# A Study of Singapore as a Developmental State

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## 1 Introduction

Singapore has witnessed a rapid transformation in the last five decades from an entrepot predominant towards trade, commerce and services in the mid-1960s into an economy, which at present specialises in high-value manufacturing activities, and regional financial hub for business services in East Asia. The country is also rapidly expanding financial centre served by most of the international commercial and merchant banks (Richardson 1994). Singapore is a highly competitive economy and according to Swiss International Institute for Management Development between 1995 and 2012, the country ranked second in national competitiveness. By 2000, the production of hard disc drive (HDD) in the country reached US$10 billion and accounted for nearly 70 % of the world's total production of HDD. This is a highly standardised and easily transportable product. The Multinational Corporations (MNCs) have invested in the HDD manufacturing in Singapore as the gateway for Asian and global markets (World Bank 2009).

Singapore became independent in 1965 and its economy changed dramatically within less than three decades from a traditional fishing village to modern manufacturing and financial centre in Asia. By 1995 Singapore became the second country in Asia after Japan to be classified by the OECD as a 'developed economy'. Scholars have reviewed Singapore's rapid growth from a resource dependency perspective to Chinese business cultural practices. Since the majority of the population in Singapore are Chinese, therefore it was said that Chinese network approach has played an important role in building interfirm relations in Southeast Asia including Singapore. It was said that Chinese business management is different from Western companies. Chinese businesses faced a difficult environment when they migrated to other Southeast Asian countries. It was thus considered

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necessary to build cooperation in order to interact smoothly. Under such circumstances personal relationships were seen as important to enhance business interests. The businesses were kept under family control and relied on networks of trust to do business. Chinese business behaviour in Southeast Asia is seen to have been influenced by Chinese traditions and business practices. However, such scholars ignore the role of Western imperial domination in the region and how it undermined the independent development of industries in the region and at the same time created favourable conditions for Western capital and investors.

The study intends to examine critically the role of the state, international economic situations and the Cold War tension in the region and how these factors have played crucial role in achieving rapid growth rates. The aim of this paper is to critically evaluate various factors which have contributed towards achieving rapid economic development and prosperity, which has been ignored by the mainstream (also known as neoclassical) economists (Krueger 1980; Gopinathan 2007).

It seems that the explanations presented by the international financial institutions are inadequate because of its underestimation of the state involvement in the promotion of the foreign investment (IMF 2009; World Bank 1993). A weak domestic bourgeoisie invited foreign capital to assist its industrialisation and modernisation processes (Siddiqui 2010). The government has shown its total commitment towards the policy of active 'export promotion' and openness towards foreign businesses (World Bank 2009; Shin 2005). There are existing literatures about the role of MNCs in the transformation of Singapore's economy. However, it seems that they are insufficient. Some studies have criticised the role of MNCs as counterproductive (Mirza 1986), while others either have overlooked or saw it as positive contribution (Clifford et al. 1999).

During the 1980s and 1990s, the East Asian economies were increasingly debated among the international financial institutions and academics. The failures in economic strategies in other developing countries were also discussed, especially Latin America (Siddiqui 1998), Africa and South Asia, which had followed what was known as the 'Import Substitution Strategy' (Krugman 1994; Bhagwati 1987; Siddiqui 2012b). The setbacks during the 1980s in the economic growth led to the change in strategies and gave way to the 'neoclassical', i.e. pro-market, policies which heavily relies on 'market forces' and international companies for investments and resources (Siddiqui 2015a). It was claimed that East Asian economic growth success was mainly due to export-oriented strategies. The proponent of free market argues that export-led policies kept private incentives and entrepreneurship in line with those of the global businesses. As a result, higher levels of competition will ensure efficient resource allocations and higher productivity (World Bank 1993; Bhagwati 1987). The proponents of free-market policies are based on the presumed universal efficiency of the free market, which is expected to ensure economic growth in any country (Krueger 1980).

On the other hand, the critics said that the state played a crucial role in the early years of East Asian economic developmental experience of 'getting the prices wrong' instead of 'getting the prices right' which was responsible for achieving dramatic growth rates. Critics found evidence of clear state intervention in these economies. For instance, South Korea's successful establishment of selective intervention in heavy industries led to enormous structural changes during the 1980s in its industrial structures and exports (Chang 1994; Wade 1990; Amsden 1989).

