each other and highly sensitive to each other transgressing the boundary between them (Lau 1982). The state, in this perspective, consciously chooses to refrain from intervening

in the society and economy as part of its 'boundary maintenance' strategy. The more the colonial state involves itself in the indigenous society, the more questions can be raised concerning the legitimacy of its authority. Being a colonial state, its only purpose is to preserve the colonial political system by maintaining the precarious balance between the public and the private sphere. The indigenous Chinese society, on its part, also poses few demands for state intervention and assistance. The society is contented to be left alone, being free to thrive on the free market and entrepreneurship.

Along the same line as Lau, Cheng Tu-jun develops a sophisticated explanation of the foundation of *laissez-faire* in the 1950s.<sup>6</sup> Basically, he argues that an autonomous colonial bureaucracy successfully fended off pressures for a more active industrial policy from a broadly-based coalition of business interests including the leading traders and industrialists. On the one hand, the colonial state could do this because it was constitutionally and organizationally autonomous from the society. That the colonial state wanted to maintain a more restricted role in the economy was, on the other hand, motivated partly by ideological persuasion and partly by the desire to avoid the possibility of 'rising expectation' towards government's provision of social and economic services which would have ultimately led to demands for more political participation.

This line of explanation is appealing in its emphasis on the political calculations involved in adopting a *laissez-faire* strategy and is placing the strategy in Hong Kong's peculiar colonial situation: a broader context of 'boundary-maintenance' politics between the colonial state and indigenous society. Yet the argument is incomplete because it fails to specify why a colonial state in Hong Kong should refrain from intervening in the economy while elsewhere colonialism resulted in a highly interventionist and predatory state.<sup>7</sup> The ideology of colonial officials cannot fully explain *laissez-faire* in Hong Kong because British colonial governments in India and Africa had been known to deviate from the precepts of *laissez-faire*.<sup>8</sup> In fact, during the early postwar years, the

Colonial Office, under the rubrics of 'colonial development', had been an active promoter of colonial planning and various measures to promote industrialization in British dependent territories. Furthermore, Lau's depiction of the Chinese society as being contented to be left alone is also incorrect when applied to the issue of industrial development. During the early phase of Hong Kong's industrial take-off, indigenous manufacturers had in fact persistently demanded for governmental assistance. The *laissez-faire* industrial policy, therefore, was not a result of absence of demands, but a product of a particular organization of the polity that prompted the colonial state to reject such demands. Cheng amends Lau's thesis by pointing to a concerted developmental coalition pressing for intervention. Nevertheless, as we shall argue later, Cheng's arguments fall short of specifying the institutional constraints on economic policy in Hong Kong, and his discussion of the effects of coalition politics on policy choices fails to capture the contours of alliance and cleavage in the polity.

### *A Polity Dynamics Argument*

In view of the limitations of the existing discussions of the origin of *laissez-faire*, here I develop a 'polity dynamics' argument to comprehend the adoption and reproduction of the non-interventionist industrial policy. The argument develops from the emergent 'historical institutionalism' in comparative political research, especially the 'polity-centered' analysis presented in Theda Skocpol's recent works.<sup>9</sup> Historical institutionalism and the polity-centered approach stem from the statist theory but make it less state-centric by attempting to look at the institutional configuration and dynamics of the polity which undergird both the state and the society. The early statist theory emphasizes the autonomy of the state in making decisions and the capacity embedded in the state apparatus which enables or constrains the state's implementation of a particular policy. The 'endogenous' view of state preferences and capacities, however, quickly gives way to a perspective which traces the formation of the interests guiding

state policy and the availability of policy instruments in policy implementation to the interaction between the state elite and societal actors, and the institutional linkages between the two (for examples, see Hall (1986) and Suleiman (1987)). The 'polity dynamics' perspective thus moves its focus from the state machinery to the organization and dynamics of the polity, which can be defined as the multifaceted, formal and informal, relationships and interactions between state actors and societal actors. A 'polity dynamics' approach here is therefore an attempt to transcend the state-society antinomy by focusing on the various dynamic patterned interactions between the state elite and various politically significant societal actors which in turn define both the capacities of the state to act and the policy preferences of the state elite.

Focusing on organization and dynamics of the polity, two variables can be discerned as particularly relevant to the explanation of industrial strategies in the Third World. One is the institutional constraints or facilitation embedded in the polity on the state's capacity to intervene in the economy, and the other is the structure of the governing coalition, especially the political linkages between the state and the capitalist class. Implicitly, this formulation is based on the assumption that every piece of public policy is a product of the state's *interest* in realizing certain objectives with the policy as well as its *capacity* to implement the policy.<sup>10</sup> The resources or policy tools available to the state cannot be examined within the state machinery but must be put in the context of the polity, that is, the patterned interactions between state and societal actors. The state cannot simply decide that it must have control over certain resources. The process of state-building, in which state actors struggle with each other and with societal actors would determine the amount and types of resources put under the control of a particular branch of the state or the state as a whole. In addition, while the policy tools available to the state determine its capabilities to implement certain policies, in the Third World the linkages between state actors and the capitalist class in the polity often shape the state's interest on a particular development policy. We are not suggesting that only

the relationship between the capitalist class and the state elite matters, but that often the state's relationship with other social groupings, for the sake of parsimony, can be analyzed in the light of state-capital relationship.<sup>11</sup> The alliance or cleavage between the state elite and the bourgeoisie, as a critical component of the organization of the polity, affects how state actors define their interests, goals and objectives. Since different development strategies often have differential distributional consequences for different societal groups, state elite would naturally want to benefit their allies and punish opponents. Moreover, allies, by definition, have institutionalized and low-cost access to the decision-making arena, while non-allies or opponents are often excluded or marginalized; a state-capital alliance, therefore, often leads to an institutional framework of the polity which 'privileges' the bourgeoisie in the political process.<sup>12</sup> A combination of these two organizational determinants of the polity (state capacities and state-capital linkages), therefore, shape the industrial strategies pursued by the state.

The accent here is on the combination of the two determinants, not their individual effects. On the one hand, the emphasis on the organizational and institutional configuration of the polity as a whole points to the fact that institutional constraints or capabilities also affect the state's orientation to policies simply because state actors, in formulating their objectives, would also consider the feasibility of an option. Simply, in many cases they would not crash into the wall by attempting the impossible. On the other hand, the state can often overcome a particular weakness if there is a compelling political reason for it. In particular, we argue that the state will not attempt to impose control over societal resources when it has an alliance with the capitalist class, and conversely, it will attempt to expand its own capabilities if the state has a political cleavage with the capitalist class, though the degree of success of such attempt again hinges on the wider institutional context. We would not expect the state to encroach into societal resources controlled by the capitalist class which normally controls the bulk of societal resources. We do not, furthermore, assume that the

capitalist class or the state will be a monolithic entity.<sup>13</sup> The internal cohesion or organization of the capitalist class and the various branches of the state machinery is an empirical variable. We want to know the political alliance or cleavage between a specific state actor and the various segments of the capitalist class. Thus a state actor might have an alliance or be in conflict with the landed, commercial, and industrial segments of the bourgeoisie. This in turn will have different effects on the state's interest in a policy.

### State Capacities: Genesis of a Stringent State

Before we can ascertain the effects of state capacities and state-capital relationship on industrial policies in Hong Kong, we must first turn to the historical formation of the colonial state prior to the industrial take-off. Serious constraints on state capacity had developed in Hong Kong out of the historical processes of colonial economic and political development. The existence of such constraints when industrialization began in the 1950s constituted one condition for Hong Kong's distinctive *laissez-faire* approach to the management of industrial growth in the ensuing decades. This section will demonstrate how the state's financial stringency was institutionalized in Hong Kong before its industrial take-off. Firstly, in Hong Kong, a strong bourgeoisie had developed long before the onset of industrialization. Under British colonialism, a financial-trading complex had emerged from the earliest days of Hong Kong's colonial history, with a group of cohesive merchants and bankers dominating the economy. This powerful financial and commercial bourgeoisie had struggled, well before the industrial take-off and with considerable success, to limit the authority of the colonial state in extracting resources from the market economy. Secondly, as a colonial state, the Hong Kong state had been put under tight financial supervision by the British government in London, to ensure that Hong Kong's public finance be in a 'healthy condition'. In practice, this had added to the financial

constraints imposed upon the state by the bourgeoisie. With the early institutionalization of a restricted financial base and with little leeway to expand it, the state had faced stringent financial constraints on expanding its role in the colony's industrialization.

### *Colonial Economic Development and Class Formation: Emergence of the Financial-Trading Complex*

A central contention of this study is that historical patterns of socio-economic development interacted with the state-building process, shaping the state's financial capabilities. From this angle, we shall argue that Hong Kong's establishment as a commercial colony and its subsequent development into a major entrepot of the Far East had impinged upon the process of colonial state-building, erecting serious blockages against the state's financial capacity.

With the Hong Kong economy gradually developing during the nineteenth century, a capitalist class emerged. The main forms of economic activity in Hong Kong during this period of time were commerce and financial activities related to commerce. Consequently, merchant capital predominated. British and European merchants were first attracted to the Colony by the security of the British flag. It also provided the headquarters for important merchant houses which preferred to direct their operations in China from the security of Hong Kong. Adventurers also flocked to Hong Kong, in the hope of making easy money. By 1843, there were already 12 major European 'hongs' (merchant houses) in Hong Kong (Yuan 1988, p. 111). Most of the now famous trading houses, such as Jardine Matheson and Swire, which dominated the Hong Kong economy in the early postwar era, were established in the nineteenth century. They laid down the foundation of business by building warehouses and wharves on the waterfront and carried out trade on the China coast. They then entered the shipbuilding and ship repairing business by forming joint-stock companies, such as the Taikoo Dock and the Whampoa Dock, and both of these companies were to develop into huge

corporations in the postwar era (Chen 1988, p. 67). The formation of Hong Kong Bank (then Hong Kong and Shanghai Banking Corporation), the largest commercial bank in Hong Kong, was also attributable to this group of British merchants.<sup>14</sup>

On the Chinese side, the formation of the capitalist class initially lagged behind its European counterparts, as merchants in China saw no reason for moving to Hong Kong.<sup>15</sup> But gradually, a small number of Chinese settlers established themselves and their families with the purpose of making Hong Kong their permanent home. They started to accumulate capital and invested in real estate. As the Colony entered the 1850s, this Chinese elite increasingly assumed a position of leadership. There were three types of Chinese capitalists according to their origins. First, there were the successful contractors and builders who made a fortune out of the early construction in Hong Kong after its founding as a colony. The second group was the merchants, who had been mainly engaging in coastal trade and later moved to Hong Kong, investing mainly in real estate and land. A relatively large portion of this merchant class came to Hong Kong in the 1850s, when the Taiping rebellion broke out in China. The Taiping threat to Canton created a refugee group which sought in Hong Kong more secure and stable conditions.<sup>16</sup> The third group was the compradors who served in the foreign hongcs. As trade increased on the China coast, the compradors were provided with an opportunity to accumulate considerable capital, which they invested in real estate and in Chinese commercial firms.<sup>17</sup>

Joint-account business also developed between the compradors and foreign merchants in Hong Kong as well as in other treaty ports. There was little social interaction between the first two groups of Chinese bourgeoisie and their European counterparts, but some form of Sino-Western symbiosis was said to have developed between the compradors and foreign merchants. By the turn of the century, the Chinese capitalists in Hong Kong had gained considerable economic power in the colony. They handled an increasing portion of China's foreign trade, bought properties previously owned by Europeans, and emerged as the

biggest and most important group of taxpayers in Hong Kong.<sup>18</sup> The inter-war period marked the further development of the Chinese capitalist class. Although European merchants and bankers were still the major players in the economy, Chinese economic power was quickly catching up. In particular, overseas Chinese who had migrated to North America, Australia and Southeast Asia, after accumulating considerable capital, came back to Hong Kong and contributed to the development of Chinese economic power.

### *The Structure of Capitalist Power on the Eve of Industrialization*

Therefore, on the eve of Hong Kong's industrialization, the financial and commercial bourgeoisie linked to the entrepot economy dominated the economy. In spite of the considerable development of manufacturing industries in pre-war Hong Kong, it is still essential not to exaggerate the importance of manufacturing before the postwar industrial take-off of the 1950s.<sup>19</sup> For example, in the 1931 Census, the last one conducted before the industrialization in Hong Kong,<sup>20</sup> only 23.6 percent of the 470,794 working population were employed in manufacturing. Another 35.7 percent were employed in the tertiary sectors,<sup>21</sup> and the rest in fishing and agriculture (Butters 1939, p. 6). In 1935, an official commission on Hong Kong's economy concluded:

In 1896 the entrepot trade was the predominant and practically sole activity of the Colony.... Twenty-four years later, in 1920, no fundamental change was apparent but other activities, though subsidiary, had grown sufficiently to justify what might be termed a census of production. In 1934 the transformation has progressed a little further and the industrialization of the Colony has accelerated though it is still of subsidiary importance. (Breen 1935)

At the top level of the economic structure, the commercial and financial bourgeoisie predominated. The following quotation

from a business guide published in 1955 offers a succinct description of the dominant actors in the Hong Kong economy during the early postwar period:

First there are the great agency houses which have been typical of the China trade since private English first broke into the trading monopoly of the East India Company in Canton. Jardine and Matheson, with world wide interests which vary from shipping to engineering, from trade to textiles.... Second, there are the great Exchange Banks — Hong Kong's own Hong Kong and Shanghai Banking Corporation, the Chartered Bank of India, Australia and China, and the Mercantile Bank of India. These together with the other 91 licensed banks in the colony, including a total of 26 authorized to deal in foreign exchange, are one measure of the Colony's ability to finance the Far East's trade and at the same time find funds for new industries. But if these firms stand out in the mind of an economic historian, there are others that are just as important today — the insurance companies, an essential part of the shipping industry; the transportation and private utility companies without which the Colony could never expand; and hundreds of trading companies which at one time handled the bulk of the China import trade. (The Hong Kong Junior Chamber of Commerce 1955, p. 1)

The banks, the merchant houses, the public utilities and the big property developers — the core of the financial-trading complex in Hong Kong — were the largest firms in the economy. For example, for the 10 largest listed companies in 1960, all of which were in the financial-trading complex, their total paid-up capital amounted to 12 percent of the GDP in 1960-1961.<sup>22</sup> Most of the hongts had developed into diversified conglomerates in the post-war era. For example, by the early 1960s Jardine had 9 major wholly-owned subsidiaries in Hong Kong and stakes in many listed companies (it itself was a private limited company), especially the public utilities. Another upstart hong, Wheelock Marden, had 56 subsidiaries which were based in Hong Kong, as well as another 111 companies all over the world (*Economic Reporter* September 9, 1963, pp. 5-9).

It was not only the sheer size of individual firms that constituted the financial-trading complex's influence in Hong Kong's economy, but it was also the highly organized character of their inter-firm ties. On a structural level, business joint ventures and interlocking directorships bonded them together. For example, if we examine the extent of interlocking directorships among the 52 publicly listed companies in 1960, we find that except for three firms, all of the others had at least one interlock with another firm.<sup>23</sup> On average, each firm was linked to 15.4 firms. A total of 15 firms also had more than 20 links each with the other 51 firms. On the whole, we find that the names of a small number of persons appeared again and again on the list of directorships of these 52 firms. A total of 316 directorships in the 52 firms were held by only 152 persons. Among these 152 persons, 28 who held three or more directorships were holding in 1960 174 directorships, or 55 percent of the total (see Table 1). From these data, we can say that the bourgeoisie in Hong Kong was highly organized at the top level.

**Table 1** Interlocking Directorships among 52 Listed Companies, 1960

	No. of persons	No. of directorships
Persons holding 1 directorship	106	106
Persons holding 2 directorships	18	36
Persons holding 3 directorships	5	15
Persons holding 4 directorships	5	20
Persons holding 5 directorships	4	20
Persons holding 6 directorships	4	24
Persons holding 7 directorships	2	14
Persons holding 8 directorships	1	8
Persons holding 9 directorships	3	27
Persons holding 10 or more directorships	4	46
Total	152	316

Source: The Standard Press (1961).

In particular, the Hong Kong and Shanghai Bank (Hong Kong Bank in short) served as the lynchpin among the big British hongts, as the major hongts had been responsible for its establishment in the first place and continued to have close relationships with the Bank. The Bank's board room where members of the major hongts were well represented, served as an arena for the hongts to exchange ideas and coordinate their operations.<sup>24</sup> Their structural connections were also embedded in a dense network of social relationships. In part, the social bonding among the European merchants was based on a similarity in social origins. As Lethbridge puts it:

[S]uch information [concerning the social origin of the merchant group] as is readily accessible leads to the same conclusion, in that in course of time the great hongts, such as Jardine, Matheson and Co., began to populate their messes with young men — popularly referred to as 'griffins' — educated at English public schools or their equivalent in Scotland, such as George Watson's College or the Edinburgh Academy. (1978, p. 165)<sup>25</sup>

Scots constituted the majority of the British traders, thus adding an ethnic homogeneity to the group (Lethbridge 1978, p. 207). In early Hong Kong, the condition of a small group of expatriates in a colonial settlement far away from home probably reinforced their social interactions, so that the 'foreign merchants of Hong Kong and the treaty ports formed a small and intimate community' (Crisswell 1981, p. 102). Social interactions were also increased by the common membership in exclusive clubs, such as the Hong Kong Club established in 1846.

In sum, a comment made in the late 1970s concerning the structure of the bourgeoisie, therefore, should only be even more applicable to the early postwar years:

The business community in Hong Kong is dominated by a few large concerns with which its larger and wealthier members have directorial and financial links. These same few large concerns also dominate the banking system of Hong Kong and the essential public utili-

ties. The concerns themselves are closely linked at the directorial level. However, these links are not only links of the boardroom. The directors meet also in two other places. First there is the common round of clubs, major and minor, to which so many of them belong. They may be close personal friends but they share an atmosphere, an ambience, a social nexus. Secondly, there is the shared membership of government councils, committees and boards as well as membership of many of the charitable organizations. (Davies 1977, p. 69)

One might expect the relationship between the Chinese capitalists and the British merchants to have been less cozy than that among the Britons due to their ethnic difference. Yet at least at the top level, the two groups were getting along well enough, and there was 'a basic similarity of attitude' between them (Davies 1977, p. 69). Scott also observes that:

In the 1950s and 1960s, the British and Chinese business communities began to come closer together on public policy issues. A common interest in the preservation and expansion of wealth provided a basis for mutual understanding and joint political action on the desired direction of government's response to the problems facing Hong Kong. (1989, p. 89)

In the aftermath of the Second World War, when Hong Kong was on the eve of its miraculous industrial take-off, the financial and commercial bourgeoisie had occupied the dominant position in the Hong Kong economy. The power of this class was greatly augmented by its cohesiveness and by its structural importance in the economy. Thus the bourgeoisie was able to exert substantial influence over the state's extraction of resources from the economy. We shall turn to this in the next section.

