



The Reasons Why the Singapore Economy Has Been Outperforming Hong Kong

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In 2013, the Hong Kong economy registered 2.9% real growth and 4.2% nominal growth. Its per capita GDP was USD38100. CCPI rose 4.3% on the year, and the unemployment rate averaged 3.3%. Meanwhile, the Singapore economy's real and nominal growth stood at 4.1% and 4.2% respectively. Its per capita GDP topped USD54776. CPI climbed only 2.4% and its unemployment rate was only 1.9%. The two city economies have different economic structures. On the surface, the Singapore economy outperformed Hong Kong on every aspect in 2013. But the causes are complicated and close examinations are needed to gauge the degrees of developments of the two economies.

Economic growth and structure

One year's performance does not tell the whole story. Comparison of historical growth over longer period of time makes more sense. In this study, a longer period from 1997 to 2013 and a shorter period from 2004 to 2013 are chosen. The year 1997 was the year when the Asian Financial Crisis hit, and 2004 was the year when Hong Kong finally bid farewell to deflation and SARS and embarked on sustained recovery.

During the 17 years between 1997 and 2013, the Singapore economy averaged 5.4% in real growth and 6.3% in nominal growth each year. Meanwhile, the Hong Kong economy's average real and nominal growths for the period were 3.5% and 3.4% respectively. Fast forward to the period between 2004 and 2013, the Singapore economy's annual real and nominal GDP growths accelerated to 6.3% and 8.4% respectively, while those for Hong Kong also faster at 4.5% and 5.4%. Thus, no matter how it is measured, Singapore outperformed Hong Kong in growth in those years.

The explanations for Singapore economy's outperformance lie in its economic structure, its exchange rate system and its foreign workers policy. According to Department of Statistics Singapore, goods producing industries including manufacturing, construction and utilities accounted for 23.1% of Singapore's gross domestic product in 2013, amongst which manufacturing's proportion was 17.5%, covering electronics, medicines, biotech and petrol chemistry. Meanwhile, services producing industries accounted for 66.3% of GDP, with the rest being ownerships of dwellings and taxes on products. In Hong Kong's case,

manufacturing, construction, utilities and agricultural industries combined accounted for only 6.9% of GDP, amongst which manufacturing was tiny at 1.5%. On the other hand, services accounted for 91.9% of GDP. It seems that Singapore's more balanced industrial structure helped it achieve faster growth over longer periods.

Similar to Hong Kong, the small and open Singapore economy handles large volume of goods trade, which amounted to 2.65 times of its GDP in 2013, albeit smaller than Hong Kong's 3.59 times in relative scale. But what is different is that due to its manufacturing base, domestic exports are substantial. As a matter of fact, it accounted for 53.4% of Singapore's total exports in 2013, even more than re-exports, dwarfing Hong Kong's 1.5% proportion by domestic exports. Therefore, impacts from changes of external demands are magnified, causing greater volatility alongside with faster growth.

On a quarterly basis, during the 68 quarters between 1997 and 2013, there are twenty nine quarters during which Singapore's annualized quarterly growth rate exceeded plus or minus 10.0%, six of which with annualized decline of more than 10.0%. Meanwhile for Hong Kong, there are only nine quarters during which annualized quarterly growth rate exceeded plus or minus 10.0%, two of which with annualized decline of more than 10.0%. Moreover, it is a common scene that Singapore recorded quarterly contraction even during a recovery cycle. In Hong Kong's case, changes in GDP on a quarterly basis have been smoother. On a yearly basis, although Singapore's GDP growth averaged 5.3% per quarter during those 68 quarters, which again is higher than Hong Kong's 3.5%, it has a standard deviation of 5.3%, also greater than Hong Kong's 4.3%. Thus the two different ways of measuring GDP growth clearly suggest greater volatility for Singapore's growth. Its manufacturing is usually the driver that pulls it out of recessions, but it also leads to greater volatility in its economic cycle.

Exchange rate/monetary policy

Hong Kong implemented the Currency Board System in 1983, pegging the Hong Kong dollar to the US dollar at a rate of 7.75-7.85. Under the system, Hong Kong does not have independent monetary policy. Instead, it is outsourced to the Federal Reserve. Singapore implemented its managed float exchange rate system in 1981, linking the Singapore dollar to a basket of currencies of its trading partners and competitors. There is a mid-rate for its trade weighted exchange rate index. The Singapore dollar can fluctuate against the mid-rate within a trading band. The exchange rate corridor can go up, flat or down. The Monetary Authority of Singapore (MAS) manages their levels. This system is special because the exchange rate policy is also the monetary policy. Unlike central banks in the US, Europe and Japan who set the official rates as policy target and tool, MAS uses the Singapore dollar's exchange rate as its monetary policy target and tool.

