



*The Myth of Hong Kong's  
Laissez-faire Economic Governance  
1960s and 1970s*

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

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1960s and 1970s

## Introduction

The marvellous story of the economic restructuring (from mainly entrepôt trade to labour-intensive, export-oriented manufacturing) of Hong Kong has been told many times. In the relevant literature, the role of the Hong Kong government was often interpreted as marginal in the process of economic development. The cases of other Asian newly industrialising countries (NICs), such as Singapore, Taiwan and South Korea, were usually taken as a contrast with the so-called "Hong Kong *laissez-faire* model." These Asian states took an extensive interventionist approach (also coined as developmental statism) in upgrading the local economy. To mention a few of their strategies, they encouraged or directed companies into higher value-added, and more technology-intensive, forms of production; they legislated to discourage short-term speculative domestic investment, and thus ensured the flow of private capital into manufacturing; they created industrial sectors which did not exist previously either through state companies or through the supply of credit and financial guarantees to private companies; they invested heavily in the creation and refinement of new technologies, usually by setting up government research and development (R&D) facilities and funding; they protected domestic markets, either across the board or with regard to particular products; they sometimes used price control to discourage domestic market exploitation in conditions of near-monopolistic supply; they controlled the exchange rate of their currency; they

promoted the service sectors (especially those with high potential)... etc. (Chu, 1989; Henderson and Appelbaum, 1992).

Hence, under developmental statism, from the 1950s to the 1970s, the three Asian Dragons experienced industrial deepening, but Hong Kong's industrial structure lagged behind. Many scholars acknowledge that the failure of Hong Kong to upgrade its industries can be attributed to the under-intervention of the government (Chen, 1989; Choi, 1994). Signals for the need for industrial upgrading, such as labour shortage, low labour quality, protectionism in foreign markets, severe competition with Asian neighbours, inadequacy of industrial land, etc., had been flashed for many years since the end of the 1950s. But, why did the industrial structure of Hong Kong remain stubbornly entrenched in the labour-intensive stage? Why did the government ignore all these economic signals? Why did the government not launch large-scale interventions towards manufacturers? On the other hand, did the government really take a *laissez-faire* attitude towards all economic sectors? Or rather, did it take a selective interventionist role? In a nutshell, my main interest is not the classification of the state itself, but the political explanation of why the colonial state took a particular orientation to intervention in the economy.

In this paper, the "*laissez-faire* approach on economic policy" refers to the belief that a government has to foster economic activities and leave legitimate business to operate at a profit. It is assumed that entrepreneurs in an open market economy know best what to produce and how, and so their businesses should be allowed to thrive without interference. The primary role of the government is the provision of the necessary infrastructure and a stable legal and administrative framework, law and order, which are conducive to growth and development. It is believed that the economy operates with the assistance of an automatic corrective mechanism, or the "invisible hand,"<sup>1</sup> along with the recognition of the public policy implications of the conditions of an open economy (Ho, 1992:194-202).

Another key term, "positive non-interventionism," coined by the former Financial Secretary, Philip Haddon-Cave, refers to the economic philosophy or view that it is damaging to the growth of an economy for a government to attempt to plan the allocation of resources available to the private sector and to frustrate the operation of market forces. The main function of government is to maintain, over time, a coherent set of neutral economic, fiscal and budgetary policies for the predominance of the private market sector and the flexibility of the cost-price structure. Government intervention is required where imperfections in markets lead to the emergence of monopoly situations. Where markets have grown up too fast for convention to take a grip, or where they need to be monitored for the general public interest, a framework of constraints and ground rules may have to be enshrined in the law. Yet, intervention may be justified in situations where the unrestrained pursuit of individual interests have undesirable macro-economic consequences, although care must be taken to define those situations and to measure the consequences of intervention. In addition, the term "positive" is important: when faced with an interventionist proposal, decisions are made positively, and not by default, and only after the immediate benefits and costs, to the extent that they can be predicted, are weighed against the medium and long term implications of the interventionist act proposed. Usually the government comes to the conclusion that the balance of advantages lies in not intervening after a process of careful calculation (Haddon-Cave, 1982).

After explaining the key terms, I should argue that the term "*laissez-faire*" is not appropriate to describe the nature/role of the Hong Kong government in the economy from 1950 to 1970. It did not care too much about the interests of local manufacturers, but this did not imply that the government followed *laissez-faire* in all economic dimensions. Actually the government took a clear and strong position (which I will term selective interventionism) in protecting and promoting the business interests (and the relevant fields) of the British hongks. At the same time, the hongks consolidated their dominance in Hong Kong through the exercise of



influence in the Legislative Council (Legco) and Executive Council (Exco) on the one hand, and through diversifying their businesses across different fields in Hong Kong (both vertically and horizontally) on the other. The colonial government did not invest too much in the small city since it simply understood that Hong Kong was "a borrowed place in a borrowed time." London would not encourage the colonial government to spend too much revenue in equipping the small colony for an unclear future (hence industrial upgrading was obviously not in the top priority agenda of the government). Under this limitation, the colonial government liked to see the vigorous investment of the British hong in Hong Kong since they shared the cost of building up the city (such as in infrastructure and public utilities). The government was happy to grant monopolies/franchises to the British hong in many large projects. The top agenda of the colonial government was mainly to maintain law and order and to provide a good business environment for the British hong. Under these strategic considerations, both the state elite and the hong realised their shared interests.

Except on some critical issues that conflicted with their own interests (such as industrial land sale and the setting up of a public-owned industrial bank), the hong had more or less good working relations with the Chinese manufacturers (since the hong provided loans, marketing, shipping, insurance, technology and many other services to the manufacturers). Furthermore, there was internal division among the Chinese industrial bourgeoisie. It was difficult for them to mobilise resolutely to resist the structure of colonial domination. In addition, most of the industrialists were easily satisfied with a colonial regime which provided cheap labour, law and order and shelter from the communist threat.

The fact that the British hong/conglomerates dominated in many business sectors in Hong Kong is sound evidence showing that the rhetorical tool of the government, positive non-interventionism, did not match the real situation of Hong Kong. Positive non-interventionism assumes that (i) the policy orientation of the

government is neutral, and prevents the monopoly situations; (ii) the government has long-term planning horizons. However, the actual case of Hong Kong did not fulfil all these criteria. Therefore, I would like to maintain that positive non-interventionism was just a vague rhetorical tool to cover the discriminative policies of the colonial government. The colonial government provided a lot of business opportunities for the British conglomerates on the one hand, and the government ignored many requests from the Chinese manufacturers on the other. Lacking cheap industrial land and industrial banks (for example), the manufacturers obtained little encouragement from the government to upgrade towards a capital-intensive working stage. In sum, the colonial nature of the Hong Kong government was a key factor in explaining its selective interventionist role in the economic restructuring of the city-state.

### *The Proper Role of the State in the Economy*

The theme of this thesis starts from the idea of the proper role of the state in the economy. Now as a common understanding, most states are for both plenty and power (Viner, 1948). They all work for the accumulation of wealth and for the strengthening of their power base. Douglass North (1979) argues that the creation of a state is an essential precondition for economic growth. One of the most central functions of the state is defining, in the last instance, the property rights that will prevail in the economy and which are central to shaping the incentives to which the agents of the economy will respond. In other words, the fundamental economic task of the state is to establish and give credibility and legitimacy to laws, rules and other institutional arrangements which make human exchange possible, that is, to guarantee property rights and to protect the validity of contracts.

Besides this fundamental task, most of the states nowadays have taken active economic adjustment policies. Economic adjustment can be defined as a nation's response to changes in the comparative costs of production, the demands and conditions of

the world market, the patterns of the international flow of money and credit, and the foreign economic policies adopted by other nations (Chu, 1989). National adjustment strategies adapt a nation's production and financial and trade structure to the prevailing external structural and resource constraints so that an equilibrium between different domestic interest groups, on the one hand, and between national and world political economy, on the other hand, can be achieved.

Under increasing pressure for industrial restructuring and export upgrading, private companies also make adjustments, sometimes in the absence of state policy. If left unchecked, many of the adjustments of private companies (such as layoffs, de-investment, rent-seeking, capital flight) can have negative effects on the national political economy. Moreover, in the absence of state action, the private sector may take a longer period (and waste more resources) to adjust itself (Chu, 1989). Under either condition, the state may feel a responsibility to intervene. But, if a state chooses not to intervene, its strategic absence calls for an explanation.

An analysis of the economic adjustment policies of Hong Kong, Singapore, South Korea and Taiwan (the Four Little Dragons) shows that these East Asian NICs, which faced common problems in sustaining their economic growth, responded to the challenge with different adjustment strategies and differed in the degree of state involvement. Hong Kong has taken a divergent route in contrast with the other three Asian NICs.

The Hong Kong government played a selective interventionist role in several aspects (Schiffer, 1991), such as:

- adopting a particular monetary policy (i.e., putting a large portion of non-fixed assets in London, and controlling the exchange rate of the Hong Kong dollar);
- massive provision of public housing for low-income households;
- promoting international trade;

- urban and infrastructural development (i.e., land reclamation, developing satellite towns and industrial areas, *de facto* land nationalisation);
- controlling the prices of foodstuffs, etc.