### *The Bourgeoisie and the Institutionalization of Financial Constraints*

The development of Hong Kong's bourgeoisie predated the founding of Hong Kong as a Crown Colony, and it continued to

prosper from Hong Kong's growth as an entrepot and financial center in the Far East. The early development and entrenchment of the bourgeoisie in Hong Kong created a significant constraint on the colonial state's financial capacity. By the time Hong Kong pursued the path of industrialization during the 1950s, the interactions between the bourgeoisie and the colonial state for the past century had already deeply implanted the principle of financial conservatism in the state's management of the economy. Thus, in the formulation of a development strategy, the financial solvency of the state was the prime concern, and, added to the fact that it had control over very little of the resources in the economy, a *dirigiste* industrial policy found in other late industrializers was ruled out. *Laissez-faire* over the sectoral flow of resources, coupled with the reduction of the tax burden of capitalists and the infrastructural support of economic growth in general, seemed to be the only feasible option for the colonial state which lived under stringent financial limits.

This section shall trace the process by which financial conservatism was institutionalized in the polity of Hong Kong. In the case of Hong Kong, the nineteenth century saw the gradual formation of the colonial state and the development of the precedents and principles guiding its actions. One of the most important principles of government institutionalized in nineteenth century Hong Kong was that of 'responsible finances' in the Gladstonian tradition, namely, a balanced-budget, gradual expansion of government expenditure, and incremental increases in taxation in line with the overall rate of economic growth (Rabushka 1976).

Business power was the primary institutional hindrance to the state's financial capacities to intervene in the marketplace. Before industrialization began, a long struggle was waged by the merchants against the colonial state to curb the state's ability to tax them and to restrain it from 'over-spending'. As early as 1845, only four years after the cession of the island, the merchant community had waged a battle against the colonial governor's attempt to increase revenue. Pressed by the needs of constructing

the basic amenities of the newly established Colony, the Governor, Sir John Davis, attempted to increase revenues by introducing a poll tax on the population and to levy rates on properties. The merchants opposed to the poll tax petitioned for its abolition. The dispute ended in a victory for the merchants, since the Secretary of State for the Colonies, the Governor's immediate superior, sympathized with them (Collins 1952, pp. 70-71).

Then the problem of the levy of rates and the general perception among the merchants of the government's irresponsible fiscal measures prompted them to petition in 1845 to the Secretary of State against the imposition of new taxes. The petition was made under the leadership of the largest hong, Jardine Matheson. It condemned Davis's taxation measures and even declared the levy of rates and new taxes unconstitutional without the establishment of an elected municipal body vested with the power of the allocation of revenues for local purposes. They went on to demand 'the Home Government to contribute more generously towards the expenses of a colony which they claimed was held for imperial interests connected with the whole of the China trade, and not those of the Colony alone' (Endacott 1964, p. 43). Due to the merchants' persistence, the matter was eventually brought to the Parliament, resulting in the formation of a select committee to investigate the problem.

The report of the select committee had a lasting effect on the colonial state, since it was regarded as a major policy statement that helped to shape the basic approach of the government in regard to trade and administration (Collins 1952, p. 73). The committee was steadfastly on the side of the merchants, when it reported:

To the latter object of raising revenue in the Colony to maintain the government, however, we think it unwise to sacrifice the real interests of the Settlement, which can only prosper under the greatest amount of freedom of intercourse and traffic which is consistent with the engagements of Treaties and internal order; nor do we think it right that the burden of maintaining that which is rather a post for general influence and the protection

of the general trade in the China Seas than a Colony in the ordinary sense, should be thrown in any great degree on the merchants or other persons who may be resident upon it. (quoted in Collins 1952, p. 74)

The committee also went on to urge the colonial state to place a ceiling on 'needless expense'. This event, then, marked the first victory of Hong Kong's nascent bourgeoisie over the embryonic colonial state in the fundamental principle of taxation and government spending.

In the nineteenth century, almost any major increase in tax or government expenditure aroused vehement opposition from the merchants.<sup>26</sup> Finally, in 1894, another major conflict broke out between the bourgeoisie and the colonial state over the problem of finance.<sup>27</sup> In the early 1880s, the Colony was plagued by financial problems that sprang from three sources: the increasing scale of public works, the heavy demands upon the Colony by Britain for defense contributions, and the fall in the value of silver causing a depreciation of the currency based on silver. The merchants, through their representatives in the Legislative Council, the consultative body to the Governor, sensing the danger in the increase in the cost of government, pressed for a reduction in government expenditures. Again bowing to the pressures from the merchants, the colonial state appointed a Retrenchment Committee with merchant representatives to consider ways to cut administrative costs.

The merchants pushed their position even further by demanding constitutional reforms in the Colony in order to put a leash on the state's power to tax and spend. In 1894, a group of ratepayers petitioned the Secretary of State for an elected unofficial majority in the Legislative Council.<sup>28</sup> Their argument was that 'though this thriving community had been created by British merchants, traders, and shipowners, these men had only a small share of the government', and that it was the 'common right of Englishmen to manage their local affairs and control the expenditure of the Colony' (quoted in Endacott 1964, p. 120). Ultimately home rule was not granted to the British merchants, but the government strived to incorporate more representatives of capital, Chinese

and British, into the Legislative (Legco) and the Executive councils (Exco), the latter being the local equivalent to the Cabinet in Britain (Endacott 1964, p. 125).<sup>29</sup> 'More important than these structural changes, however, was the greater willingness of the bureaucracy to listen to the merchants' (Scott 1989, p. 60). This meant a firm commitment to a conservative financial policy, aiming at minimizing the burdens of government on the bourgeoisie.

The financial control exercised by the bourgeoisie was also institutionalized in the Finance Committee within the Legco.<sup>30</sup> The Finance Committee was established in 1872. Though it was not mentioned in the constitutional documents of the colony, this did not prevent it from emerging as an important lever in the hands of the bourgeoisie to restrain the colonial state's ability to appropriate resources from the society. As Miners states:

[I]t can be argued that the meetings of this Committee are of far more importance than the sessions of the Legislative Council itself, and second only to the meetings of the Executive Council in their significance for the working of the Hong Kong government system. (1986, p. 138)

The Finance Committee comprised all unofficial members of the Legco, the Colonial Secretary, the Financial Secretary and one other official member nominated by the Governor. It was chaired by the Colonial Secretary, but none of the official members had a vote in it. The unofficial members had the effective control over the resolutions in the Committee, since they alone had the right to vote.

All proposals for government expenditure had to pass through the Finance Committee before they were discussed in the full Legco. The annual Budget Estimates and the related Appropriation Bill had to be referred to the Committee, and it might also call upon the public officer responsible for a particular proposal to testify. Any additional expenditure arising during the financial year after the passing of the Budget Estimates also had to be approved by the Finance Committee. The Committee had the effective final say on government expenditures. Although the co-

lonial state could make use of the official majority in the full Legco to override the veto of the Committee, this never happened.

The historical sketch presented here is very important to our understanding of the blockages facing the state against a more interventionist development strategy in the 1950s. The development of the countervailing power of the bourgeoisie over the colonial state's financial capacity clearly preceded the formulation of a strategy of industrial development in Hong Kong. All the haggles between the colonial state and the bourgeoisie from 1845 onwards suggest that the state, though not acting at the behest of the bourgeoisie, had to live within the limits set by the latter in extracting resources from the economy and allocating the revenues collected. While a major increase in the state's command of resources was being blocked, a massive expansion in the scale of the state's operation and intervention in the economy would be impossible to sustain.<sup>31</sup> Miners' comment on the inter-war period seems apt to summarize the predominant policy 'style' on the eve of industrialization:

In general the Hong Kong government was very loath to raise rates of taxation or to seek new sources of revenue. Hong Kong was then, and still is, very lightly taxed, ... but the unofficial members were never reluctant to assert that the colony's trade and prosperity would be ruined if any new exactions were imposed on the taxpayers. So the government rarely attempted to carry through more than marginal adjustments. (1987, pp. 114-115)

### *The Financial System and State Capacity*

In other late-industrializing countries, such as Taiwan and Korea, the establishment of newly independent state control over the financial system through the nationalization of banks previously owned by the colonizers gave the state valuable policy instruments to direct the course of subsequent industrial development. In contrast, in Hong Kong, private control of the financial system prior to industrialization constituted a further hurdle to the state's

financial capacity. The Hong Kong state was deprived of the tools of selective credit control to influence the financing of industrial production, and it was also unable to determine the price (interest rate) and quantity of money supply (more on this below). Without these means, the colonial state could only stay away from an interventionist strategy and hold on to a policy premised on perfecting rather than tapering or tampering with the market mechanism.

Banks in Hong Kong have always been privately owned commercial banks, and not even a form of postal-saving banks exists. On the eve of industrialization, banks in Hong Kong could be divided into four groups according to their national origin (Jao 1974, p. 37). The most powerful were the British banks, such as Hong Kong Bank and Chartered Bank. The second group was the banks owned by the PRC. They had previously been either privately owned or had belonged to the Chinese nationalist government; they were taken over by the communist government after 1949. The third group was a *mélange* of small banks owned by local Chinese capitalists, which included the even smaller indigenous financial institutions, the so-called native banks. The fourth group was non-British expatriate banks which had set up offices in Hong Kong. Thus the colonial state faced a very different financial system than the postwar governments of Korea and Taiwan. The state's direct control over the financial institutions was limited and there was very little it could do to administer the flow and price of funds in the economy. No central bank, and not even a central state agency responsible for the regulation of the banks and monetary supply like the Monetary Authority of Singapore, existed in Hong Kong.

The monetary system further reinforced the constraints over the state's capacity to regulate the flow of financial resources. In the early postwar years, the authority of note-issuing was delegated to three private banks upon the latter's purchase of certificates of indebtedness in sterling from the Government's Exchange Fund.<sup>32</sup> Consequently, the note-issuing banks could increase money supply to the extent that they possessed the corresponding

quantities of sterling balances. In an economic sense, Hong Kong had neither its own currency nor any mechanism whereby the government could control the money supply (Owen 1971, p. 161).

Due to the early development of the banking industry and due to its powerful position in the economy, state control over the banks' creation of credit was remarkably loose. Until 1964, commercial banks had no reserve requirements against deposit liabilities.<sup>33</sup> After 1964, inter-bank deposits as well as currency and foreign exchange holdings were counted as legal reserves. The implication of this was that banks could arrange to cross-deposit funds to bloat up their reserve base, effectively bypassing the reserve requirements. Banks usually had large excess reserves, which frustrated the government's marginal moves to tighten or relax credit supply (Riedel 1974, pp. 132, 134). Banks with foreign connections could always draw cash to meet the reserve requirement. The price of money, the interest rate, was not controlled by the government but was administered by a committee of bankers headed by the note-issuing banks. Thus, the colonial state could scarcely regulate the quantity of money supply nor its price in the financial system, which deprived it of a major policy instrument for interventions in the economy. This was diametrically opposite to what was seen in Korea and Taiwan, where the state was able to utilize the financial system and the power to create credit and increase money supply as a lever to pursue a state-led strategy of industrialization.

### *Colonialism and Financial Constraints*

Besides the resistance of the bourgeoisie to a higher level of state extraction from the economy, the colonial state in Hong Kong had also been subjected to the financial constraints imposed by its colonial linkages to Britain. Under the British system of colonialism, the Secretary of State for the Colonies was responsible for the government of its overseas colonies, as well as the self-governing dominions (e.g. Canada) until 1930.<sup>34</sup> The British Parliament rarely legislated for the colonies. Apart from a few issues related to war

and diplomacy, the Secretary of State had full responsibility. The colonial governors were required to obey all instructions sent by him and of course the governors were appointed by the British government.

As students of the British colonial policy have pointed out, the Colonial Office never attempted to govern the colonies directly. Instead, much autonomy was accorded to the men on the spot, namely, the governor and his senior aides. There was one exception, however. 'In no other area of administration was the Governor so tightly constrained by a detailed straitjacket of rules and regulations as in matters concerned with finance' (Miners 1987, p. 124). Though the Governor enjoyed a considerable latitude even in this respect, there was one golden rule, that is, the colonies were expected to be financially self-sufficient. Failing to do so would mean a dependence on home government loans and grants-in-aid, and this dependence would entail the supervision of colonial finance by the Treasury. Both the colonial government and the Colonial Office were anxious, therefore, to maintain the colonies' financial solvency in order to protect their administrative independence (Rabushka 1976, p. 14).

In the 1840s, Hong Kong had to rely on British grants to cover its expenditure, due to both the disappointing conditions of trade and the exorbitant costs of public works (Endacott 1964, pp. 79-80). The Colonial Office, therefore, urged the colonial state to raise revenue locally (Collins 1952, p. 71). But given the effect of new taxes on the economy and the widespread resistance to increases in taxation from the merchants, the emphasis was later changed to 'value for money' in government expenditure. In 1848, for example, the Colonial Office ordered the Governor 'to carry out a thorough and comprehensive investigation into all branches of colonial expenditure, ... with the object of making permanent economies in the establishment' (Endacott 1964, p. 80). The result was a drastic cut in the size of both the civil and administrative establishment.

In later years, supervision by the home government on the financial condition of Hong Kong was never relaxed. In the inter-war years, as Miners points out:

The Control exercised by the Colonial Office over a colony's expenditure was, formally speaking, absolute, and could be extended down to the minutest detail.... The Governor was forbidden to make any addition to the fixed establishments of the colony, or to alter the rates of salary or emoluments of any officer without the previous sanction of the Secretary of State nor was he permitted to propose the execution of any important public work to the Legislative Council unless such sanction had already been obtained. (1987, pp. 107-108)

In practice, the annual proposed budget of the government was required to be submitted to the Colonial Office for sanction after it had gone through the colony's Legco. Except for very small sums, the Governor had to solicit permission from the Colonial Office for any additional items not included in the budget. In London, colonial budgets were meticulously reviewed and evaluated. Even the budget was stipulated by colonial regulations to be conservatively estimated, and in ordinary circumstances, total estimated expenditure should not exceed the estimated revenue. The accumulation of a surplus was further encouraged. Finally, the Colonial Office reserved the right to refuse permission for the colonial state to raise a loan, and normally only loans for investment in safe and revenue-generating projects would be permitted.<sup>35</sup>

After the Second World War, for a short while Hong Kong again became dependent on Britain for financial aid and, consequently, was subjected to Treasury control of its expenditure. In addition to the Secretary of State's review, the Treasury's ratification was required before the draft budget estimates were passed on to the Legco. The financial control from London continued until the late 1950s, when the Governor was relieved of the responsibility to send estimates to the Colonial Office (Miners 1986, p. 146). But this did not cause major change in the financial policy

of the colonial state since long before the abolition of formal checks from the Colonial Office, the principle of financial conservatism had already been institutionalized in Hong Kong. Of course, any major setback in the financial well being of the colonial state would still arouse the attention of the Colonial Office and invite the latter's interventions in Hong Kong's internal administration. The combined weight of domestic resistance to undue state extraction of resources from the bourgeoisie and London's checks on public finance invariably produced a situation in which the colonial state's financial capacity was kept within narrow bounds.

### *Financial Stringency and Laissez-faire*

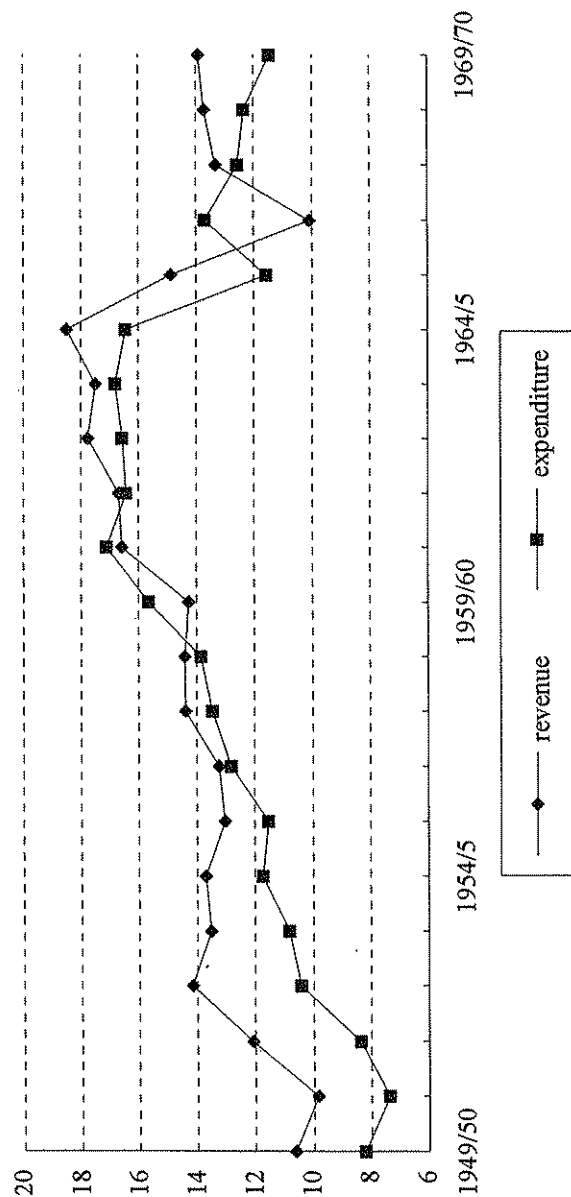
After accounting for the origin of domestic and external constraints on the state's financial capacities prior to industrial take-off, we can move on to examine how this shaped the pattern of state interventions in the period of industrialization. One way to look at the impact of financial constraints on the colonial state's economic policies is by examining the pattern of public finances. As discussed above, the primary source of finance for the Hong Kong colonial state was its tax revenue, coupled with a small sum collected from the sale of land and government enterprises. As the Financial Secretary put it: 'The unwelcome truth... is that today just about the only cheap, and certainly the only long-term, money available to us is money raised by the state's compulsory powers to tax' (*Hong Kong Hansard* 1966, p. 75). The countervailing power of the bourgeoisie developed in the past century continued to exert itself during the period of industrialization. Consequently, the state followed a Gladstonian policy: 'a narrow tax base and low standard rates of direct taxation facilitate rapid economic growth which generates high and ever-increasing tax yields' (Rabushka 1976, p. 113). Throughout the 1950s, the colonial state avoided a major increase in tax, as Arthur Clarke, the Financial Secretary, admitted in 1955 that: 'Any considerable increase, I say deliberately "considerable increase," in the rate of direct taxation

at a time when the economy is strained might well in the end bring about a reduction of revenue rather than an increase.' Again, in 1960, he stated: 'We would do well to delay an increase in our direct taxation rate, the low level of which is such an incentive to our expanding economy, on which in turn we depend for increasing revenue.'<sup>36</sup>

A case in point was the introduction of an income tax. The merchants had been successful in preventing such a tax from being installed until the war had come in 1939. Squeezed by the Home Government for war contributions, the colonial state introduced an income tax for the first time. It was under a wartime emergency situation that the colonial state could persuade the bourgeoisie to accept an income tax and also under the condition that it would be repealed immediately after the war (Miners 1987, p. 124). After the war, the tax was briefly abolished from 1945 to 1946, but the extraordinary need for revenue in the rehabilitation of the economy prompted the colonial state to reintroduce it, but at a rate of 10 percent, much lower than the other EANICs and many other developing countries (Ho 1979, p. 18). The income tax later constituted a significant proportion of the state's total revenues, but even then it was constrained by the bourgeoisie's resistance to increasing it further. For instance, in the 1950s, the government wished to increase the income tax rate from 10 percent to 15 percent. The unofficial members in the Exco, mainly representatives from the major hongs, protested vigorously, claiming that 'business would come to a standstill', the Colony would be ruined', etc. Then the government had to compromise, settling for a new maximum rate of 12.5 percent.<sup>37</sup>

As can be seen from Figure 1, though the state managed to increase its share of the economy, it remained at a modest level during the 1950s. State revenue started with a low 9.8 percent of GDP in 1950-51 financial year,<sup>38</sup> increased to about 13 percent in the mid-1950s, and then further to the peak 18 percent in 1964-65. Thereafter, the share of state revenue in GDP dropped back to the 13 percent mark. When we compare the state's share of GDP in Hong Kong to that of Singapore in their respective periods of

Figure 1 Percentage of Government Expenditure and Revenue to GDP



Source: Ho (1979: 40)

industrial take-off, we find that the extractive capacity of Hong Kong was even lower than that of Singapore (see Table 2). So the state's limited financial capability to intervene in the economy was not simply a result of economic conditions, as both Hong Kong and Singapore were small and extremely open economies, and highly dependent on foreign trade, even more so for Singapore.