Through managing the Singapore dollar's exchange rate, the MAS aims to achieving price stability for sustainable growth. In other words, it targets exchange rate instead of interest

rate as its monetary policy. Hence it needs to actively intervene in the foreign exchange market in order to bring the Singapore dollar in line. The US, European, and Japanese central banks host meetings on interest rates while letting their currencies to float freely. The MAS, on the other hand, hosts meetings on exchange rate twice a year in April and October. But it relinquishes controls on interest rate and money supply, and allowing free float of capital. Under such a system, by guiding the Singapore dollar's nominal effective exchange rate's mid-rate, its trading band, and the slope of the exchange rate corridor, the MAS implements its exchange rate/monetary policy. However, there is lack of transparency. The constitution of the basket of currencies and their respective weight in the trade weighted index are not disclosed. And the MAS remains vague on its policy targets in its communications to the public. Such a system has far greater impacts on measuring economic development than Hong Kong's currency board system.

At the end of 1997, Singapore's gross domestic product amounted to USD99.3 billion, with per capital GDP at USD26158. Meanwhile, Hong Kong's GDP was USD176.0 billion with per capital GDP at USD27126. Fast forward to 2013, Singapore pulled ahead with GDP totaling USD295.7 billion and per capita GDP at USD54776. For Hong Kong, GDP stood at USD273.8 billion with per capita GDP at USD38100. The exchange rate plays an important part in the reversal.

When the Asian Financial Crisis hit, the MAS chose to devalue the Singapore dollar, which went from 1.40 against one US dollar to 1.79 from the beginning of 1997 to early 1998, a 30% devaluation. In Hong Kong's case, the Currency Board System ruled out such measures. The devaluation of its own currency eventually helped Singapore to end deflation and embark on the recovery track sooner. Since 2002 when the US dollar entered a prolonged bear market for 10 years, the Singapore dollar has cumulatively appreciated against the USD by about 46%. In 2001, Singapore's GDP at prevailing price and exchange rate was USD87.7 billion, about half of Hong Kong. But by the end of 2013, it surpassed Hong Kong by 8.0%. Besides achieving faster real growth by about 1.8% per annum during the period, the Singapore dollar's appreciation played an even more important role.

Higher inflation also does its part in bulking up Singapore's nominal GDP. Since 2002, Hong Kong went from deflation to low inflation for a long period of time. But for Singapore, its GDP deflator has been generally higher than Hong Kong by significant amount of 18.5% cumulatively. As nominal GDP is the result of real GDP plus inflation, with the extra push from exchange rate gains, it is no wonder that the Singapore economy can catch up with Hong Kong with brisk pace.

Foreign workers policy

The exchange rate and inflation also play important role in shaping Singapore's per capita GDP of USD54776 in 2013. Moreover, Singapore's foreign workers policy will not only

impact its per capita GDP figure, but also its unemployment rate.

According to the Ministry of Manpower of Singapore, amongst total employment at the end of 2013, 2.17 million were Singapore citizens or permanent residents, and 1.32 million being foreign workers including professionals, domestic helpers and laborers. Foreign laborers were a strong force totaling some 800000, working in construction and manufacturing. It can be said that one third of Singapore's labor force is made up of foreign workers. In Hong Kong's case, the Immigration Department's statistics show that at the end of 2012, about 420000 held work visas, amongst which 310000 worked as domestic helpers. Thus, there is vast difference between the two economies' foreign workers policies. When calculating per capita GDP, the population used only takes into account of citizens and permanent residents. In Singapore's case, foreign workers help create substantial amount of GDP, but they are excluded when calculating per capita GDP. Hence Singapore's latest per capita GDP is distorted upward by a great amount. Its lead over Hong Kong's USD38100 is not as big as the figures suggest.

In 2013, Singapore's unemployment rate was low at only 1.9%, as compared to Hong Kong's 3.3%. However, the unemployment rate for Singapore citizens was 2.9%, and 2.8% for permanent residents. In other words, the unemployment rate for its foreign workers approached zero. Meaningful comparison of unemployment rate for residents greatly narrows the gap. In Singapore, construction, manufacturing and services industries employed 540000, 480000 and 2450000 people respectively, accounting for 15.5%, 13.7% and 70.1% of total employment. Foreign workers mostly work in construction and manufacturing industries. As for Hong Kong, the manufacturing base is tiny, and the construction industry cannot import foreign workers at will. So the services industry accounts for 88.3% of the total employment, while manufacturing at 2.8% and the rest at 8.9%. Therefore, foreign workers policy can have far fetching impacts on many areas of the economy.