Since the orientation and substance of interventions in Hong Kong is so different from other NICs, we cannot classify Hong Kong as a developmental state. Nevertheless, my interest is not in the classification itself, but in the political explanation about why the colonial state takes that particular orientation of intervention in the economy. To expand the picture, Stephen Chiu (1996) explains Hong Kong's exceptionalism (*laissez-faire* orientation of the colonial state) by deciphering the political origin — that is, how the alliance between the colonial state elite and the leading British commercial and financial bourgeoisie worked to defeat the proposals (in the 1950s) for state allocation of more resources (such as industrial land on preferential terms, industrial bank credits, technological support to particular industries, government's loan/subsidies or tax holidays) to the Chinese manufacturers in Hong Kong. Chiu argues that the colonial state's financial stringency put a limitation on its ability to mobilise resources to subsidise industrial development in the 1950s. At the same time, the British bankers resisted the introduction of a publicly owned industrial bank, because it would compete against them for business. Furthermore, Chiu points out that the British commercial and financial bourgeoisie inside the governing coalition blocked the Chinese industrialists' demands for the sale of industrial land on concessionary terms, partly because they were worried about the possibility of tax increases to pay for such subventions.

### *The Relative Autonomy of the State*

Following the idea of Poulantzas, Bob Jessop (1990:303) elaborates that, firstly, the state apparatus can be understood as a strategically selective terrain which has asymmetrical effects on the organisation of power. In other words, the government policies,

taxation and legislature should not be taken as "fair" to all social classes. Secondly, within these strategically selective limits of the state apparatus, the actual outcome of state power depends on the changing balance of forces engaged in political action both within and beyond the state. For a better understanding of the conception of state, Jessop suggests that we should focus more on:

- (1) the distinctive institutional logics of different state forms and specific modes of policy-making (e.g., the power of the colonial governor, the Exco and the Legco had been defined/prescribed by the colonial constitution, i.e., the Royal Instructions, the Letters Patent, and the constitution limited the form of the political system in Hong Kong as only non-democratic);
- (2) the changing balance of forces which is condensed in and through the distinct structures and functions of the state (e.g., the British hongts and later the Chinese merchants struggled for dominance, and their representatives were hungry for the seats in the Legco and Exco);
- (3) the links among state projects, accumulation strategies, and hegemonic projects (e.g., the British hongts had been the major sources of government revenue and received particular privileges on gaining the monopolies of public utilities businesses).

Summing up the three points above, Jessop tries to theorize the dialectics between state-form determination and the balance of forces and, thus, explore the ties between state and society.

At a more operational level, the relative autonomy of the state usually depends upon the capacity of the state (e.g., financial, organisational, strategic, etc.). It also relates to the power distribution of interest groups in the civil society (e.g., a relative pluralist pattern of power distribution among several interest groups can allow a higher degree of relative autonomy of the state) (Amsden, 1992). The relative autonomy and capacity of the state may have different degrees in different dimensions/policy sectors. For in-

stance, the state may be highly interventionist in housing and land policy, while it may be hands-off in the services sector.

### *The ISH Model*

In the top power arena, there are ongoing struggles among the state elite and the most dominant interest groups. The orientation of key policies (e.g., economic policy) reflects the "sum of vectors" of influences of the dominant agents at a particular period of time. The present state-form and approved policies constrain the strategies of all interest groups. However, the relationship between the rational powerful agents and the state is dialectical. This relationship is also subject to historical contingencies (such as changes in the regional and/or world political economy).

The relative autonomy of the state is intimately related to the broader institutional setting. The state managers cannot enhance the state's financial and organisational capacity without considering prevailing institutional constraints and power relations among dominant interest groups in the society. However, the state managers are usually situated in a better position since they may have a pre-given superior role in interpretation and resolution of real or potential conflicts among different interest groups. We cannot explain this relative autonomy without understanding the institutional dynamics.

In order to delineate the configuration of relative autonomy of the state, and the politics of economic policy, I introduce the Institutions - Strategic actions of agents - Historical contingencies, or in short, the ISH model. This model is an integrated articulation of ideas from Kuan (1993), Jessop (1990), North (1990), and Thelen and Steinmo (1992). Firstly, let us briefly define some key terms.

**Institutions:** they are the rules of the game (with normative and regulative elements) in a society, or more formally, they are the structural and organisational "space" and/or constraints devised by people. Institutions also exist in informal ways (such as traditions, dominant culture, social norms, common practices and codes of conducts). Institutions shape the ways of human interac-

tions because institutions provide the incentives and/or disincentives in human exchange behaviours (whether in political, economic or social dimensions). Institutions reduce uncertainty by providing a structure to everyday life. Usually current institutions are respected by the majority and backed by sanctions (i.e., disincentives regulated by formal institutions). Institutions define and limit the set of choices of agents. Institutions also define the relationship between agents. The prevailing institutions are the outcome of the past political struggles of agents. Institutional change shapes the way societies evolve through time.

**Strategic actions of agents:** they are the dialectical political interactions between agents (each formulate rational strategies to maximise self-interests). Agents may form and re-form their power alliance with other agents. These political struggles are mediated by the existing institutional setting. However, new powerful agents may pursue new goals through prevailing institutions.

**Historical contingencies:** they come from several sources, such as the unintended outcomes of government policies and changes in the external environment. Contingencies may bring "push" and/or "pull" effects on political and/or economic restructuring. Contingencies may lead to incremental change or sudden break-down of the existing institutions. Contingencies may also create chances for the subordinate agent(s) taking a turn of fortune (i.e., change in power positions).

The ISH model tries to go beyond the theoretical debate on relative autonomy. It takes the relative autonomy of the state as an empirical question. It provides us with a closer look at the dynamism of interaction between institutions and agents. And, this dynamism determines the extent of relative autonomy of the state in a particular period of time.

It is important to be aware that the colonial government was not taking a neutral or *laissez-faire* perspective towards economic governance. Evidence shows that, due to its colonial nature, the government had a bias in favour of the interests of Britain and British hongks. These bias partly came from the colony's political

system and partly came from the colonial mind-set of the top decision-makers in the bureaucracy. I prefer to take the formal legal structure and organisations, informal rules and norms, common practices, codes of conduct, etc., all being included in the category of institution. Hence, this particular colonial mode of institutions induced the selective economic interventions of the city-state. Nevertheless, this particular mode of institutions was not static. It would be reinforced or modified by the dominant agents in different circumstances.

In the economic restructuring process of Hong Kong during the 1950s and 1960s, the government took a particular orientation to intervention in the economy (or mode of economic governance). The main theme of this paper is to provide a political explanation of this. The explanation will involve (1) making a clear picture of the particular empirical/historical context in order to let us have a full consideration of the contingencies, (2) delineating the strategic relations (under a particular institutional framework) among the dominant agents whose interactions strongly influenced the economic governance of the colonial state.

### Government's Role and Selective Interventions in the Economy

Hong Kong has often been referred to as a *laissez-faire* city-state. However, in the following, I shall show that this was a myth. With strategic considerations, the colonial government made selective interventions in order to maximise the interests of Britain and British hongks.

The industrial economy of Hong Kong became more mature around the 1960s. The local industrialists realised that they had to build up collective influence and fight for their own interests. They formed many groups, such as the Chinese Manufacturers' Association (CMA) and the Federation of Hong Kong Industries (FHKI). They tried many ways to announce their problems to the colonial government, but they only got negative feedback. The

government provided few substantial supportive interventions which were specially for the manufacturing sector. In fact, most of the large-scale interventions were favourable to the financial/commercial sector or related fields. The manufacturers faced many problems, such as high rent, high labour cost,<sup>2</sup> the shortage of skilled labour, and the lack of low-interest loans (for upgrading the machines). Hence, some of them migrated or diversified their businesses to nearby Asian countries. Moreover, some tried to change or diversify their businesses in other fields (such as land property, real estate, or service sectors).<sup>3</sup>

The colonial government did not provide a helping hand to the industrialists. The colonial governor and the top bureaucrats only had one simple instruction from London — maintain the interests of Britain, especially its trade in Asia. All other interests could be put in the second order of priority, including the well-being of Hong Kong people.

The decline of Britain's industrial economy and the role of Hong Kong as a world export champion (started in the late 1950s) created a unique situation in the 1960s in that the foreign exchange earned by a small Hong Kong had become an important support to the unwell Sterling empire. The direct control of Hong Kong's surplus by Britain for its own sake meant the deprivation of the capital for re-investment in Hong Kong. Britain had no interest in making investments to upgrade the industries in Hong Kong if her need for capital was more urgent. Moreover, Britain did not think that it was worth investing too much in Hong Kong, given the uncertain political future of the colony.<sup>4</sup>

The housing policy (after the Shek Kip Mei fire) was partly benevolent and partly instrumental. It was an expression of the social paternalism of the government within the limits of the budgetary priorities geared towards law and order. In addition, low-rent public housing was taken as a kind of social wage, as supplement to the working class people whose labour wages were suppressed generally (Castells, Goh and Kwok, 1990:chaps. 4-5).