**Table 2** Share of State Revenue in GDP, Hong Kong and Singapore (%)

Year	Hong Kong	Year	Singapore
1950/51-1954/55	12.7	1960-65	16.4
1954/55-1959/60	13.9	1966-70	20.2

Sources: Hong Kong data from Ho (1979), Singapore data from Department of Statistics (1983).

As mentioned, the principle of self-support and balanced budgets had been institutionalized in Hong Kong during the century-long bargaining between the colonial state elites and the local bourgeoisie and reinforced by the colonial control exercised by the British government. During the postwar period of industrialization, the same principle was still guiding the budgetary policy of Hong Kong. The colonial state 'follows a fiscal policy intended to avoid sustained or systematic deficits and, if possible, accumulate reserves that permit sustained government expenditure over a long recession without serious cutbacks, and, in the process, earn interest to meet recurrent expenses' (Rabushka 1979, p. 51). Due to its limited financial capacity, the colonial state's intervention in the economy was limited to a similar extent. Throughout the 1950s and the 1960s, state expenditure was kept below 17 percent. The lid on the extent of state spending was certainly a consequence of the state's own meager command of resources. As a result, public spending was kept below revenue for all except three years during the two decades of industrialization (see Figure

1). During the 1950s, state expenditure stayed at an annual average of 11.6 percent of GDP, with a comfortable margin below the 13.3 percent share of GDP in state revenue.

The attitude of living within one's means was institutionalized into formal and informal procedures in the formulation of economic policies, among which the practice of preparing revenue estimates before expenditure estimates. As the Financial Secretary justified this in terms of the financial constraints imposed on public finances:

Sir, I am sure honorable Members will have noticed that both Sir John Cowperthwaite and Mr. Clarke [Financial Secretaries of the 1960s and 1970s respectively] always dealt with the revenue estimates before the expenditure estimates and for obvious reasons: in our circumstances, there are severe limits to the range of indirect taxes which can be imposed (e.g., a customs tariff such an important revenue raised elsewhere, would be quite inappropriate in our circumstances); and there are severe limits also to the marginal rate of direct taxation. By and large, therefore, we must fit public expenditure to available public resources and not extend those resources to fit expenditure. (*Hong Kong Hansard* 1972, p. 247)

The colonial state not only spent within the resources at its disposal, but it also typically spent less than what it had, as indicated by the substantial budget surpluses in the 1950s and the 1960s; the rationale being that due to the absence of state control of the currency, reserves provided the sole means at the disposal of the state of financing a deficit. The state was well aware that, due to the narrow tax base and the dependency of corporate profits on world market situations, state revenues would be extremely sensitive to declines in business activity. Therefore, under severe financial constraint, Hong Kong's colonial bureaucrats were inclined towards 'hoarding' official reserves for rainy days.

A disaggregated view of public spending can further illustrate how the colonial state behaved under financial stringency. Table 3 classifies government expenditure by broad functional

categories in the 1950s and the 1960s. It shows that, under the budgetary constraint, the colonial state had been able to allocate only a relatively small portion of the annual expenditure to providing services to the economy. Expenditure for 'economic services' in a narrow sense accounted for 12.4 percent in 1950/51 to 1954/55, and increased gradually to about 14 percent in the second half of the 1950s. During the 1960s, its rate of growth lagged behind of that of the total expenditure. Consequently, economic services accounted for only 8.7 percent and 9.5 percent during the periods of 1960/61 to 1964/65 and 1965/66 to 1969/70 respectively. Besides economic services, expenditure on community services can also be regarded as another form of public spending to assist capital accumulation, since it included mainly government spending on roads, land reclamation and water works. Expenditure on community services increased consistently in the 1950s and the 1960s, testifying to the colonial state's effort to support private entrepreneurship. Yet such assistance did not depart from *laissez-faire*, since infrastructural constructions did not involve any microeconomic intervention by the state, and it facilitated the smooth functioning of the economy without directing resources to a particular sector or firm.<sup>39</sup>

**Table 3** State Expenditure by Function<sup>a</sup> as Percentage of Total Expenditure and GDP in Hong Kong, 1950-1969

		1950-54	1955-59	1960-64	1965-69
General services	A <sup>b</sup>	24.9	19.0	15.9	18.0
	B	2.5	2.5	2.6	2.7
Economic services	A	12.4	14.1	8.7	9.5
	B	1.2	1.9	1.4	1.4
Community services	A	15.3	18.3	28.1	23.8
	B	1.5	2.5	4.7	3.6
Social services	A	23.1	33.4	38.2	38.3
	B	2.3	4.5	6.4	5.1
Others	A	24.3	15.2	9.2	10.4
	B	2.3	2.0	1.6	1.5

- Notes: (a) 'General services' include administration, law and order, defense, public relations, revenue collection and financial control; 'Economic services' include primary products, airport and harbor, commerce and industry, post office and railway; 'Community services' include transport, roads and civil engineering, water, fire services, amenities and related services; 'Social services' include education, medical and health, housing, social welfare, labor; 'Others' include common supporting services (government launches and dockyard, government printing, government supplies, building development and electrical and mechanical engineering), unallocable expenditure (government quarters, passages, telephones, telegrams, etc.), and other financial obligations (public debt, pensions and gratuities).
- (b) A = Percentage of total expenditure; B = Percentage of GDP.

Source: Ho (1979, p. 37).

Furthermore, given the small size of the state budget, a sizable share of it had to be devoted to the basic necessities of governance, leaving few resources for other functions. Particularly important

were the 'political' functions directly related to the maintenance of the colonial regime. In the 1950s and the 1960s, 'general services' and 'social services' sucked up more than half of the state budget. As a result, we can see that state expenditure on economic services typically accounted for less than 2 percent of GDP in the 1950s and the 1960s. Adding 'community services' and 'economic services' together, state expenditure on assisting capital accumulation still accounted for less than 4 percent in the 1950s and only for about 5.6 percent in the 1960s.

**Table 4** Breakdown of State Economic Expenditure in Hong Kong, 1952/53 to 1955/56

	% of economic expenditure	% of total expenditure
Public Works Department	56.8	17.6
Post Office	10.3	3.2
Marine Department	7.7	2.4
Civil Aviation	5.2	1.6
Store Department	5.2	1.6
Commerce & Industry Department	3.2	1.0
Agriculture, Fisheries & Forestry Department	2.3	0.7
Royal Observatory	1.0	0.3
Co-operatives & Marketing Department	1.3	0.4
Labor Department	0.6	0.2
Miscellaneous (including railway)	6.5	2.0
Total	100.1	31.0

Source: Szczepanik (1958, p. 149).

A further breakdown of state economic expenditures is shown in Table 4 in which a broader definition of economic expenditures is used to include those officially classified as community services. The broad definition yields a 31 percent share of

economic expenditure in total expenditure. But the bulk of this still had to be allocated to basic infrastructural construction, testified to by the overwhelming share for the Public Works Department, the Post Office and the Marine Department in all expenditures on economic services. Only a meager 3.2 percent of all government economic spending was given to the Commerce and Industry Department, the government's arm of industrial promotion.

Governmental borrowing might have been a possible means for the colonial state to finance expanded intervention in the economy. In a sense, other late-industrializing states borrowed extensively from the domestic banking system to finance their economic interventions. Unlike these cases, in Hong Kong private control over the financial system made borrowing from domestic sources difficult. The bankers would be willing to buy government bonds only if the state relaxed its regulations on reserve requirements and reclassified government debts as liquid assets (cf. Owen 1971, pp. 181-182). The result of this, however, would have been highly risky for the state, as the Financial Secretary reckoned:

Government's consent to its loans being treated as liquid assets would involve it in an obligation to discount or repurchase these loans on demand, should banks run short of liquidity for any reason — as they might under the very impetus of Government borrowing, and its effect on our balance of payments. To do this a government must be able to create money against the security of its own obligations, bluntly, to print it; and, as I have said many times, we cannot do that without getting into trouble very quickly. (*Hong Kong Hansard* 1966, p. 76)

The colonial state feared that government bond sales would generate substantial inflationary pressure on the economy, for the banking system would be able to expand its credit by a multiple of the value of the bond issue. An alternative, less inflationary channel of floating government loans was from foreign sources, which had the additional advantage of bearing lower interest rates and

easier terms than domestic loans. In the 1960s, the colonial state had tendered applications to borrow from the British government and from the World Bank and was unsuccessful in both cases. It failed partly because the demand among developing countries for multilateral official loans was simply too high; there were many poor applicants which looked more deserving in the eyes of the multilateral aid agencies. Another important factor was again related to the structural power of the local bourgeoisie. The Financial Secretary's statement on the problem of foreign borrowing revealed clearly the vicious cycle constraining the colonial state's financial capacity:

Now how do we plan to fill the gap between revenue and expenditure? Here I am in something of a dilemma. I am told by the taxpayer that taxes, in particular income taxes, should not be increased until we have borrowed, preferably from abroad. Foreign lenders on the other hand, particularly non-commercial ones, feel that they should not be asked to lend to us, when there are so many other needy clients in the world, until we have increased our taxes.... (*Hong Kong Hansard* 1962, p. 55; see also *Hong Kong Hansard* 1960, pp. 122-123)

So the hands of the state were tied even if it wanted to pursue an active industrial policy to change the pattern and speed of industrial development.

### The Origin and Structure of State-Capital Alliance

But did the state ever intend to pursue an active industrial policy? I shall argue that it did not, mainly due to its alliance with economically and politically powerful business interests. My contention is that the alliance, as I shall argue below, accounted for not only the state's reluctance to adopt a selective industrial policy, but also the state's support of private entrepreneurship in general. This approach, one that aims at providing *general* support to economic development rather than aiding the growth of industrial

sectors in particular, had been shaped by the particular pattern of alliance between the colonial state and the local bourgeoisie. The colonial state elite developed a close alliance with local bourgeoisie, especially its commercial and financial segments. Consequently, the state strived to build a favorable environment for capital accumulation in general. But due to the marginal position of the industrial bourgeoisie in the governing coalition, the state did not pursue an active industrial policy to aid industrial development. The purpose of this section is to delineate the evolution and contours of this particular configuration of state-capital alliance.

### *The Evolution of State-Capital Alliance*

In Hong Kong's early history as a Crown colony, the state and the merchant community had by no means been in perfect harmony. But in the course of the next century, a close alliance gradually emerged between the state elite and the local commercial and financial bourgeoisie. Hence by the time of industrialization in the 1950s, the state had a fundamental coalescence of interest with the bourgeoisie which prompted it to pursue policies assisting the development of private enterprises but at the same time to refrain from encroaching into resources controlled by private capitalists. Also due to the fact that merchants and bankers dominated the business community until the 1950s, they had a much closer relationship with the state elite than the industrialists. As a result, there was no special incentive or assistance directed towards the growth of domestic industries. The state was simply not motivated politically to attend to the sector-specific interests of the nascent industrial bourgeoisie. A historical sketch of the evolution of the state-capital business is thus necessary to highlight the fact that the political linkages between the state and the commercial and financial bourgeoisie had developed prior to the industrial take-off and constituted a crucial parameter of policy making in the 1950s.

In the earlier sections, we have discussed how attempts by the bourgeoisie to limit the power of the colonial state to tax and spend had led to conflicts between the two parties. These conflicts frequently had spilled off to involve wider issues that had touched upon the balance of power between the colonial state and the bourgeoisie. As Lethbridge comments:

The constitutional history of Hong Kong... was a battle between the commercial and business community to make Government move with the times in the interests of commerce and trade, and the attempt of Government to curb the hard-faced businessman, often of Scots ancestry, who refused to be soft-soaped by what he usually regarded as a supine administration too much in the pocket of the traditional Chinese. (1969, p. 80)

The relative recency of the colony in the nineteenth century and the absence of a clear *modus vivendi* between the state and the bourgeoisie always tempted both parties to attempt to redefine their relationship in their own favor. A typical example was the petition by the rate-payers in 1894 to the British government for changing the constitutional structure of Hong Kong (as described earlier).

Nevertheless, the twentieth century saw a more stable and amicable relationship between the colonial state and the local bourgeoisie. The first impetus to their reconciliation came from the increased cooptation of representatives from the merchant community into the state's decision-making machinery after the constitutional crisis of 1894. As already mentioned, the unofficial component of the Legco was broadened to make room for a new member from the Chinese merchant community, and the Exco was also opened up for the first time to two unofficial members. The first two unofficial members of the Exco were, of course, appointed from the ranks of big business.<sup>40</sup>

The resolution of this constitutional crisis resulted in a period of lasting peace and cooperation between the colonial state and the local British bourgeoisie. At about the same time, the colonial state also began to incorporate the Chinese bourgeoisie closer into

the colonial regime. A number of statutory bodies were established to this aim. Among them, the most important ones were the District Watch Committee, the Po Leung Kuk and the Tung Wah Hospitals. The District Watch Committee was established in 1891 to be the organ for both local law and order as well as the channeling of Chinese opinions.<sup>41</sup> Its significance in the community was greater than its narrow function indicated:

In reality, the Committee is the Chinese Executive Council of Hong Kong and is consulted on all matters affecting them. Candidates are suggested by the Chinese from among the most influential and wealthy men in the Colony but are appointed by the Governor.... Appointment is very eagerly sought after because of the great prestige attached to the office... the Chinese representatives upon the Executive and Legislative Councils are often selected from the District Watch Committee. (Mills 1942, p. 398)

The Po Leung Kuk and Tung Wah Hospitals were both charity organizations formed by prominent Chinese businessmen, and the organization of both was enshrined by the government in an ordinance.<sup>42</sup> As in the case of the District Watch Committee, the executive committees of the Po Leung Kuk and Tung Wah Hospitals were drawn mainly from the rich and famous in the Chinese community and overlapped a lot with the Chinese Chamber of Commerce. As pointed out by Scott, the effect of these reforms 'was to bring leaders of the Chinese community more directly into the mainstream of political life in the colony. Government chose to consult a wealthy elite who held positions on the important committees and boards' (1989, p. 64). The realignment of the Chinese bourgeoisie and the colonial state elite was gradual but unmistakable. By incorporating a number of prominent Chinese (mainly business) elite into the state-sanctioned institutions and by conferring honors on them, a symbiotic relationship began to take shape between the colonial administrators and the Chinese bourgeoisie. In the words of Lethbridge, these 'prominent Chinese were as much watchdogs for the Chinese community, and especially the

Chinese bourgeoisie, as guard dogs for the colonial Government' (1978, p. 121).

By the 1920s, the expatriate community was much more settled, and the interactions between the two protagonists had also become much more predictable and mutually supportive. According to one chronicle of the period, by the 1920s:

[Hong Kong] had been in existence as a British possession for close on eighty years, and the expatriate community had evolved its own values, rituals, and conventions, soon picked up by newcomers and passed on to successors.... By now the great business companies, once so agile and predatory, had acquired a portlier air — the air of Establishment.... Taipans no longer hissed at governors. (Morris 1985, p. 203)

In the two Councils, the opinions of the bourgeoisie were steadily consulted through a stream of councilors from their own ranks. For example, in examining the list of Exco unofficial members before the Second World War, we found that, save for a few lawyers, all the rest came from the major hong<sup>43</sup>. Jardine, in particular, supplied 9 of the 28 councilors (Endacott 1964, p. 250).

A common enemy, the working class, then drove the government and the bourgeoisie closer together. Following the 1911 Revolution in China, there was an upsurge of nationalism and social mobilization both in the mainland and the colony. In the colony, the nationalist sentiment was manifested in the formation of trade unions among the working classes. As a result, a course of labor unrest broke out in the 1920s.<sup>44</sup> This phase of heightened labor mobilization culminated into the Canton-Hong Kong General Strike of 1925. The General Strike started as a response to the May 30th Incident in Shanghai in which the protesting Chinese procession was shot at by police in the foreign concession. Subsequently, a wave of anti-imperialist agitation swept through China; the workers of Hong Kong also began to stage a general strike in June. When further killings by foreign troops of anti-imperialist protesters occurred in the foreign concession in Canton, some 100,000

workers walked out of Hong Kong and sought sanctuary in Canton (Chan 1975).

The General Strike was directed against both the colonial state and European capital in Hong Kong. The siege mentality prompted the local bourgeoisie and the government to band together in order to tide over the trouble. The colonial state called for cooperation between the public and private sectors to keep disruptions in trade and production to a minimum. Sensing the threat to their prosperity, local capitalists, Chinese and British alike, quickly rallied behind the colonial state. Some of them volunteered to do manual work, as 'Britons were found all over the place doing the most unlikely jobs' (Coates 1977, p. 93). To alleviate a run on the Chinese banks after the outbreak of the strike, Hong Kong Bank also offered loans to the Chinese banks on a guarantee by the state against any defaults (King 1987, p. 103; Chan-Lau 1990, p. 185).

