

## Hong Kong: What's Scotland Got to Do With It?

The influence of Scots on the economic development of Hong Kong is evident in place names (Aberdeen Harbour, Braemar Hill) and businesses (Jardine Matheson and HSBC). Less obvious and less well-known are the brains behind the economic policies that enabled this colony to grow so rapidly and become so successful. Two people stand out in this regard: Adam Smith, the great eighteenth century economist and philosopher; and Sir John James Cowperthwaite, the civil servant and former Financial Secretary of Hong Kong. Cowperthwaite's contribution has been recognised increasingly since his retirement in 1971. The last Governor of Hong Kong, Chris Patten, met Cowperthwaite just before the official handover to China exactly 20 years ago in 1997 and reportedly remarked "so, you're responsible for all this", and the Nobel Prize-winning American economist Milton Friedman made the same connection when he wrote about the economic miracle that is Hong Kong. Friedman wrote that "in 1960, the earliest date for which I have been able to get them, the average per capita income in Hong Kong was 28 percent of that in Great Britain; by 1996, it had risen to 137 percent of that in Britain. In short, from 1960 to 1996, Hong Kong's per capita income rose from about one-quarter of Britain's to more than a third larger than Britain's." Friedman identified Cowperthwaite as being the architect of this prosperity, saying "Hong Kong followed a very different economic policy than Britain. The difference was a pure accident that the Colonial Office in Britain happened to send John Cowperthwaite, now Sir John Cowperthwaite, to serve as its Financial Secretary".

A new book on John Cowperthwaite (Neil Monnery's *Architect of Prosperity: Sir John Cowperthwaite and the Making of Hong Kong*) tells this story for the first time in some detail. It turns out that Cowperthwaite was a disciple of Adam Smith's philosophy, having been a student at St Andrews University, where he was tutored and strongly influenced by Professor James Wilkie Nisbet, a noted free trader and author of *A Case for Laissez-Faire* (1929). This school of thought is today more commonly called 'free market economics' and it essentially says that government should stay as far out of the way of the economic machine as possible – allowing markets to sort things out for themselves. Adam Smith used the term 'the invisible hand' in his book *The Wealth of Nations* to describe the unobservable force which drives individuals operating for their own good in free markets towards optimal outcomes. This strategy is embodied in low-taxation, minimal regulation, low trade tariffs – and (critics would say) consequent low-levels of welfare spending, low wages and a wide spectrum of wealth. What makes Hong Kong so fascinating is that in post-war Britain the economic policies pursued were the exact opposite: state intervention was the order of the day (nationalisation of industry being the epitome of this) and spending on education and welfare increased massively. In Hong Kong, taxes were kept low and interventions by the (benign but unelected) government were minimal. This, coupled with the spirit, entrepreneurship and work ethic of a Chinese population keen to escape the tribulations of communist China, were the ingredients for this remarkable economic success story.

Monnery's book picks up on the 'other-worldliness' of Hong Kong when, for example, its success in exporting cotton textiles began to be felt back home in the UK, where the home industry was suffering from cheap imports. An illustration in the book shows a note written by Prime Minister Harold Macmillan in the margin of a report on the Hong Kong textile industry, where he has scribbled, "But what about Lancashire?". Subsequent restrictions on exports of cotton textiles led the canny businessmen of Hong Kong to switch to man-made textiles – where they excelled again. Another tale of this dogged entrepreneurial determination is seen in attempts to stop them exporting glass. Their reaction was to export glass as bottles. A restriction was put on exporting glass

bottles, so they switched to exporting broken bottles. When that was also restricted, they began filling bottles with coloured water to export as dye. Hong Kong's trading position, as a British colony, was threatened by Britain entering the Common Market, and Monnery's book contains an amusingly ironic chapter 'The Threat of Brentry'. Not surprisingly Hong Kong weathered that storm, other trade restrictions placed upon it and also managed to prosper despite the Cultural Revolution in communist China, the Cold War and the Vietnam War.

John Cowperthwaite's story is threaded through the post-war years of Hong Kong, from 1945 up to his retirement in 1971. He held various offices as a civil servant, most significantly as Deputy Financial Secretary (to Arthur Clarke, 1952 to 1961) and then as Financial Secretary 1961-1971. The trajectory set by Cowperthwaite and his colleagues continued after his retirement, and indeed up to the handover of the colony to China in 1997 (since when it has continued to prosper). Cowperthwaite retired to St Andrews and was an active member of the Royal and Ancient Golf Club. He died in 2006 at the age of ninety at Ninewells Hospital in Dundee.

Whether there is anything to be learned from the Hong Kong story for the economy of Britain today is a moot point that will be debated endlessly by academics. Many would say that Hong Kong was a special case and that we cannot compare apples with oranges. All we can say for sure is that Hong Kong owes a great deal to its many Scottish connections and especially to the invisible hands of Adam Smith and John Cowperthwaite.

Richard Baggaley June 14<sup>th</sup> 2017