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Asian rivals step up the trade war

PENELOPE HILL looks at the prospects of Hongkong and Singapore in an escalating battle for business.

THERE has always been rivalry between Hongkong and Singapore, and now more than ever the competition is heating up.

Arguably, the region has the potential to accommodate the two but, in the short term, they will continue to vie for number one position as financial centres, regional headquarters, major ports and thriving economies.

Both are adjacent to vast hinterlands which fuel their economies; both have infrastructures and development plans which depend greatly on relations with their neighbouring countries. Hongkong and Singapore both have limited space, small labour forces and virtually no natural resources of their own.

Singapore covers 622.5 square kilometres; Hongkong is 42 per cent larger, but much of the land is mountainous and uninhabitable. Singapore, like Hongkong, imports its water supply from its neighbour.

As free trade ports, they are open to international trade and money flows. Geographical location plays a major part in establishing their status as entrepôts - Hongkong as a trans-shipment centre for China, and Singapore as a link between Europe and the Far East.

One of the strengths of Singapore is its political and social stability. The People's Action Party, in power since 1965, provides a continuity in policies that has so far avoided major unrest. Having scored a decisive victory in the September general elections, the party has paved the way for transition from first-generation leader to second, but there are no indications of a relaxation of Prime Minister Lee Kwan Yew's rule.

Singapore's development and economic strength has been planned by an activist government which is dominant in property, transport and communication sectors, and also participates in the financial and labour markets and keeps a close watch on foreign investment. Although rather authoritarian, Singapore enjoys greater political calm and is potentially more stable than Hongkong.

But relations with its hinterland are not always smooth; there is an element of friction between Singapore and Malaysia. Singapore broke away from Malaysia in 1965, taking with it many Malaysian businessmen to export through the better-equipped port in Singapore.

Genuine attempts to smooth things out have included King Mahmood Iskandar's state visit to Singapore this summer, but relations remain lukewarm. Singapore's future hinges not only on its economic integration with its neighbours but also on the independent development of countries in the region.

Singapore has access to rich supplies of palm oil, rubber and other commodities through links with Malaysia, Indonesia and other parts of Southeast Asia. But as these countries be-

gin to assert themselves as independent markets, aiming to develop port facilities of their own and conduct business independently, Singapore could feel the pinch.

Oil refining and commodity and re-export trade from neighbouring countries contribute greatly to Singapore's economy. Any downturn in business as these countries build their own ports and oil refineries would be highly detrimental. Singa-

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pore needs to keep one step ahead of its neighbours so that it can benefit from the intra-Asian trade, which looks set to be a main growth area.

Commodity prices this year have reached record levels, and this has also boosted the economy, though Indonesia is independently emerging as a big player in the commodities market, which could undermine Malaysia's market and indirectly affect Singapore. Malaysia is the world's top exporter of palm oil.

"Singapore has an excellent infrastructure but Malaysia and Indonesia have the potential to develop more independently of Singapore than China will of Hongkong," said Dr Miron Mushkat, director and chief regional economist with Baring Securities in Hongkong.

"Singapore has Malaysia as

its doorstep, plus Indonesia, Thailand and IndoChina. But if Bangkok was to emerge as a viable competitor with Singapore, acting as a service centre for Vietnam, Kampuchea and Laos, this could seriously undermine Singapore's position."

There is potentially less friction between China and Hongkong, as no major political or social unrest is expected in the short term. But corruption and party infighting could be major destabilising factors.

The Chinese economy is showing signs of floundering as inflation rockets and inadequate monetary controls exert upward pressure on prices. China could see an overall slowing in economic and price reforms, and with inflation running away at 20 per cent to 40 per cent, the government is trying to curb consumer spending and dampen domestic demand.

The Chinese economy will not be as strong a stimulus to Hongkong as it has been in the past few years, stemming the flow of capital to Hongkong.

But relations with China are strong, and Hongkong is strategically placed to service its vast market. It continues to enjoy rapid economic integration with southern China under Beijing's open-door policy.

"Hongkong has China and a great potential in Taiwan. Taiwan can be seen as something of a hinterland, and Hongkong is in an ideal position," said Dr Mushkat.

The potential for Hongkong in this region was far greater than that of Singapore in rela-

tion to Malaysia, he added.

"Quantitatively speaking, Hongkong is more significant than Singapore. Sheer size and the propensity of the economy to grow gives Hongkong a slight advantage in this respect," he added.

However, the emigration problem facing Hongkong is far greater than any labour shortage reported in Singapore. As 1997 looms and the rate at which middle management personnel are leaving the territory heightens, confidence in being seriously shaken. There are no signs that the brain drain will abate before the early 1990s.

One consolation is that the resilience of the people and the economy, and the fact that additional passports have already been secured by many, could mean that Hongkong eventually becomes a magnet for financial and technological skills and the tide of emigration will be reversed.

Due to the enormous number of workers in China, a labour shortage is unlikely to be an ongoing problem.

Singapore has only 1.1 million workers, and this is seen as a major constraint on economic development. Any uncontrolled upsurge in the cost of labour could have dire consequences and seriously erode export competitiveness. With Malaysia on the doorstep, the labour force could be significantly boosted, however.

Hongkong is more a consumer goods, textiles and garments producer while Singapore concentrates on producer goods, such as electronics. In

this respect, Singapore is slightly more sophisticated than Hongkong.

"If there is a slowdown in the US economy in an attempt to depress domestic spending, Hongkong is likely to suffer more due to its production of consumer orientated goods," said one senior economist.

"But, on the other hand, any slowdown could also lead to stagnant consumption. Hongkong will suffer unless exports to Japan and Europe are sustained and Singapore will feel the pinch as discretionary spending means cutbacks in the luxury items market, such as electronics."

The entrepreneurial spirit, bound into the very heart of Hongkong, remains a weak area in Singapore. Lack of manufacturing tradition, government-controlled savings schemes (which limit the flow of cash) and a highly regulated business environment are not conducive to encouraging the development of private enterprise.

The government has tried to provide incentives to small and medium enterprises to develop the entrepreneurial streak, but with little success.

Being an independent political entity, Singapore is bound to place more concern on its economic independence than Hongkong. The extent economic development will be affected by political considerations will depend on Singapore's relationship with its hinterland and development of regional politics. These considerations are, at present, much less important to Hongkong.