The nationalistic overtones of the strikers apparently had little effect on Chinese business elites in Hong Kong. On the one hand, some 3,000 Western-educated and better-off Chinese residents volunteered to help run essential services (Coates 1977, p. 93). On the other, 'the District Watch Committee was hyper-active during these turbulent years and as keen to protect the European minority and thus help sustain the economy as were Europeans themselves' (Lethbridge 1978, p. 119). The wealthy Chinese merchants even went as far as raising money to fund a right-wing warlord in Guangdong in order to unseat the leftist Canton regime which supported the strikers (Chan-Lau 1990, p. 201). Although the attempted *coup d'état* turned out to be a complete failure, this showed clearly the loyalty of the Chinese bourgeoisie to the colonial and capitalist system.<sup>45</sup> Furthermore, prominent Chinese businessmen in Hong Kong were instrumental in ending the strike. At first, eight representatives were elected among prominent Chinese merchants in Hong Kong to be the middlemen between the colonial state and the strikers in Canton, and they even promised to pay a sum to the strikers for the termination of the strike. Though this did not end the strike immediately, their

efforts opened up the channels of negotiation between the colonial state and the Canton government.<sup>46</sup>

In the aftermath of the General Strike, as a reward to the loyalty and service of the Chinese bourgeoisie, the Governor appointed the first Chinese to the Exco. A speech in the Legco made by Sir Shouson Chow, the first Chinese Exco member, in support of an ordinance introduced to make political strikes illegal after the General Strike illustrated perfectly how class interest bonded the Chinese bourgeoisie in Hong Kong to the colonial regime:

It is this class of mischief makers... that this Bill is designed to deal with. Hong Kong is no place to them. We do not want Bolshevism or Communism. We cannot afford to have the economic and financial structure of the Colony periodically shaken or undermined. What we want are peace and good order, and the right to follow our callings without let or hindrance. (*Hong Kong Hansard* 1926, pp. 44-45)

### *The Postwar Consolidation of the State-Capital Alliance*

After the General Strike, an external threat to Hong Kong further strengthened the alliance between the colonial state and the local bourgeoisie — the Second World War. The Japanese attacked the British Colony on December 8, 1941. After a brief four-day battle, the British garrison stationed in Hong Kong was overpowered by the Japanese Army and forced to surrender. For three years and eight months until August 1945, Hong Kong was occupied and ruled as the 'Captured Territory of Hong Kong' by Japan.

Although some of the expatriates in Hong Kong had already been evacuated back to their homeland, a large number of civilians, mainly expatriates, and government officials who stayed behind were interned by the Japanese. During the three-and-a-half years of imprisonment, what remained of the social and status distance between the government officials and the taipans was finally eradicated, and the two parties had a rare chance of developing a sense of comradeship between themselves.<sup>47</sup> As one sociologist observes:

In Stanley internment camp, European businessmen, *pong-paan*<sup>48</sup> and Government officials lived cheek by jowl for over three-and-a-half years. They shared in common the cruel experiences and boredom of prison life, and developed from this enforced propinquity more neighbourly feelings than before the war. When these people were liberated in 1945 they had acquired an *esprit de corps*, the feeling of belonging to an exclusive club — a club of 'ex-Stanleyites'. (Lethbridge 1969, p. 125)

He went on to argue that these feelings 'were carried over into peacetime and led to a rapprochement after the war between some European businessmen and Government officials' (Lethbridge 1969, p. 125). The relationship between the state elite and the bourgeoisie became less formal and more at ease, reflected in the sense of cooperation between the official and unofficial members in the two Councils after the occupation. For example, Alexander Grantham, the new Governor coming to office in 1947, declared:

It is readily assumed that because there is a majority of officials the slightest wish of Government is 'steam-rolled' through this council. I am sure that no one knows better than the Unofficial Members that this is not so. The opinions of the Unofficial Members carry a great deal of weight; as they should, and it is rarely except in the matters of highest importance that the Official Majority is used. (*Hong Kong Hansard* 1947, p. 257)

The unofficial members that Graham was addressing, let us not forget, were mostly big capitalists.

On the Chinese side of the business community, after the Japanese surrender there were some anxieties among leading Chinese merchants about possible recrimination from the government for they had been pressured by the Japanese to collaborate with the occupation authority. However, the reconciliation between the colonial state and the Chinese bourgeoisie quickly began with the British decision to prosecute as few Chinese as

possible (Lethbridge 1969, p. 121). The colonial state worried that a witch-hunt of collaborators would destabilize the society further during the rehabilitation period, and then colonial administration had to continue to rely on the cooperation of the Chinese elites (Donnison 1956, p. 4). Prominent Chinese businessmen were duly appointed to the re-inaugurated Legco and Exco.

Another key issue after the war was the rehabilitation of the economy. Only by putting people back to work could social and political stability be maintained in the chaotic aftermath of the war. On this account, the support and cooperation of the bourgeoisie were indispensable to the colonial state. The government did impose some regulations on commodities prices and install a ration system, the first time in a century of the colony's history, but much of the economic activities was still conducted in the private sector (Donnison 1956, pp. 254, 258). In particular, most public utilities and much of the basic infrastructure were in private hands. Without the supply of electricity and gas, or bus and tram services, or wharves and godowns, there was little hope for the colony to thrive again. Many of the utilities could not function due to lack of maintenance while some of the machines had been shipped to Japan. Thus in order to encourage the utility companies to recover their production, the colonial state had to give favorable treatment to these firms:

[T]he public utility companies were supposed to function under the general supervision of Government. In fact, their board of directors were allowed to run things by themselves and Government control was only nominal; their shareholders were safeguarded by the Government's agreement to meet any losses and pay a fair rent for the use of the companies' property and plant. (Lethbridge 1969, p. 125)

The financial bourgeoisie also played a leading role in the process of rehabilitation. For example, the banks cooperated with the government to advance loans for the purpose of rebuilding private war-damaged properties.<sup>49</sup> In particular, Hong Kong Bank was most active in providing funds for rehabilitation. Public utili-

ties, for instance, were able to purchase new equipments from overseas with huge advances from the Bank, even without any collateral (Collis 1965, pp. 240-241; see also Cameron 1982, p. 157). In return for the Bank's assistance, the government also helped it to recover from war damages.<sup>50</sup> The official appreciation of the Bank's contribution to the rehabilitation of the economy can be seen from Alexander Grantham's, the Governor from 1947 to 1957, lavish applause of Arthur Morse, the Chief Manager of Hong Kong Bank in the late 1940s, in his memoir:

Morse's guiding thought seemed to be 'what is good for the Colony is good for the Bank: the Colony came first'.... Fully comprehending the Hong Kong situation and pragmatic in his approach, Morse had little patience with economic theorists and by one short word would dismiss their more fanciful theses. Not only did he give much of his time to public affairs in the accepted sense of the term but, by authorizing loans from the Bank on practically no security, he saved more than one humble club from disaster. (Grantham 1965, pp. 102-103)

Thus, a close working relationship and interdependence were developed between the colonial state and big business in rehabilitating the damages of war. Lethbridge's observation best captures this process of the consolidation of state-capital alliance:

Government found itself in such a position in 1945 that it was forced to prop up the business community and ensure its group survival. Many of the Hong Kong notables benefitted from this policy — and no doubt felt gratitude, or at least less antagonism, toward the Administration, one that now saw eye to eye with them on many things and was prepared to guarantee, or provide existence as a status group. The prominent Chinese had come into their own and had found their credentials endorsed by a Government that desperately needed them, that sought their loyalty. *This then, was the start of a process that drew Government and business more closely together than had been the case pre-war.* (1969, p. 125; emphasis added)

Grantham also described the relationship of government officers and 'leading members of the Chinese and European communities' in this period as a 'remarkable team', which 'led to rehabilitation from the war being speedier in Hong Kong than in most other war-devastated areas'. Perhaps as a further indication of the trust of the government for the bourgeoisie, he added that in the process of rehabilitation, 'private enterprise was given its head, and, with the profit motive to spur it on, did a magnificent job' (Grantham 1965, p. 103). It was this trust and sense of cooperation that subsequently laid the foundation of the distinctive policy approach that gave the private sector the maximum freedom in making business decisions.

### *The Institutional Framework of State-Business Alliance*

In postwar Hong Kong, the sense of comradeship generated by the wartime ordeals and the postwar rehabilitation was not the only foundation of the coalition between the colonial state elites and local (British and Chinese) big business. At the same time, an institutional framework was already in place to allow the bourgeoisie to participate in the policy-making processes and to facilitate information to flow from the private sector to the state machinery. This section will demonstrate how this institutional framework had developed as a result of the alignment between the state and the bourgeoisie, and how it worked to facilitate exchanges between the state elite and big business in the commercial and financial sector during the critical period of industrial take-off of the 1950s.

The Exco and Legco referred to earlier were the principal institutional channel through which bourgeois representatives were coopted into the governmental machinery. As shown in Table 5, as in other British overseas possessions, these Councils were composed of a mixture of official and unofficial members appointed by the colonial state. By the constitution of the colony, the Governor is required 'to consult the Council in all cases except where the matter is urgent, trivial, or highly confidential' (Miners

1986, p. 80). In effect, the Governor-in-Council is the highest executive authority of the Colony. Theoretically, the Governor can act contrary to the views of the Council, provided that he explains to the Secretary of State at the earliest opportunity. But in reality, the Governor rarely opposed the majority views of the Exco, especially in the case of a consensus among the unofficial members (Miners 1986, p. 80). The Exco unofficials often have a long tenure of service and so can sometimes claim to have more experience with local situations than the officials or the Governors.

The Legco is the supreme law-making authority for Hong Kong. All bills, normally drafted and proposed by the administration, have to be submitted to the Legco to be debated, amended where necessary, and passed as legislation. Formally, however, all ordinances are enacted by the Governor 'with the advice and consent of the Legco', and the Crown reserves the final right to disallow any ordinance through the Secretary of State (Endacott 1964, p. 213). The Legco also has an official and an unofficial component, with all the unofficial members appointed by the Governor for a term of four years. Until the 1970s, the General Chamber of Commerce and the Justices of Peace had the customary right to elect respectively two representatives to the Legco (Endacott 1964, p. 215). Before 1964, official members had a majority in the Legco, but thereafter until the 1980s the number of unofficial ones was the same as that of officials (see Table 5). As in the case of the Exco, it is commonly believed that the opinions of the unofficial members have been highly respected, and that the government seldom acts contrary to the consensus of the unofficial members (cf. Miners 1986; Endacott 1964). Even though an official majority (with a tie-breaking vote by the Governor) had existed until the 1980s, it had rarely been mobilized to defeat a united opposition from the unofficial members (Miners 1986, p. 123).

**Table 5** Composition of the Exco and Legco, 1845-1964

Year	Officials (including the Governor)	Unofficials	Total
Executive Council			
1845	3	0	3
1896	6	2	8
1926	6	3	9
1946	7	4	11
1948	6	6	12
Legislative Council			
1850	3	2	5
1896	7	6	13
1929	9	8	17
1946	9	7	16
1951	9	8	17
1964	13	13	26

Sources: Endacott (1964, p. 249); Miners (1986, p. 124).

The argument that the two Councils were a crucial institutional nexus between the state elites and the top layer of the local bourgeoisie both before and during the postwar industrialization can be borne out by an examination of the social backgrounds of the unofficial members. As Tables 6 and 7 indicate, almost all of the Exco's and Legco's unofficial members in 1951 (when the Korean War Embargo, the prelude to industrialization, began) and in 1961 (when the value of domestic manufacturing exports exceeded entrepot trade) were successful business proprietors or executives, and this had been the modal pattern from the late nineteenth century right to the 1980s. They were either chief executives of the most prestigious merchant hongts in Hong Kong, owners or chief executives of the major local banks, or directors of major public utilities companies. Most of them were also directors

of a handful of other companies besides their main occupations. Some, like J.D. Clague, who was holding 32 directorships, and G.M. Goldsack, with 20 directorships, must be considered among the most important representatives of the business community. Jardine was not represented in the 1951 Councils, but in 1961, its chairman was in the Legco. The representatives from Hong Kong Bank became important figures in the two Councils, as the Bank's chairman was appointed to the Exco in 1951 while its chief manager was in 1961. More revealing was that, during a leave of absence of M. Turner, the chief manager of Hong Kong Bank in 1961, his deputy at the Bank, G.O.W. Stewart was duly appointed temporarily to take his place (*Hong Kong Annual Report* 1962, p. 443). As in the pre-war period, it was an unwritten code that the major hongts and Hong Kong Bank had to be represented in the two Councils.

Some of the Chinese unofficial members had a professional background as doctors or solicitors. But at the same time they were also successful business proprietors and had stakes in many major companies.<sup>51</sup> In the 1961 session of the two Councils, we also notice that alongside the largest British bank, Hong Kong Bank, the largest local Chinese bank, East Asia Bank, also had representatives in the Legco. To gauge the connections of the unofficial members to the top echelon of the local bourgeoisie, we can juxtapose the list of unofficial members in 1961 to the list of directors of the listed companies in 1960, undoubtedly the largest and most influential corporations in the colony. As Table 8 shows, 10 out of 14 of the Exco and Legco unofficial members in 1961 were also directors of one or more listed companies.<sup>52</sup> Some, like H.D. Barton, J.D. Clague, G.M. Goldsack, and Lo Man Wai, had stakes in 8 to 10 companies out of a total of 52. These people might not have been the richest men in the colony, but they undoubtedly represented a fair sample of the most important sectors and firms in the economy: trading, banking, public utilities, and real estate.

**Table 6** Occupational Background of Unofficial Members of the Exco and Legco, 1951

Name	Council membership <sup>a</sup>	Principal occupation	Number of directorships
Benson, D.	E	Manager, Mercantile Bank of India	0
Cassidy, P.S.	E,L	Managing director, John D. Hutchinson & Co., Ltd.	9
D'Almada, E Castro	E,L	Barrister, financier	1
Lo, Man Wai	E,L	Solicitor, construction	1
Lo, Man Kam	E	Solicitor and proprietor	11
Morse, A.	E	Chairman, Hong Kong Bank	0
Terry, C.E.M.	L	Manager, HK & Kowloon Wharf & Godown Co., 'Star' Ferry Co., Ltd.	0
Watson, M.M.	L	Solicitor, shipping	7
Chau, Tsun Nin	E,L	Barrister, public utilities	4
Chau, Sik Nin	E,L	Medical practitioner, public utilities	2

<sup>a</sup> E = Exco, L = Legco.Source: *Hong Kong Directory* 1951.**Table 7** Occupational Background of Unofficial Members of Exco and Legco, 1961

Name	Council membership <sup>a</sup>	Principal occupation	Number of directorships
Chau, Sik Nin	E	Founder chairman, The Hong Kong Chinese Bank	10
Barton, H.D.M.	L	Chairman, Jardine, Matheson & Co., Ltd., The HK Land Investment & Agency Co., Ltd.	13
Clague, J.D.	E	Director, John D. Hutchinson & Co.	32
Fung, Ping Fun	L	Director, The Bank of East Asia Ltd.	12
Goldsack, G.M.	L	Director, Dodwell & Co., Ltd.	20
Kwan, Cho Yiu	E,L	Solicitor, real estate	4
Kwok, Chan	L	Vice-chairman, Hang Seng Bank Ltd.	3
Lee, Richard Charles	E,L	Director, Lee Hysan Estate Co., Ltd.	11
Lo, Man Wai	E	Solicitor, proprietor	8
Ngan, Shing Kwan	E,L	Managing director, China Motor Bus Co., Ltd.	1
Rodrigues, A.M.	E	Senior medical officer	0
Ruttonjee, D.J.	L	Manager, Dhun Ruttonjee & Co. (trading)	0
Terry, C.E.M.	E	Chairman, The HK Home-Building & Investment Co., Ltd	3
Turner, M.W.	E	Chief manager, Hong Kong Bank	1
Stewart, G.O.W.	E	Chief manager, Hong Kong Bank	1

<sup>a</sup> E = Exco, L = Legco.Source: *Hong Kong Directory* 1961.

**Table 8** Directorships held by Exco and Legco Unofficial Members in 52 Listed Companies, 1961

Name of unofficial	Number of directorships
Chau, Sik Nin	10
Barton, H.D.M.	9
Clague, J.D.	4
Fung, Ping Fun	8
Goldsack, G.M.	8
Kwan, Cho Yiu	1
Kwok, Chan	3
Lee, Richard Charles	6
Lo, Man Wai	9
Ngan, Shing Kwan	0
Rodrigues, A.M.	0
Ruttonjee, D.J.	0
Stewart, G.O.W.	1
Terry, C.E.M.	0
Turner, M.W.	1

Source: See The Standard Press (1961).

The Legco and the Exco were not the only institutional linkages between the state elites and the bourgeoisie. From the late nineteenth century, the colonial state had designed a number of institutions to 'absorb' Chinese and British social elites into the colonial power structure and to channel their opinions and aspirations into the administration. First and foremost was the system of installing advisory bodies to assist the colonial state's day-to-day administration. In 1962, for example, there were 67 advisory 'Councils, Boards and Committees'. They were statutory bodies with their membership wholly or partly determined by a specific ordinance or appointed by the Governor to advise the head of a department (Endacott 1964, p. 235).

Reflecting the need for more state-business exchanges in the course of industrialization, two new advisory boards were established in the 1960s specifically for the purpose of advising the government on industrial matters: the Trade and Industry Advisory Board advising the Director of Commerce and Industry, and the Cotton Advisory Board. In the word of T.D. Sorby, the Director of Commerce and Industry, the Trade and Industry Advisory Board 'advises the Director on all matters, other than labor, which affect the Colony's trade and industry' (1968, p. 36). In 1961, it consisted of the Director of Commerce and Industry, and 9 unofficial members including 2 hong merchants, 3 industrialists, and 2 bankers. The Cotton Advisory Board was established in 1961 mainly to advise the Director of Commerce and Industry on how to meet the rising tide of protectionism in the United States and the United Kingdom.

The proceedings of these two boards were *in camera*, and this enabled the business elite to voice their demands and opinions without any fear of unfavorable public scrutiny. Such a system of intensive consultation with business elites worked particularly well in Hong Kong, according to the Director of Commerce, for Hong Kong's small size and the geographical concentration of business activity 'makes it possible for the Administration to rely much more heavily on advice from boards such as those mentioned above than is usual in some large countries' (Sorby 1968, p. 37).