This paper is not aimed to present Singapore's growth success as a role model for other developing countries with large rural population, but to examine other important factors like favourable international environment, Cold War and the role of the state (Siddiqui 2012a). All these factors have contributed to achieve rapid economic development of the country. It appears to have been overlooked by previous researchers (Huff 1995). Moreover, the changing international environment and the end of Cold War and recent upsurge in globalisation of production most likely would impact on Singapore's economy. Singapore is a city state without a rural population; therefore the relationship between urban and rural and between the primary and secondary sector, which is so central to the problem of economic development, was just not there.

The study will emphasise the historical factors that seem to be important in determining a country's developmental strategies. The decline of Portuguese influence coincided with the rise of British influence in East Asia in the early nineteenth century. In 1819, Singapore was given to Britain as a reward for their help to the Sultan of Johor against his brother in local power struggle. The British East India Company managed to establish a post for spice trading. It attracted a vast number of migrants from the neighbouring countries, especially from China and India. This was mainly due to the political upheavals in their countries (Siddiqui 2009c).

Singapore started as a distribution centre that promotes the imperial interests in the region. British interest during the nineteenth and twentieth centuries was to see the free flow of goods and unhindered international trade and investment. Hence, it relied on foreign businesses and liberal trade policies. Being dependent on the West is not a new phenomenon for the country; since 1862 the island had been an important strategic harbour and entrepot trade, linking resource-rich south East Asian countries with European colonial powers who were then carrying out their own expansion of modern industrialisation and supply of crucial raw materials which were the important factor for the success of this project (Mirza 1986).

This study will also argue that the role of the state becomes more important due to increased processes of globalisation. It seems that Singapore's developmental state, unlike other states in East Asia, has shown no signs of devolving but instead appears to be strengthening by embarking on several post-industrial economic programmes also known as regional economic integration. The study also focuses on the changes in investment policy from regulation to promotion of foreign capital. Since the 1998 East Asian crisis, the government began to deregulate the financial and telecommunication sectors, and also in banking, the government removed the 40 % foreign shareholding limit for local banks, which allowed foreign banks to compete freely with domestic banks (Clifford et al. 1999; Siddiqui 1995).

The question arises why Singapore succeeded. It could be due to the country's strategic location and natural harbour. Singapore is located at the mouth of the Malacca strait which is the world's busiest maritime trade route, and more than

40 % of the world's trade is carried out through this. The country is located on the very strategic trade route and also it is one of the fastest and most dynamic regions of the world.

The article is divided into various sections: the 'Introduction' section briefly discusses an overview of Singapore. In the third and fourth sections, macroeconomic indicators and growth strategy are discussed. In the fifth section, the role of state is analysed in the context of promotion of economic policies crucial to the industrialisation and modernisation process of the country. In the sixth section, Singapore's recent policy of regional economic integration is analysed, and finally, in 'Conclusion', a summary is presented.

The methodology is derived from the aims of the study. This engages an understanding of the issues in the research project. The research requires international comparisons statistics and provides the main source to answer the research questions and address the objectives of this paper. Analysing the secondary data which has already been presented is the only possible way to get macroeconomic data. The secondary data sets together provide quantifiable information and statistics published by the governments for their country. Country-based multiple source data sets are also available from governments' publication and international organisations. These include data such as IMF, World Bank and OECD statistical data collected for member countries.

## 2 Early Post-Independence Policy

During the British colonial period, entrepot trade was the main source of income and trade alone accounted for more than one-third of the GDP in Singapore. From 1965 onwards, the People's Action Party (PAP) showed its commitment to develop industries as a key priority for the country. When Singapore became independent, its prospects were not very good. It had no natural resources and the population has very diverse ethnic backgrounds, with largely immigrants from very dissimilar history and ethnicity. The country's first Prime Minister Lee Kuan Yew had played very crucial role in transferring its economy. On economic front, prior to 1965 most of the foreign capital was from the UK and was invested largely in trading activities. The UK was the largest investor due to historical and colonial ties. The most foreign investment was in food, beverages, rubber processing and petroleum industries (Low 1998; Mirza 1986).