Moreover, the government was active in trade promotion and spent a certain amount of resources in setting trade promotion

offices in major cities in the United States of America, Europe, Japan, Australia, etc.

Furthermore, the government had given much effort to land reclamation and the construction of the infrastructure. But, these were not done by the government alone. A lot of projects were franchised to the British hongts (e.g., the airport renovation, the sea-water purification plant, the cross-harbour tunnel, highways, container terminals, piers for ferries, tram-ways to the Peak, etc.). All these achievements were beneficial (if not only) to the commercial/financial sector dominated by the British hongts. Table 1 categorises the colonial government's interventions. It shows that the manufacturing sector received no or a low degree of direct support from the government.

### *Monetary/Fiscal Policy with Colonial Bias*

The Hong Kong colonial government did not use its reserves in upgrading the local industries if the need for capital to rescue Britain's monetary crisis was more urgent. Under the colonial

**Table 1** Government's Selective Intervention

A. Favourable to Britain	– Monetary/Fiscal policy
B. Favourable to British hongts	– Granting public works contracts, public utility franchises
C. Favourable to both British hongts and local industrialists	– Trade promotion policy
D. Favourable to all sectors in Hong Kong	– Housing policy – Land and infrastructural development – Food price control
E. Absence or low degree of support	– Research and development – Productivity and quality support services – Loans or financial incentive for manufacture – Technical training

system, Britain had a prior claim to Hong Kong's resources. This can be illustrated by the case of the pound sterling devaluation crisis in 1967. There were two mechanisms that "automatically transferred" Hong Kong's reserves to Britain. The first one was the legal requirement for full foreign exchange backing for each Hong Kong dollar issued and, also by law, the foreign exchange backing had to be 100% in pound sterling. And secondly, the Hong Kong government was legally obliged to put its budget surplus, again, in pound sterling in Britain. Over time, the budget surplus and foreign exchange reserves accumulated, and by the time of the sterling crisis took place in 1967, it reached a marvelous 350 million pound which was about one-third of Britain's total reserves. The astonishing size of the reserves from Hong Kong alone indicated that it was accumulated by the colonial government in a deliberate effort and awareness of its significance to the stability of the British economy.<sup>5</sup>

It is strange that year after year the Financial Secretary budgeted for a deficit; year after year, he produced a large surplus and did not demand that more revenues be put back into the Hong Kong society. In the financial year 1967-1968, the year that the sterling crisis took place, actual surplus as a percentage of total revenue was 7%. By 1969-1970, the percentage had jumped to 18%. It is obvious that the amount of the colonial government surplus closely followed the need of Britain.<sup>6</sup>

Strictly speaking, the reserves were still nominally owned by the Hong Kong government, and they earned interests on investing in securities and other financial instruments in London. But, it did not imply that Britain had not derived benefits or had no control over them. In the first place, the Hong Kong government was prevented from taking back this capital from London even when the pound was unstable. Moreover, Hong Kong was required to put the reserves in London rather than in Hong Kong, and it meant that Hong Kong's capital was on loan to Britain and could not be put to the colony's own use (Lin, 1970). In other words, Britain took Hong Kong's colonial status to force a developing economy to extend a loan to a developed economy. This

reserve system was an imposition on Hong Kong of an unpleasant task of supporting the pound, and such a task was a damaging drain on funds which Hong Kong could have made fruitful domestic use of, such as setting an industrial development fund. At current prices, supporting the pound cost Hong Kong a total of HK\$450 million.<sup>7</sup>

The Hong Kong government had practised a tight fiscal policy; however, it would be naive to explain this policy in terms of the ideology of the financial secretary (so-called fiscal conservatism). From the discussion above, we can see that tremendous benefits/interests had been reaped by Britain in keeping the Hong Kong government lean and mean. Referring to the colonial logic and the weakness of the British economy can help us to understand the linkage between the colony's fiscal policy and the transfer of capital from Hong Kong to Britain.<sup>8</sup>

In other Asian NICs, governments used their reserves in contributing to the improvement of their industries (e.g., in research and development, the technical training of manpower, loans for manufacturers, industrial estates) and infrastructure. The Hong Kong government was very stringent in arranging capital in this way. The colonial bias of its monetary/fiscal policy was obviously one of the explanations.

### *Housing Policy*

Before 1946, Hong Kong's population was below one million. It increased to about 2.6 million in 1956 and was about 3.7 million in 1966. The ongoing storms of refugees rushing from China gave Hong Kong heavy pressure on resource support, including housing.<sup>9</sup> Throughout the period of the 1950s to the 1960s, blue-collar families usually spent more than 10% of their total expenditure on housing services. During the same period, government intervention in the housing market was increasing. It took two forms: increasing provision of public housing and rent control. Rent control was initially related solely to pre-war premises, but with the Rent Increases (Domestic Premises) Control Ordinance of

1963, they spread to encompass post-war domestic premises as well. Therefore, under this control, rents remained far below fair market rents.<sup>10</sup>

After the Shek Kip Mei fire in 1953, Hong Kong government made a great effort at providing public housing for the working class people. In 1954-1961, the government provided about 8,523 housing units per year (they included the resettlement estates and construction managed by the former Housing Authority). In 1962-1969, about 27,522 public housing units were built per year. The pace of construction accelerated tremendously when comparing the two periods (Castells et al.:chaps. 1-2). The commitment of the government to providing public housing as a kind of social wage was harmonic with the political theme of the colonial state. The theme was clear: the city-state capitalist in nature had to suppress labour cost on the one hand and maintain social/political stability on the other. The crowds of the lower class under poor living conditions would be "very dangerous," leading to crimes and even riots. The policy of public housing was surely mixed with strong political implications in that period of time.<sup>11</sup>

### *Investment and Trade Promotion*

By the end of the 1950s when Hong Kong was celebrating the success of industrialisation, the signs of industrial crises had begun to surface. Britain imposed its restriction on Hong Kong textile exports in the 1959 Lancashire Pact, and protectionism became a serious menace to the export-oriented industrial structure in Hong Kong. Britain's attempt to enter the European Community in the 1960s created another serious threat to Hong Kong's industries because it meant the termination of the Imperial Preference System which had given Hong Kong goods tariff concessions when entering the British market.<sup>12</sup> Faced with these problems, the Hong Kong colonial government did nothing in negotiation with the British Cabinet nor did it take other means to improve the situation (Choi, 1994).

Nevertheless, the Hong Kong government's exceptionally active approach in trade promotion should be viewed not only as an attempt to expand industrial production (and then its revenue), but also as a way to deflect Hong Kong people's anger over British protectionism, and to directly cater to the interests of the British hongs and commercial sector which had been marketing a large portion of the industrial products overseas. To encourage overseas investment, the Industry and Trade Department made an active effort from the mid 1960s in publicising Hong Kong as a favourable offshore manufacturing location. In 1969, Hong Kong government participated in the World Exposition at Osaka in Japan, with an investment of some HK\$8.6 million which, it hoped, would bring long-term returns in general goodwill and interest on Hong Kong's productions and trade.<sup>13</sup>

It also participated in (1) those areas where firms were unable to act individually, such as in international trade negotiations in GATT, MFN, etc., (2) gathering information on world markets, (3) making representations, engaging in lobbying to further trade relations with major importing nations, such as the United States of America, (4) conducting negotiations, especially relating to textiles and clothing (Yeung, 1991).

Although the government did little to support (especially to finance or subsidise) the manufacturing development, it chose another way, such as exploring the foreign markets for the export-oriented industries. This way of help was beneficial for both the manufacturing and commercial/financial sectors.

### *Land and Infrastructural Development*

Infrastructural development was one of the prominent achievements of the colonial government. Reservoir construction programmes (more active since the early 1960s), such as the Plover Cove Reservoir, helped to solve the serious water shortage problem which not only had seriously affected people's daily life, but had also posed a major bottleneck in the expansion of the high water consuming textile industry.<sup>14</sup> A resettlement plan (started in

the 1950s) was carried out with strong industrial consideration. This project was an effort to recombine labour and capital in less expensive new towns like Kwun Tong and Tsuen Wan (Bristow, 1989:72). Expansion project of the Kai Tak airport in the 1960s was also favourable to the trade and industrial development.<sup>15</sup> Construction of the cross-harbour tunnel and the complex of roads and flyovers associated with it was started in the late 1960s and it was very essential to break through the water barrier between Hong Kong Island and Kowloon (*Hong Kong Hansard*, October 1970:6).

In the land market, the Hong Kong government controls the supply of land directly as owner and indirectly through land reclamation and broad land use/redevelopment stipulations in leases. The capital and recurrent revenue from land and property together have accounted for a considerable proportion of the total government revenue, especially in periods of property boom.<sup>16</sup> According to Wu (1983:1-30), the government has taken a high land price policy view, that is, the quantity of land (both for industrial and other uses) supplied by the government has been unduly low in slack periods (such as when the Hang Seng Index has been low), and with substantial increases of land supply during boom years.