In the literature on the state-business relationship, it has also been pointed out that, other things being equal, public-private cooperation would be facilitated by a concentrated rather than a dispersed private sector. For example, Katzenstein (1978) has pointed to the higher degree of business centralization in Japan and Germany that has facilitated the formation of a close state-business coalition. A stable and efficient pattern of interactions between the state and business would be difficult to create and maintain if the private sector happens to be highly decentralized. There would be too many people to consult, and a consensus would be difficult to obtain. In the case of Hong Kong, state

consultations with business are also facilitated by the high concentration in the top layer of the economy, as we have discussed earlier regarding the structure of the postwar bourgeoisie. This point is also recognized by the Director of Commerce and Industry, as he states:

[Concentration of the private sector] makes it inevitable that members of the boards will also be prominent in leading commercial and industrial organizations so that, even if appointed in a personal capacity, they can reflect accurately the thinking of organizations with which they are associated. (Sorby 1968, p. 37)

As a manifestation of the underlying state-business alliance, besides these two boards directly related to economic policy, business elite in the early postwar decades were also disproportionately represented in other advisory boards and councils on a wide gamut of policy issues. Other voluntary organizations in the Chinese community, such as the Tung Wah and Po Leung Kuk mentioned earlier, managed mainly by prominent businessmen, were also developed from the late nineteenth century to become the key administrative arm and consultative forum of the colonial state.<sup>53</sup>

### *State-Business Alliance and the Power Structure*

As a result of the development of this dense corporate network prior to industrialization, a state-business symbiosis in the true sense of the word existed in the postwar industrial take-off in Hong Kong. As a high-level bureaucrat admitted:

From the highest levels of the Administration to the lowest, the Government is accustomed to working in close contact with business interests, irrespective of race or community. The unofficial members of both the Governor's Executive Council and his Legislative Council are, in large part, businessmen in the broadest sense and this has been so for a hundred years. Both this continuity and the substantial business representation in the Government's councils have had their critics, but

the system has insured that the Administration has never developed policies inimical to business interests; and equally, has stimulated the growth of a responsible attitude on the part of business to the social and other responsibilities of the Administration. (Sorby 1968, p. 36)

Consequently, Hong Kong's power structure has been characterized as the domination by a small group of power elites comprised of high level colonial bureaucrats, and big business elites, both Chinese and European (Davies 1977; Leung 1990). It has also been argued that this power bloc was characterized by a fundamental convergence in interest, and a commitment to the maintenance of the colonial capitalist regime in Hong Kong. For example, John Rear points out that the foundation of the 'tacit alliance' between the British officials and the Chinese business community lies in 'a very strong common interest in public order and the economic stability which goes with it', while the British business community supports this alliance because it 'has both a nationalistic and a financial interest in the preservation of the colonial system' (1971, p. 79).

Nevertheless, two additional points need to be noted about the state-business alliance in Hong Kong. Firstly, the existence of an alliance between the state elite and the business elite did not amount to bourgeois control of the state. Secondly, different segments of the bourgeoisie had different relation to the state elites, and it was the large scale financial and commercial bourgeoisie that had the best access to the reins of power. As we shall see, both of these points had important ramifications for the formulation of a development strategy in the 1950s.

### *The Relative Autonomy of the Colonial State*

Our discussion of the confluence of interests between the state elite and capitalist class does not lend itself to an 'instrumentalist' interpretation of the state in Hong Kong. The vulgar conception of Hong Kong as being ruled by the Jockey Club, Jardine and Matheson, Hong Kong Bank, and the Governor in that order has never been an apt description of Hong Kong's power structure.<sup>54</sup> In the

formal institutional sense, the colonial bureaucracy of Hong Kong was highly autonomous, and it was not accountable to the society nor to any particular interest groups in it. The Governor had the power to make all decisions, and in the last analysis, his power flowed from British government. To paraphrase Miliband (1977), the Hong Kong colonial state was acting in the interest of the bourgeoisie, but not at the behest of it.

The colonial state therefore enjoyed considerable autonomy vis-à-vis the local bourgeoisie. When there was a major conflict of interest between the bourgeoisie and the state elite, the latter would not hesitate to push for its theoretically absolute power to override the demands of the former. For example, in spite of the bourgeoisie's insistent demands for constitutional reform and 'home rule' in Hong Kong, the colonial bureaucracy, jealously guarding its own control over the reins of power, was willing to open up only in a very limited way the decision-making arena to the merchants. Another incessant bone of contention between the colonial state and the local bourgeoisie was Hong Kong's contribution to the cost of British military stations in Hong Kong. Since this touched the nerve of British colonial interest, the colonial state, pressed by the home government, was quite unable to resist the British demand for military contributions in face of business opposition.<sup>55</sup>

On the other hand, we should not stretch this autonomy much and picture the Hong Kong colonial state as a Leviathan standing aloof above the social cleavages of the civil society (cf. Lau 1982). The points of collusion and convergence in interest between the state elite and the bourgeoisie have been too numerous to sustain such an interpretation of the power structure in Hong Kong. There is no point of speaking of an autonomous state when its actions were found regularly consistent with the interests of a particular segment of the society but not of others.<sup>56</sup> The capitalist class certainly did not rule over Hong Kong directly,<sup>57</sup> but the fact is that economic resources concentrated in the hands of this class constituted a critical context with which the state had to reckon in formulating and implementing policies (Leung 1990; cf. Block

1977). The important point, therefore, is not who controlled whom, but that the interests of the state elite and the financial and commercial bourgeoisie were largely in unison.

The broad confluence of interests between the state elites and the bourgeoisie contributed to an overall policy of supporting private entrepreneurship. The Hong Kong government had indeed strived, within the limits of its capacity, to provide a most favorable environment for the bourgeoisie to make profits. Nevertheless, the colonial state also possessed enough relative autonomy to resist undue demands that benefitted only small segments of the business community at the expense of others. This was true in particular concerning the state's relationship to the local industrial bourgeoisie, since it was the latter which demanded special assistance to promote the manufacturing industries.

#### **The Marginal Position of Industrialists in the Power Structure**

The state's ability to fend off industrialists' calls for special aid was a result of the particular configuration of the state-business alliance. In my earlier discussion of the historical process of class formation in Hong Kong, I have outlined the structure and origin of the local capitalist class. As a consequence of the specific pattern of colonial socio-economic development in Hong Kong, a small group of financial and commercial bourgeoisie emerged to become the dominant segment of the bourgeoisie after the Second World War. The major hongks, the banks, the public utilities, and the large real estate developers emerged from the war to become the most prominent business corporations in Hong Kong.

Although there had been considerable development in the manufacturing industry during the inter-war period, it had still occupied a minor though not insignificant position in the economy. On the eve of the explosive growth in industry, most of the existing manufacturing firms tended to be small and under-capitalized. For example, only 0.4 percent of manufacturing firms hired more than 1,000 workers in 1951 (Commissioner for Labour 1952). Furthermore, only 9 out of the 52 publicly listed companies in 1960 were in manufacturing. Though they were undoubtedly

the largest manufacturing firms in the colony, the sum of their paid-up capital was only 6.9 percent of the total market capitalization, and their total profits only 7.4 percent of all listed firms.<sup>58</sup> Moreover, they were all subsidiaries of the major hong, as the hong merchants were found among their board chairmen and directors. Many of them were legacies of the hong's manufacturing activities catering to support trading, such as the dockyards.<sup>59</sup> Of the new generation of industrialists profiting from the postwar boom in export manufacturing, only those textile mills set up by refugee entrepreneurs from Shanghai were of larger scale.<sup>60</sup> Yet the Shanghai industrialists' recent immigrant status implied that they generally lacked the political clout of the more established hong and prominent Cantonese families. S.L. Wong's research revealed that they typically expressed 'resignation and cynicism' in their attitude towards politics (1988, p. 90).<sup>61</sup>

An indicator of the distance between the industrial bourgeoisie and the center of state power can be found in the composition of unofficial members in the two Councils. The colonial state's appointment of the unofficial members to the Legco and the Exco had always been made from the most important and powerful capitalists in the economy. As Tables 6 and 7 above show, none of the unofficial members in the Legco and the Exco in 1951 was an industrialist, nor was anyone in the 1961 cohort. As mentioned, most of the unofficial councilors were hong merchants, bankers, proprietors of major public utilities companies, and property magnates. The first unofficial member of the Legco coming from the manufacturing sector was not appointed until 1964, and the Exco had to wait until 1972 for its first industrialist unofficial.<sup>62</sup> Throughout most of the 1950s and early 1960s, when Hong Kong's export-oriented industrialization came to an explosive start, the industrial bourgeoisie was not represented at all in the top decision-making arena. Though there was some cooperation between the Chinese Manufacturers' Association (CMA), the only industrial association in the 1950s, and the colonial state, the former did not have institutionalized access to the power center. On occasions when the CMA and industrialists protested their lack of

representation in the two Councils, such 'noises' were typically ignored by the colonial state.<sup>63</sup>

If the interests of industrial and commercial-financial bourgeoisie were consonant, it did not matter who was connected to the state and who was not. If the interests of industrial capital and commercial capital converged, either one of them could be expected to speak for the class as a whole. The case of Hong Kong was different. Similar to the case of Britain, there was an 'institutional separation of finance and industry' in postwar Hong Kong (cf. Ingham 1984). In Hong Kong, as in Britain, there were few institutional linkages between the financial system and the manufacturing sector. In the first place, the development of the manufacturing sector was quite autonomous of the financial system and the established big merchant houses. Although the early development of trade had been advantageous to the later development in export manufacturing, the hong had not been actively involved in the marketing of Hong Kong's manufactured products abroad. Instead, the smaller Chinese and some Indian import-export traders were the principal agents acting as middlemen between the manufacturers and the foreign buyers. Throughout the 1950s, for example, the biggest market for Hong Kong products was the Southeast Asian countries, and it was the small Chinese trading firms that handled these markets with their connections to the overseas Chinese in the region.

On the other hand, the local banks, the most important agents in the financial system, originated mainly from handling foreign exchange involved in trade along the South China coast. 'The banks of the Colony have therefore been pre-eminently foreign exchange banks which also performed the ordinary functions of domestic banking' (Mills 1942, p. 450). Consequently:

By long tradition banks in Hongkong tend to remain highly liquid and to view with disfavour long term commitments; a view influenced by their interest in commerce and exchange as built up over the years and by their acceptance of British banking practices; and

British bankers have always regarded with suspicion portfolio or long term investment. (Davies 1958, p. 129)

Even by the 1950s, their principal activities were the mediation of foreign trade and domestic commercial activities, including the financing of the lucrative real estate business. Local banks, as good commercial banks, followed the traditional golden rule of 'borrow short, lend short' and loans to foreign and domestic trade were favored over the manufacturing sector since trading loans were normally self-liquidating and lucrative.<sup>64</sup> A writer described the relationship between the banks and the manufacturing sector candidly as follows:

It is, for example, difficult if not impossible for an industrialist to obtain long-term credit from any bank, whether foreign or local. Industrial loans here are arranged on a short-term basis, renewable at maturity. Such agreements do not guarantee renewal, which remains at the discretion of the loan officer. As the officer who originally approved the loan may no longer be in office at the time of maturity, and as his successor may view the matter in a different light, there exists a very real possibility that the loan may not be renewed. (Chen 1965, p. 470)<sup>65</sup>

That the vast majority of manufacturing firms in Hong Kong remained small in size and undercapitalized, as described earlier, was both a cause and an effect of this 'separation of finance and industry'. Finance for both the setting up and expansion of manufacturing firms was extremely difficult to obtain from the financial system, and the proprietors had to rest content with whatever amount of money they had in hand or could borrow from friends and relatives. As a result, the degree of self-financing in Hong Kong industry was described as 'abnormally high' (Economist Intelligence Unit 1962, p. 16) The resultant financial bottleneck necessarily limited the scale and expansion of manufacturing firms.

The limited scale of industrial capital, its institutional distance from the dominant segment of the bourgeoisie, and its limited

access to the center of power made its quest for a more active industrial policy to assist the development of the local manufacturing sector most difficult. It was most difficult for the industrial bourgeoisie to mobilize allies in support of an alternative development strategy, and easier for the state elites to ignore or neutralize the industrialists' demands. The financial-trading complex shared broadly similar class interests with the industrial bourgeoisie, but they certainly disliked the idea of giving special aid to the development of manufacturing industries. This was the case, in particular, if the prospective change in industrial policy would mean an encroachment on their own prerogatives and a change in the existing power structure of the Colony's marketplace.

#### *State-Business Alliance and Laissez-Faire*

Finally, the state's *laissez-faire* stance was also reinforced by the close state-business alliance. The state elite had no great political incentive to increase its financial capacity and hence increase its leverage in the economy. The government's rejection of new taxes in 1962, for example, showed a great degree of trust for the private sector:

Enterprise in Hong Kong has a good record of productive re-investment and I have a keen realization of the importance of not withdrawing capital from the private sector of the economy, particularly when it is responsible for an important part of the public services. I am confident, however old-fashioned this may sound, that funds left in the hands of the public will come into the Exchequer with interest at the time in the future when we need them. I therefore do not propose that the standard rate of Earnings and Profits Tax be increased this year.<sup>66</sup>

Since the government had developed a close partnership with the bourgeoisie in transforming Hong Kong from a barren island to arguably one of the most prosperous cities in the Far East, the state was not in a hurry to displace private businessmen from the center stage of industrialization in the postwar decades. The polit-

ical interest of the local bourgeoisie and the state elite was largely coincident; both were anxious to maintain the colonial system and to generate a reasonable level of economic growth. It was no surprise that the Financial Secretary for the 1960s would express such great faith in the market allocation of resources:

For I still believe that, in the long run, the aggregate of the decisions of individual businessmen, exercising individual judgment in a free economy, even if often mistaken, is likely to do less harm than the centralized decisions of a Government; and certainly the harm is likely to be counteracted faster.... It has to be recognized, and it is recognized over a large part of our daily life, that the community's scarce economic resources can be efficiently allocated only by the price mechanism. (*Hong Kong Hansard* 1966, pp. 216, 218)

The close state-business alliance, therefore, was also contributory to the two key features in the colonial state's economic policy: first, the maintenance of a favorable environment for business, providing it with all those services and facilities without which private capital accumulation would be frustrated; second, to give businessmen as much freedom as possible, and not to distort the environment for private managerial decisions.

The specific composition of the governing coalition also reinforced the *laissez-faire* approach to industrial development in the early postwar years. Since industrialists were excluded from the power structure, the state felt no compelling reason to alter the existing approach to the economy. To actively promote industrialization, the state would have had to first enhance its own capacities to change market behaviors. This would have meant a higher level of resources extraction from the economy, running into direct confrontation with the major resources controllers — the financial and commercial bourgeoisie. With the later as the staunch allies of the colonial regime, and the nascent industrial sector only a marginal member of the governing coalition, an activist industrial policy would have punished the state's allies and rewarded an insignificant actor in the polity.

## Of Land and Money: An Alternative Denied

So far we have characterized the political and structural basis for the *laissez-faire* development strategies of Hong Kong during its industrialization as a low-level state capacity and a high-level state-capital alliance. To further unravel the complex relations between state capacity, state-capital alliance and state policies, I shall substantiate my argument by examining two key policy debates in the 1950s concerning industrial development: the provision of land and financial assistance to the nascent manufacturing industry. In both cases, there were demands for more state intervention in industrialization, and the state elite was presented with an opportunity to forge an alternative development strategy prescribing a more active role for the colonial state. Yet the alternative never materialized. The combined weight of the state's financial constraint and the composition of the governing coalition tilted the balance against the emergence of a *dirigiste* industrial strategy.

Indeed, in the 1950s, the nascent manufacturing sector lobbied intensely for state assistance in industrial development. It was no accident that the two issues of industrial land and finance became the most important policy debates of the 1950s. Of the important factors of industrial production, labor power was not a problem as there was a massive inflow of refugees from mainland China. Entrepreneurship was not lacking either, since many of the new immigrants had had industrial experience before and were willing to mobilize personal resources to exploit the new opportunities in Hong Kong to 'become one's own boss'. Industrialists were particularly concerned to press for state intervention in two areas: land and finance.

### *Limited Assistance: The Provision of Industrial Land*

When the manufacturing industries began to take-off in the early 1950s, industrialists quickly realized how limited was the supply

of land in Hong Kong. The small area of the colony and the hilly nature of the urban area created a built-in scarcity of land for industry. Not only were new sites difficult to come by, but existing factories often found their rentals rising beyond their capability (Wong 1958). As early as 1953, the vice-president of the CMA had already suggested that industrial development in Hong Kong required an increase of state assistance to industries in terms of an expansion in the supply of industrial land:

Industrial expansion will require Government encouragement and help. I believe the time has come for Government to select a special territory to be developed as an industrial area — with the main aim of combatting the economic depression most likely to result from international trade pacts which by-pass Hong Kong, and the loss of the Colony's main source of prosperity as an entrepot. So much of our immediate future depends upon this that I am sure haphazard industrial development, without a central directing force, will be of little or no avail. (U 1953, pp. 144-145)

On another occasion, a number of leading industrialists, mostly associated with the CMA, also requested the state to help manufacturing firms to find suitable sites.<sup>67</sup> The colonial state was in a unique position to play this role, because all land was officially owned by the Crown,<sup>68</sup> and the cost of developing new sites, with the various logistics, was prohibitive to private developers.

The colonial state reacted favorably to the demands of industrialists. In a public speech delivered in 1953, the Governor stated that 'among many of the problems of local industry, site development is one of the most pressing'.<sup>69</sup> In the same speech, he announced the appointment of an inter-departmental committee, to be chaired by the Director of the Commerce and Industry Department, to investigate the forms and possibilities of state provision of industrial land. In late 1954, the state embarked on a massive project to develop industrial sites in the suburban township of Kwun Tong.

By 1956, when the reclamation work at Kwun Tong had already commenced, a debate surfaced over how to allocate land so

acquired to potential users. The colonial state announced that land in Kwun Tong was to be auctioned as was all other Crown land. But for lots developed there, payments could be paid in annual installments of 7, 14 or 20 years, at a concessionary interest rate of 5 percent per annum. Buyers could take possession of the lot sold by paying 10 percent of the land price and the first installment.<sup>70</sup>

Industrialists were quick to rise against this method of land sales. Their opposition was understandable:

Public auction means free competition. This method almost ensures that land price would be bidden up to the highest level the industrialists are able to afford. It is obvious that this allocation method at that time did not favour the small, or medium size factory owners because they possessed relatively less capital to obtain land. However, the owners of large-scale [sic] would also not prefer this method. Apparent enough, public auction led to competition which in turn brought high land price into existence. (Ho 1989, p. 263)

The notion of selling land to industries at the *current market price* was particularly unacceptable to the industrialists, since they had been complaining all along that speculation had raised the market price of industrial land to an exorbitant level. Instead of the open public auction, industrialists counter-proposed that a semi-closed auction should be adopted for selling industrial land. The alternative method would restrict bidders only to existing firms which had registered for land at Kwun Tong, and bids from new industries should be subjected to a thorough investigation of their eligibility.<sup>71</sup> The rationale behind the proposal, for the industrialists, was to restrict potential bidders in order to reduce competition, and hence the price, for industrial land.

The colonial state took no heed of the industrialists' suggestion or even their threat to boycott the auction. The first public auction went on as scheduled in September 1956. What the industrialists feared most happened, as the prices of the first lots were far above the price of HK\$5 per square foot set by the government, ranging from HK\$12.22 to \$23.1 (Wu 1973, p. 171). By 1964, some

641 acres of land in Kwun Tong had been created for industrial use, and by 1968, there were 503 factories in Kwun Tong employing nearly 50,000 workers, or some 12 percent of Hong Kong's industrial work force (Sorby 1968, p. 33). Still, the industrialists did not get what they wanted most: all land in Kwun Tong was sold at public auctions.

In developing new land for industry, the colonial state was presented with an opportunity to increase its influence in industrial development. According to the industrialists' counter-proposal, the state should have allocated land to manufacturing firms at concessionary terms according to its desirability. This procedure, essentially similar to what the Singaporean state had, would have not only aided the development of industry further but also allowed the state to have a say on the pattern of industrial growth. Instead of auctioning off industrial land at the market price, the state would have then fostered the development of a particular sector by allocating cheap land to it. But, of course, the colonial state shied away from this role. The Kwun Tong model of developing land for industry was later followed in the subsequent development of other new industrial towns, namely Tsuen Wan and Kwai Chung.