After independence, the government also continuously identified opportunities in US and European markets and then encouraged local investors to collaborate. The government claimed that external economic expansion could contribute to domestic businesses in two ways. First, it would create demand for local products, and second, it would allow Singapore companies to benefit from rapid economic growth in the region, which would mean less dependence on the Western markets for its exports (Ministry of Finance 1993). The state also promoted and encouraged the local businesses to exploit the opportunities in international economy. Similar patterns were observed in some other East Asian countries. Subsidies were provided to investors in the selected sectors. The government created an environment to improve credibility and reputation and was seen as the basis upon which overseas investors may act (Shin 2005). With credibility and reciprocity among business partners and between government and foreign investors, trust would develop. With high levels of trust and the existence of a supportive environment, the businesses were able to take greater risks and long-term commitment. East Asian government-business relations—which were earlier seen as healthy as synergistic social capital—have since the 1998 crisis been denounced as ‘crony capitalism’, largely responsible for crisis. Moreover, the advent of neoliberal globalisation has also greatly reduced the scope for selective government interventions.

During the 1960s, the government lacked sufficient capital to invest in the economy and infrastructure; therefore, it was considered prudent to invite foreign capital to fill this gap. A clear plan was enacted to provide generous incentive to foreign companies, and also Jurong Town Corporation (JTC) was created in 1968 along with Economic Expansion Act to create low production costs sites for foreign investors. From the late 1960s onwards, Singapore took a significant initiative to export manufactured goods, which were relatively labour intensive. The question arises why MNCs have opted to invest in Singapore’s economy. It seems that the institutional features of the host country are important determinant of FDI, including political stability, the existence of property rights, the tax system, availability of adequate infrastructure, etc. (Low 1984). In recent years changes have been made in Singapore’s investment policy from regulation to promotion needs to make changes in country’s institutions and organisational cultures. It means new policies involved building up new supportive government officials to understand and cater for the requirements of the foreign investors. Moreover, the PAP has ruled the country since 1965 and has played a crucial role in the formation of policies to assign the dominant role for foreign investors. Singapore has been shown to be actively pro-FDI by allowing wholly foreign-owned companies to operate in export-oriented manufacturing sectors with minimal restriction (Siddiqui 2015a; Koh 1987).

Singapore lacks adequate manpower for its growing industrial sector. This led to a constant need to import workforce from overseas in areas like constructions, IT, biotechnology, etc. Foreign workers are seen as very crucial for the advancement and for the successful economic diversification strategy. Prime Minister Lee Hsien Loong clearly said in a public meeting that “welcoming foreign talent” is crucial for our economic development and prosperity and also to ensuring the vitality of the country’s economy’ (Liow 2011: 254).

During the aftermath of the 2008 financial crisis, there has been recognition to reorganise the economy. This entails putting forth and promoting an alternative discourse based on more equitable distribution of assets and resources across Singapore society. Neoliberal policies commonly are associated with the rollback of the state and primacy of the market, i.e. privatisation of the state enterprises, deregulation and further integration with the international markets. Such policies have full support among the international institutions like World Bank, IMF and

WTO. 'The belief the economy is independent of and separate from politics among others were emphasised upon. It was the rationality that came to infuse, a whole variety of practices and assemblages for regulating economic life...' (Liow 2011: 244). It also involves extending and disseminating market values to all institutions and social action (Siddiqui 2014). The country seems to be moving away from a developmental state to a neoliberal one. In recent years the government had taken a number of measures in favour of free-market policies, as it is trying to bring closer to the international financial institutions and closer integration with the global economy. For instance, the privatisation of the Development Bank of Singapore (DBS) and liberalisation of the banking sector give us clear government policy direction. However, implementation of certain neoliberal policies does not mean doing away with all characteristics of the developmental state.

Neoliberal policies aim to re-establish the conditions for capital accumulation and to restore the power of ruling elites. Educational institutions were the sites of the preparation for social participation and for political formations of young minds. Education was not only the instrument in the country's 'miraculous economic development but equally as a vehicle for promoting a cohesive civic identity, based on the ideological tripod of multiculturalism, multilingualism and meritocracy' (Green 1997: 147). Furthermore, 'a greater emphasis on science and technology in the curriculum and expansion of vocational and polytechnic education, these states were able to achieve a tight coupling of education and training systems with state determined economic policies. These developmental states created centrally planned, universally available, standardised, and state driven education systems, which created the national subjectivities necessary for affiliation to the states' modernisation project' (Gopinathan (2007: 57).