To conclude, thanks to a more balanced industrial structure and vastly different foreign workers policy, the Singapore economy manages to grow faster and produce higher GDP and per capita GDP than Hong Kong. However, it does not necessarily mean higher personal wealth. In 2013, Singapore's monthly medium household income per household member was SGD2023 or the equivalent of HKD12400, similar to Hong Kong's comparative HKD12300. In 2013, personal consumption expenditure accounted for only 34.8% of Singapore's GDP after years of decline, while that of Hong Kong standing at 65.7%, almost twice as much. Singapore's unique growth drivers lie in its manufacturing and net exports. But manufacturing investments are heavily foreign owned, and it employs large amount of foreign workers. The value added it creates helps Singapore economy to grow faster. But growth of the wealth of its own citizens and residents fails to keep pace. In view of these, it is fair to say that the two economies are different in their own competitive advantages. Comparison of GDP figures alone does not tell the whole story.

主要經濟指標(Key Economic Indicators)

一. 本地生產總值 GDP	2012	2013	2013/Q3	2013/Q4
總量(億元) GDP (\$100 Million)	19,644	20,372	5,124	5,416
升幅(%) Change (%)	1.5	2.9	2.8	3.0
二. 對外貿易 External Trade	2012	2013	2014/2	2014/1-2
外貿總值(億元) Total trade (\$100 Million)				
港產品出口 Domestic exports	588	544	33	76
轉口 Re-exports	33,755	35,053	2,096	5,087
總出口 Total exports	34,343	35,597	2,129	5,163
進口 Total Imports	39,122	40,607	2,666	5,898
貿易差額 Trade balance	-4,778	-5,010	-537	-735
年增長率(%) YOY Growth (%)				
港產品出口 Domestic exports	-10.4	-7.6	-0.3	-2.6
轉口 Re-exports	3.2	3.8	-1.3	-0.8
總出口 Total exports	2.9	3.6	-1.3	-0.8
進口 Imports	3.9	3.8	6.8	1.4
三. 消費物價 Consumer Price				
綜合消費物價升幅(%) Change in Composite CPI (%)	4.1	4.3	3.9	4.3
四. 樓宇買賣 Sale & Purchase of Building Units			2014/3	2014/1-3
合約宗數(宗) No. of agreements	115,533	70,503	4,184	13,988
年升幅(%) Change (%)	6.2	-29.9	-38.8	-43.6
五. 勞動就業 Employment	2012	2013	2013/11-2014/1	2013/12-2014/2
失業人數(萬人) Unemployed (ten thousands)	12.45	11.84	11.3	11.3
失業率(%) Unemployment rate (%)	3.2	3.2	3.1	3.1
就業不足率(%) Underemployment rate (%)	1.5	1.4	1.3	1.2
六. 零售市場 Retail Market	2012	2013	2014/2	2014/1-2
零售額升幅(%) Change in value of total sales (%)	9.8	11.0	-2.3	6.6
零售量升幅(%) Change in volume of total sales (%)	7.2	10.6	-2.3	7.9
七. 訪港遊客 Visitors				
總人數(萬人次) arrivals (ten thousands)	4,862	5,430	442	987
年升幅(%) Change (%)	16	11.7	9.8	14.1
八. 金融市場 Financial Market	2012	2013	2014/1	2014/2
港幣匯價 (US\$100 = HK\$)	775.05	775.4	776.6	776.1
H.K. Dollar Exchange Rate (US\$100 = HK\$)				
貨幣供應量升幅(%) change in Money Supply (%)				
M1	22.2	9.7	7.7	16.1
M2	11.1	12.3	9.6	12.8
M3	11	12.4	9.6	12.9
存款升幅(%) Change in deposits (%)				
總存款 Total deposits	9.3	10.6	7.6	10.6
港元存款 In HK\$	11.7	5.1	1.2	8.2
外幣存款 In foreign currency	7	16.2	14.2	13
放款升幅(%) Change in loans & advances (%)				
總放款 Total loans & advances	9.6	16	17.8	21.9
當地放款 use in HK	7.1	13.8	15.7	20.9
海外放款 use outside HK	16.5	21.4	23	24.1
貿易有關放款 Trade financing	10.2	43.8	49.6	48.2
最優惠貸款利率(%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	22,657	23,306	22,035	22,837