The case of industrial land development illustrates very well the intricate relationship between the state and various segments of the bourgeoisie, and how policies were formed under stringent financial constraints. First of all, the state's willingness to undertake the Kwun Tong project to provide new land for the manufacturing industry was an indication of the underlying state-business partnership in maintaining the prosperity and stability of Hong Kong. In the early 1950s, the disruption of the entrepot trade had made the colonial state begin to realize the importance of manufacturing in providing employment opportunities for the large number of new immigrants. In the public interest, and in its own institutional interest to maintain the colonial regime, the colonial state moved to support the development of new industries. Land shortage, the most important bottleneck of industrial development, had to be alleviated.

Secondly, industrial land development did not depart significantly from the state's established policy of *laissez-faire*, and it was not beyond the state's financial capability. It did not channel resources to the manufacturing industries in a disproportionate way. Land provision was just like other kinds of logistic support that the colonial state offered to private enterprises. Disposing of land by public auction also ensured that there was no hidden subsidy involved in developing land and in allocating it to manufacturing firms.

Unlike other forms of assistance to industry, the colonial state controlled the requisite resources in the Kwun Tong project — land. Since industrial land development appropriated nothing from the bourgeoisie but rather came from the state's own pool of resources, the bourgeoisie welcomed the act. The Kwun Tong model of land development was also designed to avoid incurring any large-scale financial burden to the state treasury. Although the Kwun Tong project involved substantial cost, proceeds from land sales through successive public auctions eventually paid back the state's investment.<sup>72</sup> Thus the state justified the policy of selling land by public auction in terms of the financial benefits to the government:

The policy of sale by public auction ensures, by and large, that the person best able to develop the land within the limitation laid down in the lease obtains the right to do so, and that the community receives the maximum return in cash for such leases. (*Hong Kong Annual Report 1957*, p. 181)

Thirdly, industrial land provision was not a case of the colonial state succumbing to the pressures and instrumental control exercised by the industrial bourgeoisie. The state itself had an interest in increasing the supply of industrial land and in the growth of the manufacturing sector. The rejection of the industrialists' proposal for state discretionary allocation of land to manufacturing firms illustrated very well the autonomy of the state from industrial influences. The relationship between the state and the industrial bourgeoisie was thus a confluence of

interest rather than the domination of the state apparatus by the latter.

Fourthly, the composition of the governing coalition also enabled the state to resist demands for more state intervention in industrial development. The state had a more intimate relationship to the financial-commercial bourgeoisie, which could be traced to the earliest period of development in the colony. The industrialists, as the new segment in the bourgeoisie, had yet to develop stable access to the decision-making arena. As mentioned, the economic interests of the industrial bourgeoisie were not entirely in consonance with that of the financial-commercial bourgeoisie. Therefore, the latter might not share the interest of industrial capital in a more *dirigiste* industrial policy to assist industrialization.

For example, in 1955, when the colonial state was still moot-ing the appropriate method of land sale for Kwun Tong, a Legco unofficial member from the mercantile class, M.W. Lo, expressed his concern over the terms of the land sale:

No one would question the Government policy of making land available for factory sites. The scheme at Kun Tong [Kwun Tong], reclaiming 140 acres certainly would go a long way to meet the demands for factory sites. The crucial question is upon what terms the reclaimed land be granted to industrial undertakings. I understand that Government's assistance to industries would not be in the form of protection or direct subsidy, but I note that Government's intention is to provide land at reasonable price for sound industrial undertakings. I think the formula, 'reasonable price', required clarification. If 'reasonable price' means a price below the proper market price, I feel the matter requires serious consideration.... By developing land and making it available for industrial purposes, Government performs a most useful service. But if Government were to sell land below the proper market price, then I can see a lot of undesirable complications. Who are to be the beneficiaries? Inevitably there would be corruption. (*Hong Kong Hansard* 1955, p. 89)

Another trader, D. Ruttonjee, also echoed Lo's opinion. His comment, however, was more revealing of the position of the financial-trading complex regarding industrial policies:

The extent of such assistance [to industry], must, however, be determined by the Colony's revenue, and it is felt that the prices charged for all land made available for factories should fully cover the public outlay on roads, water and other services.... The ultimate purpose to be served by Government providing such assistance to industry must not be the production of increased profits for factory owners. (*Hong Kong Hansard* 1955, pp. 97-98)

The merchants' worry was that if the state used public money to subsidize the development of industry, an increase in tax would have to be made to meet the ever-growing state expenditure (*Hong Kong Hansard* 1955, p. 90). Though the financial-commercial bourgeoisie welcomed the development of manufacturing which would certainly enhance Hong Kong's prosperity, they were also concerned to see that the manufacturing sector did not get special favors from the state.<sup>73</sup>

### *Finance to Industry: The Elusive Industrial Bank*

As we have seen in the other EANICs, state provision of industrial finance, either through a pilot agency like the Economic Development Board (EDB) in Singapore, or through a state-owned banking system in Korea and Taiwan, was the common denominator of state intervention in industrialization. Thus it would be pertinent for us to review how the establishment of an industrial bank to mobilize capital for industrialization was blocked in Hong Kong.

When the growth of manufacturing industries accelerated in the early 1950s, there were voices within the manufacturing sector that complained about the precarious financial position of many firms and the inadequacy of support from the financial sector. For example, amidst the economic crisis caused by the Korean War, a

leading industrialist claimed that a universal weakness among Hong Kong industries was the shortage of funds. One of the reasons for this weakness, he said, was the small amount of capital that proprietors invested in manufacturing concerns. 'Industrial investors are not necessarily big capitalists, and big capitalists do not necessarily invest enough funds' (Wong 1952, p. 13, my translation).<sup>74</sup> Another reason was the insufficient assistance given by the banks, and the absence of low-interest or interest-free loans from the state. He said that this had prevented the industrialists from expanding their plants and had forced them to resort to the high-interest curb market for loans to meet the need for working capital.

In the mid-1950s, there were constant reports in the press about the adverse effects of the high interest rate on industrial development, and the manufacturers also aired their dissatisfaction through the CMA and the major newspapers.<sup>75</sup> After 1955, there were reports that the major banks had relaxed their policy on manufacturing loans, and that they were showing an increased interest in accommodating credit demands from larger manufacturing firms at a lower interest rate. Nevertheless, medium- and small-sized manufacturing firms still could not obtain loans from banks without substantial collaterals.<sup>76</sup>

At the same time, industrialists and business correspondents began to moot the idea of forming a specialized banking institution to finance industrial development at lower interests. The establishment of an industrial bank was first proposed in connection with the development of the industrial estate in Kwun Tong, so that prospective buyers of industrial lots could get help from the industrial bank.<sup>77</sup> Then in 1957 and 1958, local banks raised their interest rates successively in order to compete for deposits and follow the lead of the world interest rate hikes.<sup>78</sup> At the same time, foreign (British, American, and Southeast Asian) manufacturers were beginning to lobby for protection against Hong Kong exports. With the rejuvenation of the Japanese economy, Japanese manufacturing exports were also threatening the markets for

Hong Kong products. Facing such odds, manufacturers rallied to give the idea of an industrial bank another push.<sup>79</sup>

In an executive committee meeting of the CMA in August 1958, a resolution on industrial development was passed. It requested the government to set up a special agency responsible for industrial lending, and the CMA's chairman and vice-chairman were entrusted to pass the demand on to the authorities.<sup>80</sup> In order to generate more support for the proposal, the CMA organized forums for their members to discuss the current problems of the Hong Kong manufacturing, and how they could be solved. Manufacturers attending these forums almost unanimously pointed to the problem of capital shortage, both in fixed investment and working capital, and demanded the establishment of an industrial bank.<sup>81</sup>

Industrialists claimed that they were short in the area of fixed investment and working capital. In particular, they complained about the differential treatment they received from the banks vis-à-vis the merchants, and looked forward to an industrial bank that would redress the *status quo*. The following quotation reflects this attitude very well:

Very few commercial banks are interested in giving credit to productive industry [*sic*] being more interested in the promotion of trade, and some of them do not even require their customers to put up any margin when applying for letters of credit — to take delivery of the merchandise all they have to do is to sign a trust receipt and pay later. This arrangement tends to encourage the undue expansion of trade. When Hong-kong mainly depended on entrepot trade, such a financial pattern was suitable enough but industrial development has become an urgent need and the commercial banks must gear their operations to the changing situation. Medium-term, and long-term credit should be available and small borrowers should be provided with more credit against reasonable security. Establishment of a new financial institution is necessary in order to supply credit for industrial enterprises. (Chen 1960)

The problem of the industrialists in obtaining credits was partly a reflection of the long commercial history of the colony, in which bankers had acquired much experience in handling loans to traders but not in the area of manufacturing. It was also due to the different nature of manufacturing and commercial operations. Traders could always use their incoming commodities as collaterals, and their credit needs were also more short-term.

The industrialists' demand also found some support from inside the establishment. For example, in 1958, an unofficial member of the Legco, John Clague, who was also the chairman of a major hong, the Hutchinson, raised the idea of setting up a development corporation with public money. The purpose of the development corporation, according to Clague, was to 'act as a bridge between Government and private enterprise', and to finance the growth of the manufacturing and construction industries (*Hong Kong Hansard* 1958, pp. 119-120). However, support from the unofficials was not uniform. Most of them were more concerned with averting the possibility of tax increases and were satisfied with what the government had done.<sup>82</sup> Since very few of the unofficials came from the industrial sector, naturally they had no firm commitment to a policy of giving special assistance to manufacturing. Just as in the earlier issue of selling industrial land, manufacturers' interests were shut off from higher circles.

Because of the industrialists' persistence and the increasing importance of manufacturing to employment, the colonial state found it hard to ignore altogether their demand. Their voice became louder from 1958 onward, when the Lanchashire cotton industry demanded the imposition of 'voluntary restrictions' in local textile exports. They claimed that once Hong Kong yielded to the British pressure, the floodgate of protectionism would be opened. An industrial crisis would be triggered off, making governmental assistance all the more necessary.<sup>83</sup> In an address to an industrial trade fair in late 1958, the Governor announced that a proposal for the establishment of an industrial bank was under consideration. Then in January 1959, he appointed a six-man com-

mittee with one official and five unofficial members to review the whole issue. The committee's terms of reference were as follows:

To advise Government:

Whether there is a need for an industrial bank for the financing of industry in Hong Kong and, if so, whether Government should take steps to set up such an institution and in the event of the answers to the first two points being in the affirmative, further to advise what should be the constitution and policy of the organization proposed, with particular reference to the following points:

- (a) the composition of the governing body;
- (b) whether the capital should be supplied wholly by Government, or partly by Government and partly by the public;
- (c) the extent and nature of its financing of industry;
- (d) the policy that should be adopted in respect of rates of interest. (Industrial Bank Committee 1960, p. 1)

The Committee's meetings were conducted in private except one session when it listened to the testimonies of representatives from the CMA. The Committee also invited the CMA, the Hong Kong General Chamber of Commerce (HKGCC), the Working Party of the Federation of Hong Kong Industries (HKFI), and the Director of Commerce and Industry to submit written memoranda.<sup>84</sup>

All of the three private trade associations expressed their support for the establishment of an industrial bank, with the CMA being the most ardent supporter. In the CMA's memorandum to the Committee, it argued zealously for the setting up of an industrial bank:

Hong Kong Industry [*sic*] has been fighting a lone battle hitherto, with neither much support from Government nor co-operative backing from local financial sources, and this is why Hong Kong industry has been subject to intercurrent reverses up to the present.

As Hong Kong's entrepot trade is now displaced by its industry, Government should give it the attention it deserves in order to realize the well-being of the Colony. If an industrial bank is established it can support industry as well as facilitate their turnover in produc-

tion, in particular assist medium and small industrial undertakings, to make them gradually into modern factories, thereby consolidating the Colony's industrial production. It can also help such factories by finance to pave the way for their export trade.<sup>85</sup>

On the other hand, while the HKFI and the HKGCC were more satisfied with the supply of short-term credits from the banks, they both deemed an industrial bank as a necessary institution to increase the supply of long-term capital loans.

After one and a half years of deliberation, the Committee submitted its report in July 1960. To the disappointment of the manufacturers, it recommended against the establishment of an industrial bank:

The Committee has... been presented with no evidence of any concrete case where an industrial development had failed to secure finance in Hong Kong but could properly have secured it from a specialized industrial bank. This, taken in conjunction with the evidence of the very considerable role played by banks in the expansion of industry in recent years, has led us to the conclusion that the need for an industrial bank for the finance of industry in Hong Kong is not proven. (Industrial Bank Committee 1960, p. 15)

The decision to shelve the industrial bank in Hong Kong serves as a very good illustration of the effects of the specific configuration of state capacity and state-capital alliance on economic policies. In the first place, as we have discussed, the financial capacity of the colonial state was limited internally on the one hand by the low tax and tariff policy, and on the other, by the private control of crucial resources in the economy. Externally, the British government also had an interest in the financial health of the colonial state to guard against the possibility of a massive increase in state expenditure by deficit budgeting. Reflecting these constraints, the colonial state was concerned with the source of the industrial bank's capital. This was revealed clearly in the terms of reference of the Committee in which the government prescribed

the Committee to consider who should fund the establishment of an industrial bank.

In its report, the Committee discussed how alternative ways of financing the industrial bank would affect the supply of capital. It contended that if the industrial bank's capital were subscribed by private commercial banks or the general public, it would merely divert capital from other competing uses to industrial investment. In this case, the total amount of capital available for investment would be constant with or without the industrial bank (Industrial Bank Committee 1960, p. 13). In the event of the state supplying the initial capital of the industrial bank, the Committee pointed to the existence of the financial constraints over governmental operations in Hong Kong:

It is true that Government itself has at present surplus resources.... But, as was made clear in the 1960 Budget debate, these resources are not even adequate to meeting the large demands for social capital investment with which Government is faced. It is doubtful therefore if Government could make available for long-term lending by an industrial bank any considerable sum from its present capital resources, particularly in relation to the present level of industrial investment; and it seems unlikely that Government could raise any considerable sum for this purpose by borrowing locally long-term at acceptable rates of interest or could justify doing so by taxation. (Industrial Bank Committee 1960, pp.13-14)

The last point is very important since it sheds light on the very limited sources of finance of the Hong Kong colonial state. It was not considered for aid from the advanced countries. The British government was also unwilling to subsidize the development of Hong Kong's industry, being faced with recurrent financial deficits at home and pressed by local industrial groups for protection against Hong Kong products. Borrowing in the domestic financial market could only be done on the going interest rate in the market, and re-lending the borrowed money at lower than market rates to industrial firms would incur losses to the government and jeopard-

dize its balanced budget. Increasing tax would face opposition from the bourgeoisie, and, as the Committee warned, the tax hike would only take away a corresponding sum from private entrepreneurs which would have been invested under normal circumstances.

Again, the state's capacity alone did not determine the outcome. Given sufficient interest in having an objective accomplished but without the requisite capability, the state will attempt to increase its capacity or still attempt to do it regardless of its own ability. The question of setting up an industrial bank in Hong Kong, therefore, also hinged on the political support that the plan drew from the society and the relationship of the state elite to the social groupings which would have benefitted from such an institution or to those who would have suffered. This in turn fell back on the contour of political alliances that I have discussed.

I have already noted the conspicuous absence of manufacturers in the top rung of the bourgeoisie and the limited access that the industrial bourgeoisie had to the state elite. The established finance-trading complex occupied a privileged position in the center of decision making within the state machinery, as a result of the gradual emergence of a close alliance between the large-scale financial and commercial bourgeoisie and the colonial state elite. Due to these political alignments, the interest of the manufacturers occupied a lesser position in the state elite's political calculus.

An indicator of the differential access of different segments of the bourgeoisie to the state elite could be found in the composition of the Industrial Bank Committee. The Committee was chaired by a Deputy Financial Secretary and comprised 5 unofficial members, 3 of whom were leading bankers, representing the largest British bank, Hong Kong Bank, and 2 of the largest Chinese banks, East Asia Bank and Hang Seng Bank. The other unofficial was an Indian merchant and a senior member of the Legco. Interestingly, none of the unofficials was an industrialist nor had significant investment in manufacturing concerns. After the appointment of the Committee by the Governor, the manufacturers filed a com-

plaint over the absence of industrial representatives in a committee that mattered so much to their own future. They publicly demanded that representatives from the manufacturing sector should be appointed into the Committee. However, the government would not yield, and ultimately it was this group of bankers and traders who ruled that there was no shortage of capital in the manufacturing sector and that the need for an industrial bank was not established.

The financial bourgeoisie definitely did not like the idea of an industrial bank. Bankers thought they were doing a good job of serving the needs of the industrialists, and they of course resented the notion of setting up a public or semi-public financial institution that would compete with them. As a review of the *Industrial Bank Committee Report* stated:

In the face of a demand from business interests and individuals through the press, Government appointed a committee of bankers under the chairmanship of the Deputy Financial Secretary to examine and report on the need for an industrial bank in Hong Kong. Some doubts were felt about this narrow specialism. Bankers, it was thought, have from the nature of their profession a peculiarly limited outlook and, in this particular issue, a vested interest in the outcome. How could they be expected to recommend the setting up of a rival institution which would appropriate much profitable business that would otherwise come to themselves? (Matthews 1960, p. 435)

Bankers also doubted the financial viability of such a venture. This misgiving was reflected in a statement in the Report: 'It would have to be recognized from the outset that money would probably be lost' (Industrial Bank Committee 1960, p. 16). Given the state's tight financial condition, any loss of money resulting from the Industrial Bank would have translated into higher taxes, and it was doubtful how and where the colonial state would raise the requisite capital for the Bank's establishment. As a banker wrote on the subject:

[I]t is important to remember that even if an industrial bank was established it would have to obtain funds from somewhere to finance its lending operations. As to whether it would be able to obtain sufficient long-term capital locally is open to question, and if it had to rely on funds from outside the Colony such funds might not necessarily be available or cheap.<sup>86</sup>

The two stumbling blocks to a *dirigiste* industrial policy, state financial constraints and the alliance between the state elite and the financial-commercial bourgeoisie, therefore struck again in the case of the establishment of an industrial bank, as in the debate over the sale of industrial land. The colonial state could not afford to foot the bill for an industrial bank. The peripheral position of the industrial bourgeoisie in the state-business alliance did not generate sufficient political interest on the part of the state elite to wage a political battle and transcend the financial constraints. The financial-commercial bourgeoisie, and financial bourgeoisie in particular, with its established access to the decision-making arena also provided additional support to the state's 'wait-and-see' approach.<sup>87</sup> In the 1960s, demands for an industrial bank continued to be heard from the industrial circles, especially during years of tight liquidity.<sup>88</sup> But the state continued to resist such demands.<sup>89</sup>

## Summary and Conclusion

In contrast to other late-industrializers, the colonial state of Hong Kong never pursued or even attempted an interventionist development strategy during Hong Kong's postwar industrial take-off. It provided a favorable environment for private business to thrive by keeping tax rates low, maintaining law and order, building infrastructural facilities, and reducing legal regulations and restrictions on business enterprises. But it never interfered with the sectoral flow of resources and did not provide special aid for the development of manufacturing industries.