Before 1973, the government sold land to industrialists at the current market price and through public auctions. This allocation method at that time did not favour the small or medium size factory owners (Chiu, 1994:69-75). Hence, industrial land was so expensive that land cost represented a larger and larger item in total production cost. Fortunately, the government had provided flatted industrial units for certain small industries since the 1950s, together with the resettlement scheme for squatters (Dwyer and Lai, 1967:chaps. 1-2). In 1963, the government allowed (on some occasions) industrial land to be paid by instalment over a 20 years period at 5% interest rate.<sup>17</sup>

But these concessions were limited, and the government basically did not deviate from the principle of charging market rates for industrial land. Land was one important resource directly

controlled by the colonial government and revenue from land sale was a major portion of government income. The commercial and financial capitalists also objected to the idea of concessionary industrial land prices because the loss of government revenue might mean higher tax rates on them (Chiu, 1994). Moreover, concessionary land might also threaten the bankers' mortgage business because financing land purchase had become a very profitable business. Some suspected that the banks had been encouraging speculation on industrial land.<sup>18</sup>

In the 1970s, the collective power of the industrialists grew to a respectable level, and the colonial government could not neglect their voices. The new land policy (started from 1973) provided areas of land for sale at concessional prices on a restricted-user basis. It was confined to technology- and skill-intensive industries and to industries that could be beneficial to the economy's industrial development.<sup>19</sup> The government policy of industrial dispersal to the New Territories distorted both land and labour markets (the latter through the siting of public housing projects); and, its provision of infrastructure and stipulations for special land sales to certain types of industrial users lowered production costs through cheaper land costs and more effective inter-industry linkages.<sup>20</sup>

### *Influences on the Prices and Supplies of Foodstuffs*

The supply of foodstuffs is always strategically essential for a political regime. Since the 1950s, the Hong Kong government has appointed a limited number of importing firms to negotiate with PRC monopoly foreign trade organisations over eventual wholesale import prices. Thus, wholesale prices for up to 25% less of the expenditure of a blue-collar employee have been strongly influenced by non-market forces.<sup>21</sup>

After 1955, Hong Kong government instituted the "Rice Control Scheme" on several occasions. The basic objective was to maintain a plentiful supply of rice to consumers at reasonably stable prices. The essence of the scheme was based on strict governmental regulation and supervision of "stockholders" in such a



manner as to ensure ample stocks and to prevent speculative activities through contrived shortages which would boost prices (Schiffer, 1991).

In local vegetable and fish production, the government initiated, nurtured (with loans and grants), regulated and, at times, administered wholesale cooperative marketing organisations. The involvement of government has made the supply of fish and vegetables correspond with the rapidly expanding population (Schiffer, 1991).

### *Productivity and Quality Support Services*

The government's institutional support for promoting productivity was not in full-strength until the 1980s. It had simply made annual grants to the Hong Kong Productivity Council (HKPC) to maintain a range of productivity enhancement services since 1967 (but these services had little popularity among the local industrialists, especially with small firms).<sup>22</sup> These had taken the form of laboratory facilities, bureau services and a variety of consultancies. The areas of support included electronics, metalwork, textiles and apparels, plastics, etc.<sup>23</sup>

The early 1980s can be taken as a watershed when the government started to promote and put more institutional (not *ad hoc*) efforts into manufacturing (especially those with high technology/high value-added industries). By comparison, in the 1950s and 1960s, there were few institutional devices of the same nature. Moreover, the Industry Development Board (as a statutory body) has taken up a more active and flexible role than the Industry Department as an institutional support to upgrade the productivity of Hong Kong's manufacturing.

### *Inadequate Research and Development Policy*

The government had had no long-term plan on promoting research and development relating to industries until the 1980s. It initiated the *Advisory Committee Report on Diversification of Indus-*

*tries* (in 1979) which promoted the diversification of markets and products of local industries. However, the work of this committee was simply to make suggestions to the manufacturing firms to diversify the output markets and kinds of products. The committee rarely suggested what the government could do to help.<sup>24</sup>

### *Absence of an Industrial Bank and Few Financial Incentives for Industry*

The British hong's and banks' representatives had always been dominant in the Exco and Legco until the late 1980s. The state/bureaucratic elite sometimes had their own considerations. But in many instances, the top bureaucrats (posts mostly occupied by the British before decolonisation) usually preferred to take the suggestions/ideas of the British hong's seriously.

There was debate on the setting up of an industrial bank in Hong Kong in the 1950s and 1960s. The debate process itself offered a glimpse of the conflict between the industrialists and the banking elite, and where the colonial government had stood. For the industrialists, the availability of low-interest, long-term industrial loans was a driving force for setting up an industrial bank. In promoting this, the industrialists argued that the bank was needed not only for their own interests (having the capital for buying more advanced machines and upgrading production), but also for a brighter and more prosperous future for the colony as a whole (since a good industrial development would earn more foreign exchange and provide a lot of job opportunities for all).<sup>25</sup>

This industrial need was on a collision course with the bankers' interests. The ability of the banking elite in imposing their will on the colonial state was indicated in the composition of the 1959 Industrial Bank Committee (set up by the government), which included the deputy Financial Secretary as the chairman and five unofficials (none of them had any industrial background, but three of the unofficials were from the banking sector). The dominance of the committee by members from banking guaranteed a negative recommendation, because they disliked the notion

of setting up a public or semi-public financial institution that would compete with them (Chiu, 1994:82-83).

The industrial bank idea was then abandoned. The colonial government felt no urge to support the small- and medium-size manufacturing firms through financial means. It had few financial incentives (such as tax holidays or subsidies) to attract industrial investment until the 1970s. On a few occasions, the government provided loans for selected small industries (1972-1975). However, it was stopped later, since government officials said that this means was not very effective (Wong, 1991).

In 1970, a legislator, Lo Kwee-seong, suggested the government cooperate with commercial banks to establish a scheme specifically for making medium-term loans to small- and medium-size factories for the purpose of purchasing machinery and equipment (*Hong Kong Hansard*, October 1970:47-49). It could help the factories to modernise their equipment and their management techniques and, hence, raise the level of industrial productivity. This recommendation was made after long and careful studies by the Loans for Small Industry Committee set up by the Trade and Industry Advisory Board (which was a non-governmental board). The proposed scheme was a modest one calling only for an initial capital of HK\$10 million. But, it was hoped that, once proven successful, both government and private commercial banks would be willing to lend it their further support. Mr Lo argued that the commercial banks usually helped the large firms only. Moreover, the banks were obliged to confine themselves to short-term loans. Hence, for capital investments in machinery, most small factories had to rely entirely on their own resources or on relatives and private money lenders. However, they were finding it more and more difficult to raise money privately because of two phenomena: (1) as more and more people had learned to trust the banks, money was then deposited with the banks instead of keeping it lying around the house; (2) with more and more companies going public, spare cash then found a new outlet in the stock market. So private money was getting more and more scarce.

The scheme as recommended by the Loans for Small Industry Committee had only one objective, and that was to make medium-term loans available to small factories based on technical, economic and managerial criteria instead of the over-emphasis on collateral security. The loans would only be used for the purchase of machinery and equipment for modernisation and expansion. Mr Lo further argued that many countries in Asia had recognised the need for some sort of financial institution to assist the growth of small industry. In Japan, there were several institutions solely sponsored by the government, such as the Small Business Finance Corporation and the People's Finance Corporation to assist small industry. Singapore, Thailand and Taiwan, each, had its own institute for giving loans to small industries.

However, the Financial Secretary, Philip Haddon-Cave, rejected the scheme:

I must confess my distaste for any proposal to use public funds for the support of selected and thereby privileged industrialists, the more disfavour if this is to be used on bureaucratic views of what is good and what is bad by way of industrial development.... Firstly... there is a reference in the report to banks and government sharing the profit and loss on guaranteed loans but the present proposal would allow the banks to select their worst risks for guarantee, automatic guarantee, while keeping all the profit on industrialists' better risks. In underwriting terms this is wholly unacceptable.... Secondly... banks could not, in the nature of their business, make loans of a long enough duration to meet industrial needs, rather than that they were not in a position to accept the commercial risks involved.... I find odd the view that a government institution is better placed to evaluate the technical and financial viability of a project than a commercial bank.... I myself tend to mistrust the judgement of anyone not involved in the actual process of risk-taking. (*Hong Kong Hansard*, October 1970:116-17)

The main implication of Haddon-Cave was that the colonial government did not want to share the risk of the industrial entrepreneurs, neither did it throw the burden to the bankers. The

industrialists had to take up their own risks in investment with high prices.

Hong Kong's economic governance was greatly different from that of other Asian NICs. There were state provisions for industrial finance via a semi-statutory board, such as the Economic Development Board in Singapore or via a state-owned banking system in South Korea and Taiwan. The financial incentive was an important state intervention in industrialisation and economic restructuring in these Asian NICs (Chiu, 1994:75-76).