However, with the globalisation and increased levels of economic integration, early prediction was made about the demise of the nation state, which is now seen to be farfetched. It seems that the role of the state has changed rather than been eliminated. State is still needed to carry out market reforms and curtail the role of public sector and to manage uncertainties and risks. Globalisation can be defined as a process associated with increasing economic openness, glowing economic interdependence and deepening economic integration into the world economy. If a country wants to stay its national sovereign economic policies, then it cannot have deep international economic integration. It means that a country cannot combine globalisation with national policies and has to sacrifice democratic politics and sovereign policies. It simply means that a country cannot simultaneously follow sovereign economic policies and economic globalisation.

During the golden age of capitalism, i.e. from the late 1940s to mid-1970s, it was possible to combine national policies and limit the degree of international economic integration. However, later on between 1976 and 1991, such possibilities were reduced and globally capital was on offensive and foreign capital investments and markets were seen as a way forward. However, in the post-1990s, pro-market and globalisation policies further reduced any national policies in favour of greater economic integration. Hence, in recent years the increased global economic integration meant to seek to harmonise policies, institutions and laws across the countries, which made it difficult to pursue national economic interest. The golden age of capitalism witnessed liberalisation of trade and investment to provide foundation for economic expansion and earn the confidence of MNCs and international markets. International financial system is constrained in using autonomous Keynesian management demand to maintain levels of output and employment. Expansionary fiscal and monetary policies such as large government deficits to stimulate aggregate demand or low interest rates to encourage domestic investment can no longer be used by the national government because of fear that such measures could lead to speculative capital flight and also lose the confidence of international finance (Liow 2011).

Some researchers have characterised Singapore economy as predominantly laissez faire, which according to them is based on free-market policies (Rodan 1997), while others describe it as an economy under excessive state regulation and control (Perry et al. 1997). Perry et al. (1997: 126) argue that 'Key components of the domestic economy are in full or partial ownership and subject to government direction, as are the conditions of employment for the domestic workforce and a high share of personal incomes'.

It could be due to the lack of indigenous capitalist class and undeveloped institutions in the past. There seems to be close coordination among the senior ministers and civil servants and widespread intervention is prevalent. A number of agencies were set up with the aim to coordinate with government ministers and to speed up the process of modernising and meeting government set targets. Among the more prominent of these agencies are the following: Economic Development Board (EDB), International Enterprise and Productivity and Standard Board. The country also has domestically owned enterprises in the form of government-linked companies (GLCs) and these are administered through holding companies, i.e. Temasek, Singapore Technology and Health Corporation Holdings. The government also closely monitors labour market through Council on Professional and Technical Education (CPTE). It appears that the government intervention policies have resulted in achieving successful entrepreneur, where the government assigned agencies to be responsible for carrying out policy implementation. In recent years innovation financing policies have played an important role in contributing to the entrepreneurship in the country. On the issue of innovation and financing in modern sector in Singapore and Taiwan, Wonglimpiyarat (2013) finds that 'The innovation policies in both countries have increased emphasis on promoting R&D, technology commercialization and support for high-tech start-ups. In the case of Singapore, the government has played an important role in structuring. . .and in fostering technological innovation. The government has developed comprehensive schemes to finance firms in all stages of product life cycle from start-up to mature phases' (Wonglimpiyarat 2013: 115–116). The study concludes that 'the innovation financing policies to support entrepreneurial development in . . . Singapore and Taiwan. The results have shown an important role of the government in guiding policies to build up the national innovative capabilities. Singapore and Taiwan have effective financial schemes in place to encourage innovation development' (Wonglimpiyarat 2013: 116).

Singapore has a land area of only 648 km$^2$ and it is among the few countries in the world where housing sector is fully under government control. Since the 1960s the housing policies have been formulated under strict state control with an aim to advance social and economic growth (Phang 2001). It seems that government prioritised housing sector as it was considered to influence the macroeconomic factors, i.e. inflation and GDP growth, and as a consequence well-being of its inhabitants. The Housing Development Board (HDB) was created in 1960 to assist government long-term goals. As stated here 'providing decent homes equipped with modern amenities for all those who needed them' (Phang 2001: 44). As a result, housing sector received an average of 9 % of the GDP per annum from 1976 to 1997, while comparative figures for the UK and USA are less than 4 % for the same period (Phang 2001).