Part of the cause of the more thorough adoption of a *laissez-faire* approach to industrialization could be found in the financial capacity of the state. Both the capitalist and the colonial nature of the state led to a low level of financial capacity. On the one hand, the early development of a bourgeoisie shaped the state-building process, imposing structural limits to the state's control of economic resources. On the other hand, the emphasis of the British colonial policy on the colonies' financial solvency and self-sufficiency also reinforced the financial conservatism of the colonial state. As a result of the state's financial stringency, it was largely unable to initiate and finance a significant increase in its intervention in the developmental process.

The other condition for *laissez-faire* in Hong Kong was the particular configuration of the state-capital alliance and the governing coalition. From the early twentieth century onwards, a process of 'elite settlement' set in, when the local bourgeoisie forsook the confrontational attitude towards the state elite and began to develop a close partnership with the latter. The realignment was also solidified by successive crises in the political system, such as the General Strike in the 1920s and the Japanese Occupation in the 1940s. When manufacturing industry was about to 'spurt' in the 1950s, the state's coalition with the dominant financial-commercial bourgeoisie was supported by a dense institutional network, inducing a coalescence of interests between the two parties. One consequence of this alliance was that the state provided support for capital accumulation in general. Nevertheless, the peripheral position of the industrial bourgeoisie in the state-capital alliance also allowed the colonial state to resist demands for a more active and selective industrial policy in aiding industrial growth.

My discussion of the cases of the industrial bank and industrial land has illustrated amply the intricate interactions between the making of industrial policy, state capacities and state-commercial capital alliance in Hong Kong. The state's financial stringency put the ceiling on the state's ability to mobilize resources to subsidize industrial development, hence fears of the state's 'inability to

pay' for the industrial assistance programs largely shaped the policy discussion of the 1950s. Industrial land had to be sold to the industrial bourgeoisie at the going market price and without any special allowances or concessions. Public money also could not be used to pay for the cost of low interest industrial loans. On the other hand, the intimate relationship between the financial-commercial bourgeoisie and the state elite resulted in the rejection of the plan for an industrial bank by a committee of bankers and hong merchants. Bankers resisted the idea of a publicly-owned industrial bank which competed for business with them. Finally, the commercial and financial bourgeoisie inside the governing coalition blocked the industrialists' demands to sell industrial land at concessionary terms, partly as an objection to subventing industrial development, and partly to forestall the possibility of increasing taxes to pay for such subventions. Being in a peripheral position of the power structure, the industrial bourgeoisie could not reverse the state's arms-length approach to industrial development and could only take full advantage of the general assistance provided by the state to all private enterprises.

If state financial constraints and the alliance between the state and financial and commercial business interests were historically the twin pillars of *laissez-faire* in Hong Kong, we would have expected the state's economic policies to change only had either one of these conditions changed. Now that Hong Kong's manufacturing industries are facing their greatest challenge since the industrial take-off of the 1950s, are there signs that the state has changed its relationship to the industrial sector? In my studies of the patterns of industrial restructuring since the 1980s, I have argued that so far the colonial state had not departed substantially from the arms-length approach to manufacturing (Lui and Chiu 1994; Chiu and Lui forthcoming). This is not surprising from the vantage point of the polity dynamics model proposed here, for neither the state's financial constraints nor the political alliance between the financial and commercial bourgeoisie has changed. Nevertheless, looking into the future, a more active industrial policy may not be impossible in Hong Kong. For one thing, the

state has, through years of prudent financial management, accumulated a substantial surplus. The existence of fiscal surpluses has not only relieved considerably the constraints over the state's financial capabilities but has also led to a considerable increase in public demand for state actions. In fact, we have seen the state in recent years devoting more resources to support the development of high technology industries. But the state has not made an about-face in its industrial policies, simply because the political basis for extensive state intervention is still not in sight. No political coalition demanding for a more active industrial policy has appeared, and the financial and commercial bourgeoisie is still the most powerful political actor in Hong Kong. But that will be the subject of another study.

## Notes

1. The colonial state had strived to avoid the depiction of its strategy as *laissez-faire* because of its pejorative implication of 'doing nothing'. It has coined another term, 'positive non-intervention' to describe its own approach to economic management. I have stayed with *laissez-faire* here because it is a more common term, and *laissez-faire*, as used here, is always relative and does not necessarily mean completely free of state actions. Thus Hong Kong is a *laissez-faire* economy mainly because state intervention has been lowest here compared with other late-industrializers.
2. Details about the industrial promotion efforts by the colonial state can be found in the various issues of the *Hong Kong Annual Report* in the 1950s.
3. For a comparison of Hong Kong's development strategy and other late industrializers', see Haggard (1990).
4. There are exceptions, of course. Chu (1989) and Cheng (1987) both placed Hong Kong in a comparative framework to try to explain the differences in development strategies between Hong Kong and the other three EANICs.

5. *Hong Kong Hansard* (1977, p. 835). This argument is also echoed in academic studies. See, for example, Lau (1982, pp. 41-42).
6. Cheng (1987, chap. 5). His emphasis, however, is not Hong Kong *per se* but the comparative differences in the politics of industrial adjustment between the EANICs. Still, his argument deserves special treatment because it is the only attempt after S.K. Lau's work to unravel the puzzle of Hong Kong's *laissez-faire*.
7. Alavi (1979). The Japanese colonialism in Taiwan and Korea certainly represented a much more interventionist style of colonial rule. See Peattie and Myers (1984).
8. For example, the government of India's policy towards industrial development was by no means *laissez-faire*. Furthermore, 'direct government ownership within the Indian economy in 1900 was no less extensive than in some latecomers to industrialization, often characterized as stimulated by state-induced growth' (Charlesworth 1982, p. 60).
9. For examples of studies in this vein, see the papers in Steinmo, Thelen and Longstreth (1992), especially the introduction by Kathleen Thelen and Sven Steinmo. For the 'polity-centered' approach, see Weir, Orloff and Skocpol (1988) and Skocpol (1992).
10. The same distinction is also made by Hall (1986, p. 232) and Comisso (1986).
11. In the Third World, very often the capitalists are the only significant social actors. Labor and peasants, save in some exceptional cases, do not constitute a social force. It must be stressed that, in cases where these two do become significant social forces, their relationship with state actors must be examined. This does not, however, destroy the integrity or applicability of the model, because the state's relationship to other social classes or social forces can be studied via their effects on the state's relationship to the capitalist class. A state-working class alliance often leads to a more detached

- relationship between the state and the bourgeoisie, for example, but this is not necessarily the case. The state-capital alliance argument advanced here resembles the coalition argument presented in Gourevitch (1986) which he takes as distinct from the institutional argument. Nonetheless, while the conventional coalition argument emphasizes the relationship among societal actors, I focus on the relationship between various societal actors and the state elite. A similar argument can be found in the 'policy network' approach which stresses the interactions between state and societal actors in shaping a particular policy outcome. See Wilks and Wright (1987), and Maxfield (1990).
12. This idea of differential access to the decision-making arena came from Charles Tilly's polity model and his distinction between 'members' and 'challengers'. See Tilly (1978). The effect of political institutions and the capacities of politically active groups is highlighted by Skocpol (1992). Here, in contrast to Skocpol's approach, I emphasize the historical processes of state-society interaction (including those between the state and the bourgeoisie) which lead to the formation of particular political institutions. I reject the 'exogenous' view of political institutions as the unmoved prime mover in political processes. While Skocpol insists that state-society interactions are included in her analytical frame of reference, her writings tend to highlight the 'independent' character of political institutions at the expense of their 'dependent' character upon prior state-society interactions. See Skocpol (1992, pp. 41-47, and 569 note 90).
  13. On this point I follow Peter Hall's argument.
  14. The experience of Jardine Matheson (commonly known as Jardine), the largest hong, typified the development of British capital in Hong Kong. It was first established in Canton in 1832 by two Scots, William Jardine and James Matheson, and at that time its main item of business was opium. After the acquisition of Hong Kong, it leased the first lot of land from

the colonial state and started a building spree of warehouses, wharves, houses and other facilities for shipping. Apart from normal trading activities, Jardine also provided financing to smaller traders and dealt in foreign exchange, remittances and letters of credit. In 1850, it diversified into the business of shipping and later built its own fleet. In the 1860s, Jardine opened an office in Yokohama followed by offices in Nagasaki and Kobe, which marked its emergence as a regional corporation. In 1889, Jardine took part in the formation of the Hong Kong Land Co., and increased its stakes in the real estate business in Hong Kong. Hong Kong Land later also became a leading corporation in Hong Kong. As the other British hongts along the China coast, Jardine had agencies in all the treaty ports of China, but its headquarters was kept in Hong Kong. Its scale of operation in China was considerably greater than in Hong Kong, but the latter was to remain the nerve center of the whole company. Jardine had the lion's share of China's foreign trade. It collected various commodities from all over China, such as tea, silk and tungsten oil, and then re-shipped them to other parts of the world through Hong Kong. It also controlled much of the coastal and inland shipping business. Towards the latter part of the nineteenth century, Jardine branched into the construction of railways, the financing of railway construction and the provision of rail equipment in China.

15. The most authoritative study of the emergence of the Chinese bourgeoisie in Hong Kong is by Smith (1971) and Chan (1991).
16. Thus, contrary to some conventional accounts, the influx of capital from China to Hong Kong did not start with the communist revolution; there were in fact many instances in Hong Kong's history of refugee capital contributing to the growth of Hong Kong's economy.
17. For a study of the compradors, see Nie (1979).
18. See Endacott (1973, pp. 195-196). For example, Governor Hennessy reported in 1881 that among the 18 ratepayers hav-

ing property rated at or over \$1,000 per quarter, 17 were Chinese. Only one, Jardine Matheson, was not Chinese. It is also reported that some 90 percent of taxes collected in Hong Kong came from the Chinese population in the 1880s (Yuan 1988, p. 130).

19. One example is Leeming, who wrote in 1975 that 'the fact is that Chinese industry in Hong Kong in 1940 was much larger in scale, and much more advanced in style, than is allowed by the conventional view' (Leeming 1975, p. 338).
20. The next census was conducted in 1961.
21. This included transport and communications, and commerce and finance.
22. Information on the capital of public companies, see the Standard Press (1961). GDP statistics for 1960-1961, see Chang (1969).
23. An interlock or link between two firms is counted when the same person sits on the boards of both firms.
24. For example, in 1972, among the 14 board members, there were representatives from Jardines, Swire, Inchape, I.C.I., Hutchinson, Wheelock, Deacon, P. & O., and Dodwell, almost a microcosm of the British bourgeoisie in Hong Kong. See *Economic Reporter* (May 10, 1972, p. 23).
25. "'Griffin" was the name popularly given to the wild pony imported from North China and used for horse racing in Shanghai, Hong Kong and the Treaty Ports. The term "griffin" was thus applied to the untrained young European when he arrived in China to take up work with a foreign firm' (Lethbridge 1978, p. 186).
26. A sample of these events can be found in Scott (1989, p. 57).
27. The following account is based on Endacott (1964, chap. 7), and Scott (1989, pp. 59-60).
28. The petition was organized by Whitehead, the manager of Chartered Bank, along with two other unofficial members of

- the Legco, Paul Chater and Ho Kai, both prominent capitalists in the Colony.
29. The reasons behind the rejection of the demands for self-government will be discussed later in the section on state-business relationship.
  30. This discussion on the Finance Committee draws heavily from Miners (1986, pp. 138-142).
  31. For this point, see also Miners (1986, p. 136).
  32. Later the reserve base was expanded to all foreign currencies, but the system of 100 percent backing is still in force.
  33. The impetus to change came from the recurrent outbreak of banking crises in the 1950s. But the amendment in the regulatory framework merely ensured that the banks were free from managerial frauds. The degree of state influence over the flow of credit and the price of money was not increased. See Tomkins (1962).
  34. About the relationship between the Hong Kong government and the Colonial Office, see Miners (1986, 1987).
  35. This section draws on Miners (1987, pp. 107-111), and Rabushka (1976, pp. 12-34).
  36. *Hong Kong Hansard* (1955, p. 63; 1960, p. 62). Both quotations from Rabushka (1976, p. 113).
  37. This was reported in the memoirs of a former Governor, Sir Alexander Grantham (1965). It is an invaluable piece of information, since what happened inside the Exco was otherwise unknown to the public.
  38. The financial year in Hong Kong starts in April and ends the next March.
  39. Of course, the construction industry always benefitted from the state's public works expenditure. But this was not the objective of the public works projects.
  40. They were J. Bell-Irving of Jardine, and Paul Chater, a local financier and real estate magnate. See Endacott (1964, p. 125).

41. When it was first established, it managed a body of Chinese constables and detectives which operated in the districts that were predominately Chinese. This function was taken over by the police in the late 1940s. See Lethbridge (1978, p. 120).
42. The Po Leung Kuk (the Protection of Virtue Society) was a society founded to prevent and investigate the kidnapping and abduction of women and young girls. It later expanded its scope of activities to social welfare works in general. See Lethbridge (1978).
43. This covered the period 1896 to 1941, as the first unofficial Exco member was appointed in 1896.
44. For a more detailed account of the industrial conflicts in this period, see Chiu (1987).
45. The money was advanced from the accounts of the Tung Wah Hospital. Due to the economic difficulties of the time, some of the merchants involved in the funding were unable to fulfil their pledges. The colonial state, at the risk of reprimand from the Colonial Office, covered the merchants' arrear with public money. See Chan-Lau (1990, pp. 201-202).
46. The strike was officially terminated in October 1926. The impetus to the end of the strike was the ascendancy of the right-wing Chiang Kai-shek in the Nationalist government who deemed the existence of a left-wing Canton regime and the concentration of striking workers there as a threat to his power. See Deng (1949).
47. Lethbridge (1978) gives an account of the status differences in the European community in Hong Kong.
48. This term refers to Europeans in uniformed supervisory jobs. The term *pong-paan* was meant to distinguish this group from the Taipans (the major expatriate businessmen).
49. But very few of the landlords actually solicited lending through this channel. See Endacott (1978, p. 299).
50. During the Japanese occupation, the Bank was forced to issue some HK\$119 million, the so-called 'duress notes', without proper backing by assets. After the war, a natural problem

that arose was whether the Bank should honor the notes. If so, it would have to pay the government a corresponding amount to back up these notes since all new issues of money by the note-issuing banks had to be backed up by foreign currency reserves deposited with the government. This would have incurred serious losses to the Bank. Finally, in 1946, the government decided to share the loss incurred by honoring the Bank's 'duress notes' (Jao 1974, p. 17).

51. Professional education was common for the young Chinese elite before they were expected to take over the family business.
52. Two of them, Ngan Shing Kwan and D.J. Ruttonjee, were owners of large non-listed companies, though they held no directorships in the listed companies.
53. The District Watch Committee and its constable force was abolished after the Second World War due to the strengthening and professionalization of the police.
54. This old cliché has been in popular parlance for many years, see Hughes (1968, p. 17). Please see also the discussion in Scott (1989, p. 65).
55. In 1864, the British government asked for the payment of HK\$20,000 annually for defense, and this demand 'created the liveliest opposition from all sections of the community led by the unofficial members of the Legislative Council' (Endacott 1964, p. 85). The motion was eventually carried through by the official majority in the Legco. Thereafter, every negotiation between the Hong Kong and British government over the amount of defense contribution sparked intense reactions from the unofficial members.
56. For a critique of the autonomy imagery of the Hong Kong government, please see Leung (1990).
57. Despite the influence of the unofficials in the two Councils, they played little direct roles in the overall formulation of policies. See Miners (1986, chaps. 9, 10).

58. The total paid-up capital of the 9 manufacturing firms was HK\$66,475,000 and their total profits were HK\$22,183,000 in 1960. Paid-up capital is calculated from The Standard Press (1961).
59. Three of the 9 firms were dockyards, another 3 were a rope manufacturing, a canning and food processing company, and a cement plant, and 1 was in the metal industry. Only 2 could be regarded as new generation industries, and both of them were cotton mills.
60. These textile firms typically employed more than one thousand workers. See Commissioner for Labour (1950).
61. Wong argued that this 'professed sense of powerlessness' did not square with the reality that the spinners had strong political muscles. In support of this point, he cited a conflict between the government and the spinners in the early 1970s over the revaluation of industrial land which ultimately resulted in concessions by the government. Nevertheless, the fact that the spinners could influence policies in the 1970s does not mean that the same was true in the early 1950s. The sense of powerlessness among the spinners probably revealed their limited political influence during the early years of their business endeavors in Hong Kong.
62. The first Legco unofficial member who came from the industrial sector was Tang Ping-yuan, and the first unofficial in the Exco was S.Y. Chung.
63. Such protests were particularly visible when industrialists felt their interests had been sacrificed. See for example, *Wah Kiu Yat Po* (March 29, 1955; January 26, 1959).
64. Jao (1974, p. 47) argues that in the early postwar period the local British commercial banks only departed slightly from the traditional 'real-bills' doctrine of the British commercial banks, which means that a commercial bank was supposed to make only short-term 'self-liquidating' loans to traders for the purpose of financing their holding of inventories pending their sales. His reasoning is: firstly, the British banks had

rarely made equity investment in industrial firms; secondly, their finance of industry was also related to commercial transactions of a self-liquidating nature. Since most of Hong Kong's manufactured goods were for export, making loans (e.g., packing credits) for this purpose was somewhat equivalent to financing a commercial transaction. In doing this, the commercial banks also had the opportunity to buy and sell foreign exchange generated by manufacturing exports, and this was another traditional operation of the banks.

65. The author was the manager of the Foreign Department of the Canton Trust and Commercial Bank, a medium-sized Chinese bank which eventually went bankrupt in the mid-year banking crisis (the article was published in March). That this was the view of a middle-level employee of a smaller native bank probably explains the difference between its tenor and that of other leading British bankers. The latter customarily emphasized the contribution of the banking sector to industrial development and that they were lending as much as they could to manufacturing firms. See, as an example of the latter position, Carruthers (1966). Mr. Carruthers was the Deputy Chief Manager of Hong Kong Bank.
66. The Financial Secretary in *Hong Kong Hansard* (1962, p. 51).
67. *Wah Kiu Yat Po* (January 6, 1954).
68. For a succinct description of the system of land tenure in Hong Kong, see *Hong Kong Annual Report* (1957, chap. 10).
69. *South China Morning Post* (December 23, 1953).
70. See Wu (1973, p. 170), and *South China Morning Post* (August 23, 1956).
71. *Wah Kiu Yat Po* (September 5, 1956).
72. See Whatmore (1962). From 1956/57 to 1969/70, sales of industrial land in Kwun Tong reaped a total of HK\$188 million, or some 42.7 percent of total revenue from selling industrial land in Hong Kong (Wu 1973, p. 193). For the importance of land sales in the state's revenue, see Ho (1989, pp. 252-254). In 1961/62, 1962/63 and 1963/64, contribution of land sales (in-

dustrial, commercial and residential) to total government revenue peaked at 8.7, 16.6 and 14.0 percent respectively.