### *Deficiency in Manpower Training for Manufacturing*

One frequent criticism of Hong Kong's manpower training policy was that the average technical and general educational attainments of the labourers were low compared with the Asian NICs. On the basis of all industries surveyed in the early 1970s, (1) operatives and general workers accounted for 75% of total employment, (2) craftsmen and technicians only accounted for 19% and less than 6%, respectively, (3) 96% of the employed population in the manufacturing sector had not acquired technical and vocational training, (4) 89% of the employed population in the tertiary sector had not acquired vocational training, (5) about 59% of the labour force had not received secondary education (Lin and Ho, 1980:52-54). A legislator, Chung Sze-yuen, argued:

There is in the industrial infrastructure a major and vital area which Hong Kong has neglected and is still neglecting. It is technical education and industrial training for the young generation. This is an internal factor, over which we in Hong Kong have full control. Whilst Government has recognised the deficiency in technical education and a year ago appointed a Polytechnic Planning Committee to rectify the inadequacy at the middle level, no serious attempt apparently has been made to look at the overall situation more realistically. As a result, the shortage of technicians and craftsmen is becoming increasingly critical and, unless there will be some significant improvement in the near future, our rate of industrial expansion, and hence economic

growth, may be slowed down appreciably. (*Hong Kong Hansard*, October 1970:41)

Another legislator, Lo Kwee-seong, further argued:

Our labour pool has dried up, whereas ten years ago we were able to get all the labour we wanted, today we find ourselves short of manpower in almost every industry. Due to this shortage, wages have been going up by leaps and bounds... the cost of labour could well have more than doubled in the last six years. This makes our labour cost the highest in Asia, after Japan.... In order to increase productivity we have to ask the Government to speed up the provision of training facilities for craftsmen and technicians, industrial supervisors and middle-level managers. (*Hong Kong Hansard*, October 1970:46-47)

Obviously, the government had not adequately produced the skilled manpower required by industries. In turn, the shortage hampered industrial upgrading and moving to higher value-added production.

### *A Remark*

As shown in Table 1, not all selective interventions of the colonial government were favourable to the economic restructuring of Hong Kong in the 1950s-1960s. Only items C and D were favourable to the industrial take-off. Hence, the colonial government only played a partial role in facilitating economic restructuring. Other efforts were made by the private sector. The government had no long-term or active planning for industrialisation. Its major concern was to maintain Hong Kong as a free trade port, with stability and prosperity, and a good working environment for the British hongts. The opening up of American and European markets was a contingency for the good sales of local manufacturing products.

The delineation in this section showed that the colonial government actually did not take a *laissez-faire* approach to economic governance. The pound sterling storm case showed that the colo-

nial government made an unfair deal for the Hong Kong people. The money of the people (in the government reserves) was not used for the local people. The colonial government did not lack capital, but it did not want to spend on supporting the local industries directly. The most obvious reason, the major instruction from London to the colonial governor, was to maintain the interests of Britain and its trade in Asia.

### The Dominance of British Hong in Hong Kong

The prosperity of the British hong is quite closely related with the everyday lives of the Hong Kong people. Although I cannot find documents to prove if there was any secret deal between the colonial bureaucracy and British hong, I can get some indirect indicators which show the significance of the British hong in the power structure of the colony.

The British hong had built their business empire with the blessing of the colonial government. Land was a rare resource in Hong Kong, and the hong owned the best locations on Hong Kong Island (such as the prime areas in Central and Causeway Bay). At the end of the 1960s, their business fields covered trading services, engineering, the export of Hong Kong products, China trade, shipping, air transport, insurance, financial, secretarial and investment services, real estate development, warehousing, container terminals, shopping complexes, textiles and clothing, hotel services, ferry and tram services, dairy products, wholesaling and retailing, etc. The power of the British hong was embedded in the historical roots of the colony.

The British taipans had always expected to have some power in the governing of the colony. The taipans closely scrutinised the actions of the governors (appointed from London) and actively criticised any measures which they perceived as against their interests. Sometimes, the taipans wrote complaint letters directly to London (to the Parliament or Colonial Office). Before the end of the 19th century, the taipans successfully demanded a couple of

seats in the Legco and Exco of the colony. Taking representation in the colony's highest administrative bodies, the British hong established firmly their political power in society. In turn, the economic policies (pro-business rather than pro-industry) of the colonial government were heavily influenced by them. Moreover, the public utility businesses and other services were mostly monopolised by the British hong for decades, or even a century. These franchises had brought great wealth to the hong and, in return, their aggregated wealth-cum-power was so mighty that it could not be shaken or challenged by any other parties (until the era of decolonisation).

The power of the British hong was rooted in the colonial system from the beginning. Their main aim was oriented towards trading and making money. But, this was not the whole story. The taipans' competition for social status and desire for power and autonomy had been developing for as long as they stayed in the small colony. Many middle class Europeans experienced status elevation when they took up a job in the East (Chan, 1991:47-49). Members of the hong developed a "sense of belonging" in the colony after they had worked here for several decades. Except in periods of war and instability, the directors of the British hong contributed great efforts in promoting the improvement of infrastructure and the business environment of the colony. They occupied seats in the Legco and Exco for over a century and had significant influence on the government policies in both the economic and political dimensions.

As shown in Table 2, the socio-economic backgrounds of the Exco and/or Legco members were quite homogeneous (especially in the 1950s and early 1960s). Most of them were the directors of British hong (or their branch companies), such as Jardine Matheson, Hongkong and Shanghai Bank, Hutchison, China Light and Power, Kowloon Wharf and Godown, Hong Kong Land, Butterfield and Swire, etc.

However, towards the end of 1960s, more and more Chinese capitalists were appointed as unofficial members in the two councils. Most of them were bankers (such as those from the Hang

**Table 2** Legco and Exco Unofficial Membership and Socio-economic Background

	Name	Council membership	Background	Directorships	Company related
1950--	Cassidy, P.S.	E, L	B	9	Hutchison
	Chau, Sik-nin	E, L	C, B	14	HK Chinese Bank; Dairy Farm; Nin Fung Hong
	Chau, Tsun-nin	E, L	C, P	4	Yuen On Steamship; HK Electric
	Leo D'Almada e Castro	E, L	O	1	
	Lo, Man-kan	E	B, P	11	China Light & Power
	Terry, C.E.M.	L	B	0	Kowloon Wharf & Godown
	Watson, M.M.	L	B	7	Broadcast Relay Service HK
	Morse, Arthur	E	B		HK Bank
	Landale, D.F.	E	B		Jardine
	Roberts, C.C.	E	B		Butterfield & Swire
1954--	Blaker, Cedric	L	B		Gilman & Co.
	Chan, Kwok	L	C	3	Hang Seng Bank
	Chau, Sik-nin	E, L	C, B	14	HK Chinese Bank; Dairy Farm; Nin Fung Hong
	Lo, Man-wai	L	B	2	China Light & Power
	Ngan, Shing-kwan	E, L	C	1	China Motor Bus

**Table 2** Legco and Exco Unofficial Membership and Socio-economic Background (Continued)

	Name	Council membership	Background	Directorships	Company related
1962--	Rodrigues, A.M.	E, L	P		(Medical practitioner)
	Ruttonjee, D.J.	L	B		Dhun Ruttonjee & Co.
	Terry, C.E.M.	L	B	13	Kowloon Wharf & Godown
	Barton, H.D.	E	B		Jardine; HK Land
	Roberts, C.C.	E	B		Butterfield & Swire
	Morse, Arthur	E	B		HK Bank
	Barton, H.D.	E, L	B	13	Jardine; HK Land
	Chan, Kwok	L	C	3	Hang Seng Bank
	Fung, Ping-fan	E, L	C	27	Bank of East Asia
	Gordon, Sidney, S.	L	B, O	4	Kadoorie Ltd.; China Light & Power
	Kan, Yuet-keung	E, L	C	20	Bank of East Asia
	Knowles, W.C.G.	L	B	10	Butterfield & Swire; Taikoo Dockyard; Taikoo Sugar; Cathay Pacific Airways; HK Tourist Association
	Kwan, Cho-yiu	E, L	C, P	4	Associated Bankers Insurance
	Lee, Richard, C.	E, L	C	11	Lee Hysan Estate
	Ruttonjee, D.J.	L	B		Dhun Ruttonjee & Co.

Table 2 Legco and Exco Unofficial Membership and Socio-economic Background (Continued)

	Name	Council membership	Background	Directorships	Company related
1965-66	Stewart, G.O.W.	E	B	1	HK Bank
	Turner, M.W.	E	B	1	HK Bank
	Chung, Sze-yuen	E, L	B	7	Swire; China Light & Power; Federation of HK Industries
	Clague, J.D.	E	B	36	Hutchison; HK Bank; Wheelock Marden; Dairy Farm; Cross Harbour Tunnel; HK & China Gas; Watson & Co.; Wellcome
	Fung, Ping-fan	E	C	27	Bank of East Asia
	Gordon, Sidney, S.	E, L	B, O	4	Kadoorie Ltd.; China Light & Power; Lane Crawford; HK Land
	Kan, Yuet-keung	E, L	B, C	20	Bank of East Asia; HK Land; HK & Kowloon Wharf & Godown; HK Electric
	Kwan, Cho-yiu	E, L	C, P	4	Associated Bankers Insurance
	Li, Fook-shu	L	B, C	9	Bank of East Asia; HK & Kowloon Wharf & Godown
	Ross, G.R.	L			
	Ruttonjee, D.J.	L	B		Dhun Ruttonjee & Co.