Despite various policy measures towards privatisation and pro-market policies since the East Asian crisis of 1997, the housing sector still is dominated by the public sector, where dwellings are sold on a 99-year lease to eligible households. The government acquired most of the land below the market prices under the Land Acquisition Act of 1966. Then the land was made available for public housing, industrial estates and other purposes. Central Provident Fund (CPF) was used as an instrument to finance housing. Forced savings of the workers were 'locked up' in the CPF, which could only be used for housing mortgage purposes. The HDB provided mortgage loans to buy flats and the interest rates charged are usually below the commercial bank rates. The fund is essentially a fully funded pay-as-you-go social security scheme which requires mandatory contributions where certain percentage of workers' monthly was deducted from their account for the fund. Contribution amount was between 20 and 25 % of wages for workers (Phang 2001). The state thus deals with the constraints on both the supply and demand side of the housing market, which has proved in the past to be very effective in providing resources to the housing sector and also reducing the risk. As Phang concludes that 'The structure of the housing loans market has allowed the CPF contribution rate to be more effectively used as a discretionary instrument to affect labour cost. The integral comprehensiveness of economic, housing, and housing finance policies thus also serves a useful purpose of providing policy-makers with the flexibility to steer housing policy to achieve desired (Short as well as longer term) economic objectives' (Phang 2001: 457).

From the beginning the government led by People's Action Party (PAP) has put as top priority and as an important policy aim the achievement of good governance. When the country attained independence in 1959, poverty was widespread; afflicted with serious housing shortages, half of the population was living in huts and the official unemployment rate was 14 %, with frequent labour unrest, corruption and high crime rate (Quah 2013). Corruption was widely prevalent during the colonial period. Soon after independence, to minimise corruption among the civil servants, the government formed Central Complaint Bureau in 1961 to reform bureaucracy. As former Prime Minister Lee Kuan Yew wrote in his memoirs regarding his determination to free the country from corruption, 'We were sickened by the greed, corruption and decadence of many Asian leaders [...] we had a deep sense of mission to establish a clean and effective government. When we took the oath of office [. . .] in June 1959, we all wore white shirts and white slacks to symbolize purity and honesty in our personal behaviour and our public life. [. . .] we made sure that every dollar in revenue would be properly accounted for and would reach the beneficiaries at the grass roots as one dollar, without being siphoned off along the way. . .we gave special attention to the areas where discretionary powers had been exploited for personal gains and sharpened the instruments that could prevent, detect or deter such practices' (Lee 2000: 182–184).

Singapore has always been on the World Bank's governance indicators very honest with good and effective governance. The bank's data on *Doing Business Surveys* show that Singapore is ranked first among 183 economies included from 2007 to 2012 (World Bank 2012). The bureaucrats of the country are known as most efficient and honest in the region. As economist notes on Singapore's success, 'it has harsh judicial punishment, a tame press and illiberal social policies . . . Protests demonstrations are rarely permitted. . . Mr. Lee saw his authoritarian style government as an essential ingredient in Singapore's success' (The Economist 2015). Furthermore, as Quah concludes that 'Singapore's success in ensuring good governance is the combined influence of the political will of the PAP government was to solve the problems facing the country for the past 53 years and its favourable policy context, it will be difficult to transfer Singapore's experience in toto to other Asian countries because of lack of political will with unfavourable policy contexts in many Asian countries' (Quah 2013: 415).

## 3 Macroeconomic Indicators

Since independence, Singapore's economy has had an experience which was not common among other former colonies such as sustained economic growth, reliance on foreign companies, low inflation and high savings rates. Singapore's GNP increased to more than 13-fold between 1960 and 2000, and also the country witnessed sharp decline in both the number of people in poverty and in infant mortality. The annual real GDP growth rates averaged around 8 % between 1965 and 2009; except during the 1980s, it fell to 6.7 % mainly due to global recession (see Table 1 and also see Fig. 1).

In 2008–2009 the average growth rates again declined sharply due to the global financial crisis and uncertainty in export demands. There have been low levels of inflation, i.e. around 2 % annually during the nearly five decades, except in the 1970s when it rose to 5.8 % annually, mainly due to oil crisis and inflationary trends in the Western economies. The macroeconomic environment with low inflation has created a positive environment for a long-term business perspective in the planning and investment decisions and provided a good return on their investments (see Table 1).