73. The Legco unofficial members' comments drew severe attacks from the CMA and leading industrialists, saying that these unofficial were only thinking in terms of the interest of the land developers. They also demanded that industrial representatives be appointed to the two Councils. See *Wah Kiu Yat Po* (March 29, 1955; November 21, 1955).
74. One reason for this phenomenon was, of course, the competition for investment from other sectors: finance, commerce and real estate. Wong was the chairman of the CMA in the 1950s.
75. See, for example, *Wah Kiu Yat Po* (September 21, 1953; January 6, 1954; May 15, 1954). For the viewpoints of the CMA, see Haking Wong's article in *Wah Kiu Yat Po* (May 1, 1954).
76. *Wah Kiu Yat Po* (February 16, 1955).
77. See, for example, the article by an industrialist and executive committee member of the CMA in *Wah Kiu Yat Po* (November 21, 1955).
78. *Wah Kiu Yat Po* (April 21, 1958). In 1957, banks in Britain increased their interest rates from 5 percent to 7 percent, which caused local interest rates to increase by 1 percent.
79. See *Wah Kiu Yat Po* (September 8, 1958).
80. *Wah Kiu Yat Po* (August 22, 1958).
81. For the records of one such forum, see *Wah Kiu Yat Po* (September 11, 1958).
82. The speech of Kwok Chan, a banker, best represented this position. See *Hong Kong Hansard* (1958, pp. 108-110).
83. *Wah Kiu Yat Po* (January 15, 1959).
84. In 1959, the government set up a Working Party to consider the formation of a new industrial association, the Federation of Hong Kong Industries. The Federation was duly established in 1961.

85. Memorandum from the CMA to the Industrial Bank Committee (April 2, 1959). Included in the Appendix of the *Report of the Industrial Bank Committee*.
86. Miller 'The Bank and Hong Kong Industry'. Paper read at University of Hong Kong, Extra Mural Studies (September 26, 1968). The author was the Deputy Manager of Chartered Bank, and the speech was written when the subject of an industrial bank was being raised again in the mid-1960s.
87. This case also revealed one source of political weakness of the industrial bourgeoisie. For instance, one official reason given by the Industrial Bank Committee for the rejection of the proposal was the lack of concrete data supporting the argument that manufacturing firms were suffering from severe financial difficulties. The Committee had requested the CMA to solicit information from their members, but the response from industrialists had been very poor. The large number of small- and medium-sized manufacturing firms created a problem for collective action on the part of the industrial bourgeoisie, so that the CMA could not mobilize their members and other industrialists to push forward their case. On the other hand, the bankers, with their small number and highly coordinated character, were able to furnish the Committee with data supporting their side of the story: the supply of funds in the financial system had been adequate, and there was no need to change the *status quo*. Problems of organization for collective action, therefore, further limited the political influence of the industrial bourgeoisie relative to the financial-commercial bourgeoisie.
88. There were two such years in the 1960s: 1965, when there was a serious run in the banking system, and 1967, when a left-wing riot hurt the confidence of bankers about the political future of Hong Kong.
89. Finally, in the early 1970s, a scheme to provide financial assistance to industry was approved, though it was not an industrial bank. The approved scheme was to provide guarantees

for loans provided by commercial banks to small-scale manufacturing firms. A semi-government agency, the Productivity Council, was to be responsible for conducting feasibility studies on loan applications and for making recommendations to the banks regarding the granting of loans. That this scheme was approved did not indicate a major change in the state's policy. That this was a scheme of guarantees for loans made by commercial banks, and not a state-owned or semi-public industrial bank, probably did not cause the bankers to rise up against it. Furthermore, the loan scheme was not going to create a heavy financial burden for the state since it was the commercial banks which made the loan, not the state itself. Since the potential client was small business also meant that the amount of loans involved was not very great. To prevent financial loss, the state also adopted a set of very stringent criteria for approving loan guarantees. Each application had to be submitted with a HK\$1,000 non-refundable fee, a considerable sum in the early 1970s. As a result, very few small industrialists applied, and even fewer were approved. During the first six months of the scheme, only one applicant actually received a loan. For details of the scheme, see Wu (1973).

## References

- Alavi, Hamza. 1979. "The State in Post-Colonial Societies." Pp. 38-69 in Harry Goulbourne (ed.), *Politics and State in the Third World*. London: Macmillan.
- Block, Fred. 1977. "The Ruling Clan Does Not Rule." *Socialist Revolution* 7:6-28.
- Breen, M.J. 1935. *Report of the Commission on the Causes and Effects of the Present Trade Depression in Hong Kong*. Hong Kong: Government Printer.
- Butters, J. 1939. *Report on the Labour and Labouring Conditions in Hong Kong*. Hong Kong: Noroha & Co.

- Cameron, Nigel. 1982. *Power: The Story of China Light*. Hong Kong: Oxford University Press.
- Carruthers, M.G. 1966. "Financing Industry." *Far Eastern Economic Review* February 24:361-370.
- Chan, Ming K. 1975. *Labour and Empire*. Unpublished Ph.D. dissertation, Stanford University.
- Chan, W.K. 1991. *The Making of Hong Kong Society*. Oxford: Clarendon Press.
- Chan-Lau, Kit-Ching. 1990. *China, Britain and Hong Kong: 1895-1945*. Hong Kong: The Chinese University Press.
- Chang, E.R. 1969. *Report on the National Income Survey of Hong Kong*. Hong Kong: Government Printer.
- Charlesworth, Neil. 1982. *British Rule and the Indian Economy: 1800-1914*. London: Macmillan.
- Chen, Qian. 1988. *Collections of Hong Kong History*. Hong Kong: Zhong Yuan Press [in Chinese].
- Chen, S.C. 1960. "Hongkong's Industrial Needs." *Far Eastern Economic Review* March 11:502-504.
- . 1965. "Industrial Bank." *Far Eastern Economic Review* March 12:469-471.
- Cheng, Tun-jen, 1987. *The Politics of Industrial Transformation: The Case of East Asian NICs*. Unpublished Ph.D. dissertation, University of California, Berkeley.
- Chiu, Stephen. 1987. *Strikes in Hong Kong: A Sociological Study*. Unpublished M.Phil. thesis, University of Hong Kong.
- . 1994. "The Changing World Order and the East Asian Newly Industrialised Countries." Pp. 75-114 in David Jacobson (ed.), *Old Nations, New World: Conception of World Order*. Boulder, Colo.: Westview Press.
- Chiu, Stephen and T.L. Lui. Forthcoming. "Hong Kong: Unorganized Industrialism." In Gordon Clark and Won-bae Kim (eds), *Asian NIEs and the Global Economy*. Johns Hopkins Press.

- Chu, Yun-han. 1989. "State Structure and Economic Adjustment of the East Asian Newly Industrializing Countries." *International Organization* 43:647-672.
- Coates, Austin. 1977. *A Mountain of Light: The Story of the Hongkong Electric Company*. London: Heinemann.
- Collins, Charles. 1952. *Public Administrations in Hong Kong*. London: Royal Institute of International Affairs.
- Collis, Maurice. 1965. *Wayfoong: The Hongkong and Shanghai Banking Corporation*. London: Faber & Faber.
- Comisso, Ellen. 1986. "Introduction: State Structures, Political Processes, and Collective Choice in CMEA States." *International Organization* 40:195-238.
- Commissioner for Labour. 1950. *Annual Departmental Report*. Hong Kong: Government Printer.
- Crisswell, Colin. 1981. *The Taipans: Hong Kong's Merchant Princes*. Hong Kong: Oxford University Press.
- Davies, Gethyn. 1958. "Promotion of Industrial Development in Hong Kong." *Far Eastern Economic Review* July 31:129.
- Davies, S.N.G. 1977. "One Brand of Politics Rekindled." *Hong Kong Law Journal* 7:44-80.
- Deng, Zhong-Xia. 1949. *A Short History of China's Labour Movement*. Beijing: Ren Min Press [in Chinese].
- Department of Statistics. 1983. *Economic and Social Statistics Singapore, 1960-1982*. Singapore: Singapore National Printers Pte Ltd.
- Donnison, F.S.V. 1956. *British Military Administration in the Far East 1943-46*. London: Her Majesty's Stationary Office.
- The Economist Intelligence Unit. 1962. *Industry in Hong Kong*. Hong Kong: South China Morning Post.
- Endacott, G.B. 1964. *Government and People in Hong Kong, 1841-1962*. Hong Kong: Hong Kong University Press.
- . 1973. *A History of Hong Kong*. Hong Kong: Oxford University Press.

- . 1978. *Hong Kong Eclipse*. Hong Kong: Oxford University Press.
- Friedman, Milton and Rose Friedman. 1980. *Free to Choose*. Harmondsworth: Penguin.
- Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective*. Cambridge: Harvard University Press.
- Gourevitch, Peter. 1986. *Politics in Hard Times*. Ithaca: Cornell University Press.
- Grantham, Alexander. 1965. *Via Ports: From Hong Kong to Hong Kong*. Hong Kong: Hong Kong University Press.
- Haggard, Stephan. 1990. *Pathways from the Periphery*. Ithaca: Cornell University Press.
- Hall, Peter. 1986. *Governing the Economy*. Oxford: Oxford University Press.
- Hawley, Ellis. 1986. "Industrial Policy' in the 1920s and 1930s." Pp. 63-86 in Claude Barfield and William Schambra (eds), *The Politics of Industrial Policy*. Washington, D.C.: American Enterprise Institute.
- Ho, H.C.Y. 1979. *The Fiscal System of Hong Kong*. London: Croom Helm Ltd.
- Ho, Kwok-Leung, Danny. 1989. *The Political Economy of Public Housing in Hong Kong: A Sociological Analysis*. Unpublished M.Phil. thesis, University of Hong Kong.
- Hong Kong Annual Reports. Various years.
- Hong Kong Directory*. 1951, 1961.
- Hong Kong Government. 1932. *Historical and Statistical Abstracts of Hong Kong*. Hong Kong: Government Printer.
- Hong Kong Hansard*. Various years.
- The Hong Kong Junior Chamber of Commerce. 1955. *This is Hong Kong, 1955: An Economic Report*. Hong Kong: Hong Kong Junior Chamber of Commerce.
- Hughes, Richard. 1968. *Borrowed Place, Borrowed Time: Hong Kong and its Many Faces*. London: André Deutsch.

- Industrial Bank Committee. 1960. *Report of the Industrial Bank Committee*.
- Ingham, Geoffrey. 1984. *Capitalism Divided? The City and Industry in British Social Development*. London: Macmillan.
- Jao, Y.C. 1974. *Banking and Currency in Hong Kong*. London: Macmillan.
- Katzenstein, Peter. 1978. "Conclusion: Domestic Structures and Strategies of Foreign Economic Policy." Pp. 295-336 in P.J. Katzenstein (ed.), *Between Power and Plenty*. Madison: University of Wisconsin Press.
- King, Frank. 1987. *The History of the Hongkong and Shanghai Banking Corporation, Vol. 2*. Cambridge: Cambridge University Press.
- Lau, Siu-Kai. 1982. *Society and Politics in Hong Kong*. Hong Kong: The Chinese University Press.
- Leeming, Frank. 1975. "The Earlier Industrialization of Hong Kong." *Modern Asian Studies* 9 (No. 3):337-342.
- Lethbridge, Henry J. 1969. "Hong Kong Under Japanese Occupation: Changes in Social Structure." Pp. 77-127 in I.C. Jarvie and J. Agassi (eds), *Hong Kong: A Society in Transition*. London: Routledge & Kegan Paul.
- . 1978. *Hong Kong: Stability and Change*. Hong Kong: Oxford University Press.
- Leung, Benjamin K.P. 1990. "Power and Politics: A Critical Analysis." Pp. 13-26 in Benjamin K.P. Leung (ed.), *Social Issues in Hong Kong*. Hong Kong: Oxford University Press.
- Low, Linda. 1983. "Singapore's Success — The Myth of the Free Market Economy." *Asian Survey* 23:752-764.
- Lui, T.L. and Stephen Chiu. 1994. "A Tale of Two Industries: The Restructuring of Hong Kong's Garment-making and Electronics Industries." *Environment and Planning A* 26:53-70.
- Matthews, John. 1960. "The Industrial Bank Report — A Criticism." *Far Eastern Economic Review* August 25:435.
- Maxfield, Sylvia. 1990. *Governing Capital*. Ithaca: Cornell University Press.

- Miliband, Ralph. 1977. *Marxism and Politics*. Blackwell: Oxford University Press.
- Mills, Lennox. 1942. "Hong Kong." Pp. 373-513 in Lennox Mills (ed.), *British Rule in Eastern Asia*. Hong Kong: Oxford University Press.
- Miners, Norman. 1986. *The Government and Politics of Hong Kong*. Hong Kong: Oxford University Press.
- . 1987. *Hong Kong Under Imperial Rule, 1912-1941*. Hong Kong: Oxford University Press.
- Morris, Jan. 1985. *Hong Kong*. New York: Vintage.
- Nie, Bao-Zhang. 1979. *The Emergence of the Bourgeoisie in China*. Beijing: China's Social Sciences Press [in Chinese].
- Onis, Ziya. 1991. "Review Article: The Logic of Developmental State." *Comparative Politics* 24:109-126.
- Owen, Nicholas. 1971. "Economic Policy." Pp. 141-206 in Keith Hopkins (ed.), *Hong Kong: The Industrial Colony*. Hong Kong: Oxford University Press.
- Peattie, Mark and Ramon Myers (eds). 1984. *The Japanese Colonial Empire, 1895-1945*. Princeton: Princeton University Press.
- Rabushka, Alvin. 1976. *Value for Money: The Hong Kong Budgetary Process*. Stanford: Hoover Institution Press.
- . 1979. *Hong Kong: A Study in Economic Freedom*. Chicago: University of Chicago Press.
- Rear, John. 1971. "The Law of the Constitution." Pp. 339-415 in Keith Hopkins (ed.), *Hong Kong: The Industrial Colony*. Hong Kong: Oxford University Press.
- Riedel, James. 1974. *The Industrialization of Hong Kong*. Kiel: Institut für Weltwirtschaft an der Universität Kiel.
- Rodan, Gary. 1989. *The Political Economy of Singapore's Industrialization*. London: Macmillan.
- Rueschemeyer, D. and P. Evans. 1985. "The State and Economic Transformation." In Peter Evans et al. (eds), *Bringing the State Back In*. Cambridge: Cambridge University Press.

- Schiffer, J. 1991. "State Policy and Economic Growth: A Note on the Hong Kong Model." *International Journal of Urban and Regional Research* 15:180-196.
- Scott, Ian. 1989. *Political Change and the Crisis of Legitimacy in Hong Kong*. Hong Kong: Oxford University Press.
- Sinclair, Kevin. (ed.) 1982. *Who's Who in Hong Kong*. Hong Kong: Who's Who in Hong Kong Ltd.
- Skocpol, Theda. 1992. *Protecting Soldiers and Mothers*. Harvard, MA: Belknap Press.
- Smith, Carl. 1971. "The Emergence of a Chinese Elite in Hong Kong." *Journal of Hong Kong Branch of the Royal Asiatic Society* 11:74-115.
- Sorby, T.D. 1968. "Government and Business." *Economic Journal* University of Hong Kong, 1968:28-40.
- The Standard Press. 1961. *Handbook of Companies*. Hong Kong: Standard Press [in Chinese].
- Steinmo, Sven, Kathleen Thelen and Frank Longstreth (eds). 1992. *Structuring Politics: Historical Institutionalism in Comparative Analysis*. Cambridge: Cambridge University Press.
- Suleiman, Ezra. 1987. *Private Power and Centralization in France*. Princeton: Princeton University Press.
- Szczepanik, Edward. 1958. *The Economic Growth of Hong Kong*. London: Oxford University Press.
- Tilly, Charles. 1978. *From Mobilization to Revolution*. Reading: Addison-Wesley.
- Tomkins, H.J. 1962. *Report on the Hong Kong Banking System and Recommendations for the Replacement of the Banking Ordinance 1948*. Hong Kong: Government Printer.
- U, Tat-Chee. 1953. "Promotion of Hong Kong's Industry." *Far Eastern Economic Review* July 30:144-145.
- Weir, Margaret, Ann Orloff and Theda Skocpol (eds). 1988. *The Politics of Social Policy in the United States*. Princeton: Princeton University Press.

- Whatmore, Richard. 1962. "Hong Kong's Land Problems." *Far Eastern Economic Review* May 10:275.
- Wilks, Stephen and Maurice Wright. 1987. "Conclusion: Comparing Government-Industry Relations: States, Sectors and Networks." Pp. 274-313 in Stephen Wilks and Maurice Wright (eds), *Comparative Government-Industry Relations*. Oxford: Clarendon Press.
- Wong, Haking. 1952. *A Critical Review on Hong Kong's Industrial Development*. Hong Kong: Bao Yuan Industrial and Commercial Information Supplier [in Chinese].
- Wong, Po-Shang. 1958. "The Influx of Chinese Capital into Hong Kong Since 1937." Paper read at the Contemporary China Study Seminar, University of Hong Kong.
- Wong, Siu-Lun. 1988. *Emigrant Entrepreneurs — Shanghai Industrialists in Hong Kong*. Hong Kong: Oxford University Press.
- Wu, C.T. 1973. *Societal Guidance and Development: A Case Study of Hong Kong*. Unpublished Ph.D. thesis, University of California, Los Angeles.
- Yokoyama, Skoichi. 1965. "A Study of the Industrialization of the Crown Colony of Hong Kong." *Science Report of the Zhime University* 4 (No. 4) [in Japanese].
- Youngson, A.J. 1982. *Hong Kong: Economic Growth and Policy*. Hong Kong: Oxford University Press.
- Yuan, Bang-Jian. 1988. *A Short History of Hong Kong*. Hong Kong: Zhong Liu Press [in Chinese].

## 自由放任的政治

### 香港工業化策略的歷史回顧

趙永佳

( 中文摘要 )

香港政府在戰後工業化的歷史中從未推行一套積極干預市場的發展策略。這與大多數後工業化國家的經驗可謂截然不同。其中最顯著的分別是香港政府從不對製造業的發展提供任何有選擇性的援助。本文指出一套比較徹底的自由放任策略所以在香港推行，原因之一在於香港政府的有限財政能力。香港政府的殖民性格及資本家的影響都對港府的財政能力有極大的限制。另一原因則和香港政治中的統治聯盟的組成有關，因為在香港工業起飛的初期，港府的主要聯盟伙伴為金融及商業資本，而工業資本在權力架構中只佔邊緣的位置。為了進一步闡釋財政能力、政商聯盟及發展策略的關係，文章的下半部回顧了五十年代的兩大政策爭論——工業用地的開發與供應及工業銀行的成立。