Table 2 Legco and Exco Unofficial Membership and Socio-economic Background (Continued)

Saunders, J.A.H.	E	B	3	HK Bank, Jockey Club
	L	P	1	HK Society of Architects; Town Planning Board
Tang, Ping-yuan	E	B, O	4	HK Telephone; Mayfair Industries; South Sea Textile Mfg
	L	C	2	Corwell & Co.; HK Textile Mills Association; HK Rice Dealers United Association
Watson, K.A.	L	B	3	HK Tourist Association; Proprietor of Graisborough Studio
Wong, Sien-bing	L	O	4	American Engineering; International Engineering; American Pacific Insurance
Woo, Pak-chuen	L	B	2	Taikoo Dockyard
	E	B	37	Jardine; HK & Kowloon Wharf & Godown; HK Land; Dairy Farm; Star Ferry; HK Tramways; HK Electric; HK Telephone; HK Bank; South China Morning Post

**Table 2** Legco and Exco Unofficial Membership and Socio-economic Background (Continued)

	Name	Council membership	Background	Directorships	Company related
1969-71	Ann, Tse-kai	L	B, C	5	Hutchison; Winsor Industrial; Kowloon Motor Bus
	Browne, H.J.C.	L	B	16	Butterfield & Swire; Taikoo Sugar, Cathay Pacific Airways; HK Bank; Taikoo Dockyard; HK Tourist Association; Mercantile Bank
	Cheung, Oswald Victor	L	C	3	Li & Fung Ltd.
	Chung, Sze-yuen	E, L	B	7	Swire; China Light & Power; Federation of HK Industries
	Clague, J.D.	E	B	36	Hutchison; HK Bank; Wheelock Marden; Dairy Farm; Cross Harbour Tunnel; HK & China Gas; Watson & Co.; Wellcome
	Fung, Hon-chu	L	C	3	Li & Fung Ltd.; HK Cotton Merchants Association; Tung Wah Group
	Fung, Ping-fan	E	C	27	Bank of East Asia
	Gordon, Sidney, S.	E	B, O	4	Kadoorie Ltd.; China Light & Power; Lane Crawford; HK Land

**Table 2** Legco and Exco Unofficial Membership and Socio-economic Background (Continued)

Herries, M.A.R.	E, L	B	37	Jardine; HK & Kowloon Wharf & Godown; HK Land; Dairy Farm; Star Ferry; HK Tramways; HK Electric; HK Telephone; HK Bank; South China Morning Post
Kan, Yuet-keung	E, L	B, C	20	Bank of East Asia; HK Land; HK & Kowloon Wharf & Godown; HK Electric
Kwan, Cho-yiu	E	C, P	4	Associated Bankers Insurance
Lee, Quo-wei	L	C	4	Hang Seng Bank
Li, Shu-pui, Allen, Mrs.	L			YWCA; Social Welfare Advisory Committee
Lo, Kwee-seong	L	C	1	HK Soya Bean Products
Rodrigues, A.M.	E	P		(Medical practitioner)
Salmon, G.M.B.	L			
Saunders, J.A.H.	E	B	3	HK Bank; Jockey Club
Szeto, Wai	L	P	1	HK Society of Architects; Town Planning Board
Tang, Ping-yuan	E	B, O	4	HK Telephone; Mayfair Industries; South Sea Textile Mfg

**Table 2** Legco and Exco Unofficial Membership and Socio-economic Background (Continued)

Name	Council membership	Background	Directorships	Company related
Tse, Yu-chuen	L	C	2	Corwell & Co.; HK Textile Mills Association; HK Rice Dealers United Association
Wang, Tze-sam	L			Tung Wah Group; New Method College
Watson, K.A.	L	B	3	HK Tourist Association; Proprietor of Graisborough Studio
Wong, Sien-bing	L	O	4	American Engineering; International Engineering; American Pacific Insurance
Woo, Pak-chuen	L	B	2	Taikoo Dockyard

Notes: B = British Capital Related, Director; C = Hong Kong Chinese Capital Related, Director;  
 O = Other Country Capital Related, Director; P = Professional; E = Executive Council Member;  
 L = Legislative Council Member.

Sources: *Hong Kong Album*, 1960; Rear (1971); Walker and Luzzatto (1973); *Hong Kong Hansard*, various years; Deng (1958:2-6).

Seng Bank or the Bank of East Asia). And, a few Chinese capitalists with manufacturing background also took seats after the mid-1960s (such as those related with Mayfair Industries Ltd., Hong Kong Textile Mills Association, Hong Kong Cotton Merchants Association, Hong Kong Soya Bean Products Co., Winsor Industrial Co., Li and Fung Ltd., etc.). Nevertheless, the British taipans still had louder voices in the two councils.

After the Second World War, the British hongts had realised that they had to maintain a closer relationship with the local Chinese merchants. Britain could no longer provide powerful protection for the hongts as before the war. On the one hand, the hongts had to diversify their businesses over Asia, and, on the other, the taipans needed to cooperate with the local Chinese bankers and merchants since the latter had more information about the China market and better business relationships with the other Asian merchants in the region.

The strategic considerations of the British hongts (those clustered around the commercial and financial fields) were with the following strings:

- (1) Keeping an intimate capital-state linkage (which had developed prior to the industrial take-off in Hong Kong) was essential. Members of the large expatriate-British hongts (such as the Hongkong and Shanghai Bank, Jardine Matheson, Butterfield and Swire) were co-opted into the colonial power structure through the appointment of unofficial memberships to the Exco and/or Legco (Davies, 1977).
- (2) It was profitable to intensify investment in Hong Kong both vertically and horizontally. The businesses of the hongts covered many aspects (to be discussed in the coming section). Since the hongts had close relationships with the colonial government, they easily earned the monopolies of businesses in various fields (especially in public utilities). The British hongts got the maximum profits through both economies of scale and scope. In return, since they controlled so many public utilities, they had larger voices in affecting the government policies and living standards of the local people.



- (3) After building so many fixed assets (hotels, transport services, office buildings) and business networks in Hong Kong, the British hongs became more and more accepting that "Hong Kong is our home with prosperity." Together with the political lessons from the 1966-1967 riots and the MacLehose reforms in the late 1970s, the British hongs learnt that Hong Kong was a "boat" for both the Chinese and the expatriate merchants to live on. The hongs had to keep the "boat" well-equipped. The living standards, as well as the consumption power, of the people had to be uplifted. Their general education level had to be raised. After fulfilling all these, the competitiveness of Hong Kong could be upgraded and, hence, the growth rate of profits of the British hongs could be ensured.

For about 20 years of intensive investment deepening after the Second World War, Jardine Matheson (as a conglomerate) became the second largest employer in Hong Kong (the first one was the government). There was a close relationship between the prosperity of Hong Kong and the thriving of the conglomerate. As a case illustration, in the following, I shall show the scope of business of this great British hong in this small colony.

### *The Business Activities of the Jardine, Matheson & Co. Ltd. in Hong Kong*<sup>26</sup>

#### (1) Trading Services

Jardine managed import and export trades in Asia for all kinds of both durable and expendable consumer goods. The items included whisky from Scotland; cognac from France; cameras from Japan; radios and tape recorders from Germany; textiles from Britain; watches and cosmetics from the United States of America, etc. The company also managed marketing, wholesaling and retailing.

#### (2) Exports of Hong Kong Products

Jardine helped export manufactured goods to foreign markets, including the United States of America, Europe and Southeast

Asian nations. The goods included garments, footwear, gloves, finished and unfinished textiles, electrical goods, plastic products, metalware, furniture, toys, etc.

#### (3) Engineering

The Jardine Engineering Corporation Ltd. worked at importing, installing, maintaining and servicing all types of light and heavy machinery. It also supplied most kinds of construction materials, together with technical and specialist equipments, such as structural steel, lifts, air conditioning plants for buildings; machinery for factories, power station generators, lighting installation for business premises, complete telephone exchanges, security equipment for bank vaults, strong rooms and safe deposit boxes, filtration and water treatment plants, equipment for railways, aircraft, land reclamation, reservoir construction, etc.

#### (4) Trade with China

Jardine's staff had long-standing connections with the Chinese government's trading corporations (the sole buying and selling agencies) and with their official agent in Hong Kong, the China Resources Company. Senior staff of Jardine regularly visited the various trade fairs in Peking and other districts. It developed China's requirements — among them, fertilisers and tractors for agriculture, dyestuffs for textiles, machinery, trucks, aircraft — into orders for manufacturers in Britain or elsewhere. Jardine also managed the imports from China, including tea, textiles, wool, furs, soya beans, edible oils, etc.

#### (5) Shipping

Jardine's shipping services covered operation, chartering, management and agency. They engaged in many specialised cargo services across several key localities, such as Japan, Indonesia (Jakarta), Malaysia (Sabah), Singapore, Burma, East Pakistan, Thailand (Bangkok), Australia (Sydney), Philippines, China, etc.

Jardine (as shipping agency) also represented various leading liner and tramp shipping lines, such as the Glen Line Ltd., providing a regular fast cargo service from the Far East to Britain and

Europe. Jardine frequently performed technical services for companies associated with or represented by the firm.

#### (6) Airways

A comprehensive service was provided by Jardine for air lines, passengers and shippers. Jardine Airways (JA) was set up in 1946 to act as BOAC general agents for Hong Kong and China. Later, as JA expanded, it obtained the general sales agency for Qantas, Trans-Australian Airlines and Air Canada. Then JA became an approved IATA agent, selling on behalf of all airlines world wide. JA was a fully-fledged travel agency. Jardine also operated traffic handling and operations and air cargo units based at Kai Tak Airport (later called Hong Kong International Airport) which dealt with almost 50% of the airport's total traffic. Moreover, Jardine's Hong Kong Air Terminal Services Ltd. was assigned by the Hong Kong government as the single company providing a centralised passenger, baggage and freight handling system for all airlines using Hong Kong's airport.

#### (7) Insurance

Jardine's Lombard Insurance Company Ltd. was a founder member of the Institute of London Underwriters, originated from an Underwriting Society founded in 1804 by the early traders in Canton (Guangzhou). The company later became the Society's manager and in 1836 changed its charter making it the Canton Insurance Office. The latter was reorganised later under the Companies Ordinance, incorporated in Hong Kong. In addition, the Hong Kong Fire Insurance Co. Ltd. (as a subsidiary of Lombard Insurance Company Ltd.) was founded in 1866 for the purpose shown by its name.

#### (8) Financial Services

Jardine provided investment management and financial advisory services in the Asian and Pacific markets. It kept pace with the emergence of Hong Kong as an off-shore investment and international financial centre. It acted as secretary and/or registrar for a large number of public and private companies and was actively engaged in company formation and the handling of share regis-

ters. Jardine Fleming & Co. Ltd., a joint venture with Robert Fleming & Co. Ltd. of London, specialised in institutional investment management, underwriting and corporate financial advice. The company provided portfolio management services for several Jardine institutional investment funds, for the public-quoted Hong Kong & Far Eastern Investment Co. Ltd. (composed almost entirely of Hong Kong stocks in 1971) and for International Pacific Securities Co. Ltd., which had most of its portfolios in Japanese stocks and which consistently out-performed the Tokyo Stock Exchange index.

#### *A Remark*

With the blessing of the colonial government, the economies of scope and scale of the British hongts were very extensive and intensive respectively. Moreover, the directors of the British hongts were part of the government. They gained the right to join in decision making in the Exco and Legco. They got first-hand information about the government's plans/policies in advance. Obviously, they have advantage in competing for monopolies in various business fields. They had to defend their own interests in the Legco and/or Exco decision-making process. The governor and top bureaucrats would be pleased to let the hongts "join the game" since the hongts (with huge resources) were effective and efficient in building the colony up along many dimensions. On the one hand, the hongts diversified their businesses across countries and regions, on the other hand, they dreamed of making Hong Kong their own "business kingdom."

The limitation of this section is that I have no access to documents about deals between the hongts and the top bureaucrats since these were either not on paper or kept confidential. I can only argue that the scope of business of the British hongts (such as in banking, trading, public works, public utilities, land properties, transportation, shipping, etc.) received more positive intervention than local industrialists from the colonial government (compared with those for the manufacturing sector).

## Conclusion

The economic restructuring of Hong Kong — from an entrepôt to a labour-intensive and export-oriented industrial city — has always been quoted as a “*laissez-faire* model” in contrast with the other three Asian Dragons with developmental statism’s implication. Their governments have given much support to domestic industries (including direct subsidies, loans to industrialists with low interest rates, tax holidays; creation of new industries by the state, export and import control, technological upgrading, infrastructural improvements, labour training, etc.). These countries experienced industrial deepening while Hong Kong’s industries lagged behind (especially in the technology sector). Signals for the need for industrial upgrading, such as labour shortages, inadequate technical training, high land price/rent for factories, etc., have flashed for several decades. But, why did the Hong Kong government ignore all these problems? The main theme of this paper is not the study of the modes of state intervention in the economy, but the political explanation about why the colonial government took that particular role (form of economic governance) in the economy.

I have argued that the colonial government took the approach of selective interventionism in protecting the interests of Britain and British hongts. The government provided a lot of business opportunities for the British conglomerates on the one hand, while it ignored many requests from the local Chinese manufacturers on the other. The industrialists (especially those of the small- and medium-size firms) obtained little resource support to upgrade themselves towards a higher value-added working stage. In sum, the colonial nature of the Hong Kong government was a key factor in explaining its selective interventionist role.

The economic restructuring and the early industrial take-off of Hong Kong was the outcome of a set of factors which included historical contingencies (such as the civil war in China, the Korean War); the efforts of the colonial government (to maintain the basic

infrastructure, law and order, etc.); the trading network of the British hongts (to facilitate export-oriented manufacturing); labour, capital and entrepreneurship from China.

The colonial government maintained an institutional framework which was favourable to economic activities in general, and favourable to the trade, commercial/financial sector in particular. But, it kept its independence from the interest of the local industrialists even after they became one of the dominant economic forces in the colony. The city-state was of a partially insulated form, with limited political representation, and a concentrated and internally cohesive economic decision-making structure. The formal governmental authority was in the hands of civil servants (according to an incremental, conservative, pro-British rationale) who were unconstrained by any accountable electoral politics in the colony. The government had strong resistance to industrial requests for targeted/sectoral support. However, this did not mean that the government did nothing to facilitate economic restructuring. Actually, it co-operated with the British hongts in improving the local infrastructure, public utilities, banking and financial system, as well as international trade networking. Furthermore, most of the Chinese industrialists built up a kind of “strategic symbiotic relations” with the hongts in business. That was why the industrialists did not invoke any “revolutionary” action against the colonial government. The local industrialists had their own logic for strategic consideration. Many of them viewed Hong Kong as a temporary shelter. They planned for short- to medium-term investments. With a certain degree of insecurity, they hesitated to make capital-intensive production restructuring. The entrepreneurial familism as a kind of mind-set further relieved the burden of the colonial government since the industrialists’ families (or extended families) provided the “catalyst” for innovation and the support for risk-taking. The internal centrifugal force of the entrepreneurial family led to the evolution of a system of subcontracting. Such a system required kinship, and regional ties and other forms of networking. Furthermore, this subcontracting system

enhanced the competitiveness and flexibility of Hong Kong industries under the particular international market conditions.

On the side of the British hongs, they had another kind of strategic consideration. Keeping an intimate capital-state linkage was essential. Directors of the large expatriate British hongs were co-opted into the colonial power structure through the appointment system to the Exco and Legco. The representatives of the hongs gained rights to decision-making in the two councils. They also got "first-hand information" about the government's plans/policies in advance.

Moreover, the arrangement was profitable as it intensified the hongs' investments in Hong Kong both vertically and horizontally. Their businesses covered many aspects. Land had always been a rare resource in Hong Kong, and the hongs owned many good locations. Since they had close relationships with the top bureaucrats, they easily earned monopolies in various fields. Moreover, they controlled so many public utilities, banking and other services, that they had larger voices in affecting government policies (making more supportive measures for their business fields).

In sum, the selective interventionist role of the Hong Kong government in the economy was related to the colonial regime on the one hand and the strategic relations among the government, the British hongs and the local Chinese industrialists on the other.

## Notes

1. It is assumed that, in the absence of artificial restrictions on the free movement of goods and services, the "invisible hand" continuously alters internal costs and prices to bring them quickly into line with costs and prices in the rest of the world and hence keeps the economy oscillating around a growth path with internal and external balances. See Hall and Taylor (1993:chap. 1).

2. Industrial wages in Hong Kong had gone up (from 1960 to 1970) by more than 120%, and in 1969-1970 by as much as 30% (*Hong Kong Hansard*, October 1970:41).
3. There are plenty of examples of these entrepreneurs, such as Ann Tse-kai, the chairman of Winsor Industrial, with food and textile manufacturing interests as well as property investment. His company has a joint-venture in manufacturing in Burma; Ronnie Chan, controlling the Amoy Canning Corporation (Hong Kong) Ltd., producing soy sauce and canning fruits and vegetables; also owning the Hang Lung Development Co., and its property arm Amoy Properties Ltd., with property in Hong Kong and Shanghai, as well as interests in car parks, dry cleaning, department stores and restaurants; Chao Kuang-piu, owner of the Novel Enterprises, which is involved in the manufacturing of knitwear and other clothing, in property, and in marketing through the Pepe Group (UK); also owning the "Noveli" brand of jeans; Kwok Ping-sheung, his company is heavily involved in garment manufacturing, hotels, properties, telecommunications, etc.; Whang Tar-choung, as the chairman of Lam Soon Food Industries, over 35 years of operation in food processing, detergents, in the trading of electronic and packaging of products, with branches in Singapore and Malaysia. See Cragg (1996:chap. 7).
4. See *Far Eastern Economic Review*, 9 April 1964; 12 November 1964; 10 October 1966; 30 November 1967; 4 April 1968.
5. Ibid.
6. Ibid.
7. See *Far Eastern Economic Review*, 2 May 1968; 6 June 1968.
8. The Hong Kong government not only protected Britain's interests but also the interests of British banks in Hong Kong. In the pound crisis episode, the Hong Kong dollar initially followed the pound for a full 14% devaluation. After 4 days, the Hong Kong government revaluated the dollar by 10%, giving an effective devaluation of 5.7%. Most incredibly, the colonial government compensated in full the loss incurred by the Brit-

ish commercial banks in Hong Kong on their sterling reserves by using the Exchange Fund of the colony. This compensation together with the loss of the Exchange Fund in London cost the Hong Kong people a total of HK\$450 million at current prices. (*Hong Kong Annual Report*, 1968:46-47).

9. See *Hong Kong Annual Report*, various years.
10. Castells, Goh and Kwok (1990:chaps. 1-2). The rent control policy was cancelled in the Spring of 1997.
11. [Mr Wong Sien-bing, legislator] "I think most Members would agree that if there is any single program which has a direct bearing on stabilising the livelihood of the people, it is low-cost housing... housing is the logical choice for Government action.... Hong Kong is already very advanced in public housing in that approximately 40% of the population is housed in Government or Government-aided accommodation... the original concept of housing people to fixed permanent accommodation at about 15% of their income should continue to be the guide as far as low-cost housing for the blue and white collar groups are concerned" (*Hong Kong Hansard*, October 1970:36).
12. See *Far Eastern Economic Review*, 18 October 1962.
13. *Hong Kong Hansard*, October 1970, p. 5. The government made even greater efforts in the 1970s to 1990s. In 1981, the Hong Kong-Japan Business Cooperation Committee was set up by the Hong Kong government to promote trade with Japan. The Industry Department set up the One-Stop Unit in 1982, which was responsible for most of the foreign direct investment promotion work: (1) to provide introductions for overseas investors interested in establishing manufacturing operations in Hong Kong, including joint ventures, subcontracting, or licensing arrangements; (2) to organise missions to advanced countries to seek sellers of new technologies or improved methods; (3) to provide comprehensive information, such as searching for potential business venture partners, suitable labour and industrial accommodation for prospective investors on the establishment of factory operations in Hong Kong.

To promote foreign direct investments, under the Industry Department, the Promotion Consultancy Division set up (in 1982-1985) five overseas investment promotion offices in Tokyo, London, Brussels, San Francisco and New York. See Ho (1992:217-18) and Wong (1991).

14. See *Far Eastern Economic Review*, 16 May 1963.
15. The resettlement, reservoir construction and expansion of the airport were hailed as a "trinity of achievement" for the colonial government. See *Far Eastern Economic Review*, 16 May 1963.
16. Recurrent and capital revenue from land and property as % of total government revenue (but not including revenue from tax on the profits of real estate developers):
 

1947-48 — 15.1%
1950-51 — 16.9%
1954-55 — 19.2%
1959-60 — 22.6%
1962-63 — 33.9%
1964-65 — 27.3%
1969-70 — 23.1%
1980-81 — 44.8%.

 See Wu (1983:1-30).
17. See *Hong Kong Annual Report* (1963:13) and *Far Eastern Economic Review*, 11 August 1963.
18. See *Far Eastern Economic Review*, 30 July 1964.
19. As a continuation of the new land policy, the Hong Kong Industrial Estates Corporation was established in 1977 to develop and manage industrial estates. It sells land at concessional prices to high technology industries which cannot operate in multi-storey factory buildings. Since 1977, the government has developed several industrial estates (such as in Tai Po, Yuen Long, Fo Tan and Siu Lek Yuen) for light and high technology industries. See Wong (1991).
20. The government is always concerned with ensuring an adequate supply of transport and communication facilities, electricity, fuels and other raw materials, financial and other

- business services in Hong Kong. See Schiffer (1991); Chen and Li (1991).
21. On the issue of keeping the food cost low, China has provided a helping hand to Hong Kong since the 1950s. China had a need for foreign exchange and the restructuring of trade relations with the West after the Sino-Soviet dispute. China consistently supplied food and basic consumer goods for Hong Kong at below world market prices. Together with rising world price levels for Hong Kong's industrial exports due to the general inflationary tendency of world markets in the 1960s, the stable food and input from China has enabled the Hong Kong industrialists to earn a large profit. China has kept the production cost low in Hong Kong by indirect subsidisation. Compared with the world market price levels in that period of time, China's net discount benefit to Hong Kong people on foodstuffs was about 50%, on raw materials for production about 30%, on clothes and basic consumer goods about 25%. These advantages have led to a flattening of inflation rates and a reduction of costs of production in Hong Kong. See Schiffer (1991) and *Far Eastern Economic Review*, 9 November 1964; 10 August 1967; 14 September 1967.
  22. The effectiveness of the HKPC was cast in doubt by a study of small and medium industries in Kwun Tong in the late 1970s, more than a decade after it had been established. Out of a sample of 30 firms, 13 had not even heard of it. Another 11 had heard of it, but had little impression of it, nor did they use its services. See Mok (1981).
  23. Since 1980, the HKPC has widened its scope of operations to provide a range of industrial information support (which encourages joint-ventures between foreign and local entrepreneurs) and technical back-up services to industries. It also provides specialised training courses for industrialists, managers, foremen, etc., about quality upgrading, exploration/introduction of new technology, and current trends of foreign markets. See Wong (1991) and Yeung (1991).

24. Research and development activities were mainly left in the hands of private enterprises. Government-backed research projects (started since the 1980s) have been rather evenly distributed across industries and have aimed to benefit the whole industrial sector. There is no strategic industry identified by the government. It does not support any infant industry. The development strategies are decentralised to individual industrialists. Since 1982, the Industry Department has commissioned techno-economic studies on selected industries every year. Then, selected industrial research projects have been funded by the Industry Development Board to promote industry-university cooperation. In 1984, the Industry Development Board set up a CAD/CAM sub-committee to monitor the development and application of the technology. See Wong (1991).
25. See *Far Eastern Economic Review*, 12 March 1965.
26. See Jardine, Matheson & Co. (1960:31-64; 1965:1-38; 1970:2-20; 1971:1-12; 1973:2-27) and Vickers, da Costa & Co. (1973:7-19).

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## The Myth of Hong Kong's *Laissez-faire* Economic Governance 1960s and 1970s

### Abstract

In this paper, I shall argue that the labels of "*laissez-faire* model," "developmental statism" and "positive non-interventionism" are all inappropriate to describe the actual role of the colonial government in the process of economic restructuring in Hong Kong — from an entrepôt to a labour-intensive and export-oriented industrial city. Evidence shows that the selective interventionist approach of the government was hinged on its prime concern for the interests of Britain and British hongts (trading houses). The colonial government maintained an institutional framework which favoured economic activities in general, and favoured the commercial/financial sector in particular.

The government co-operated with the British expatriate conglomerates in improving local infrastructure, public utilities, banking and financial system, as well as international trade networking. Many local Chinese industrialists also relied on the resources of the hongts and formed a kind of "strategic symbiotic relation" with them.

The hongts made great efforts to keep an intimate capital-state linkage. Representatives of the hongts had the right to vote in the Legco and Exco. They got first-hand information and overview on the government's plans/policies in advance. They had to defend their own business interests in the Legco and/or Exco decision-making process. Hence, the selective interventionist role of the Hong Kong government in the economy was related with the colonial regime on the one hand and the strategic relations among the government, the British hongts and the local Chinese industrialists on the other.



# 香港「自由放任」經濟政策的神話

陳卓華

（中文摘要）

在六十至七十年代，香港由一個轉口貿易港，發展成爲一個以出口爲主導的工業城市，政府究竟扮演了甚麼角色呢？是「自由放任」，或是「發展性主導」，還是「積極不干預」呢？筆者認爲這三者皆不貼切。本文提出的證據顯示，港英殖民地政府是選擇性地干預本港的經濟發展，她特別照顧英國和英資財團的利益。政府與英資財團聯手合作，改善了本港的基本建設、公共事業、銀行及金融制度，以及國際貿易網絡；與此同時，不少本地的工業家亦非常倚賴英資財團，兩者構成了一種相互依存的關係。

港英政府建立了一套建制，這建制有利資本主義經濟活動，尤其是貿易及金融業。英資財團因時制宜，與港英政府建立了密切關係。英資財團的代表更晉身立法局及行政局，成爲了政府政策制訂者之一員。很自然地，香港的經濟政策必定首先考慮英資財團的利益。