Rising levels of incomes (see Fig. 2) and productivity enabled the government to appropriate a high level of domestic savings (Wong 1986). These savings were

**Table 1** Macroeconomic indicator, 1960–2010 (%)

| | 1960–1969 | 1970–1979 | 1980–1992 | 1990–1997 | 2001–2010 |
|---|---|---|---|---|---|
| Annual real GDP growth rate | 8.0 | 8.3 | 6.7 | 8.7 | 1.2 |
| Annual inflation rate 1 | 1.1 | 5.8 | 2.4 | 2.6 | 2.1 |

*Notes*: (1) GDP deflator

*Source*: Department of Statistics, 2012, Singapore: Ministry of Trade and Industry; also *The Economist*, 26th January–1st February, 2002; www.singstat.gov.sg

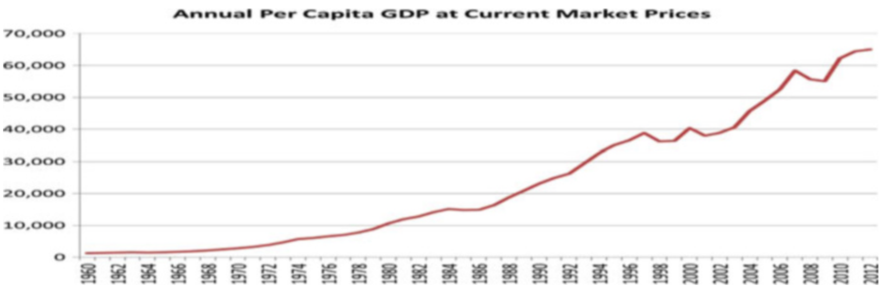


**Fig. 1** Annual per capita GDP at current market prices. *Source*: Singapore Department of Statistics

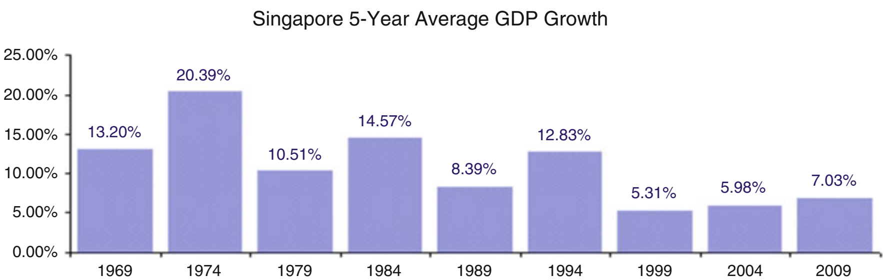


**Fig. 2** Singapore's 5-year average GDP growth

invested in infrastructure and educational sectors (World Bank 2009). Per capita income grew rapidly between 1990 and 1997, and the country experienced negative growth during the East Asian crisis of 1998 and 1999. However, after 2001, the economy once again began to grow at higher rates (see Table 2).

Another crucial macroeconomic indicator is the rate of domestic savings. The savings could be invested, which would mean less reliance on overseas borrowings. Singapore's savings rates are among the highest in the world. The mobilisation of domestic resources appears to have played a very important role, along with foreign capital and technology in the economic development of the country. High savings and investment had been key ingredients of its developmental policy strategies. Since independence the gross national savings has steadily increased. As shown in

**Table 2** Asia: real GDP (year over year per cent change)

| | Actual data and latest projections | | | | | Difference from October 2014 WEO | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| Australia | 3.6 | 2.1 | 2.7 | 2.8 | 3.2 | −0.1 | −0.1 | 0.1 |
| Japan | 1.8 | 1.6 | −0.1 | 1.0 | 1.2 | −1.0 | 0.2 | 0.3 |
| New Zealand | 2.4 | 2.2 | 3.2 | 2.9 | 2.7 | −0.4 | 0.1 | 0.3 |
| *East Asia* | 6.8 | 6.9 | 6.7 | 6.3 | 5.9 | −0.1 | 0.3 | −0.5 |
| China | 7.8 | 7.8 | 7.4 | 6.8 | 6.3 | 0.0 | −0.3 | −0.5 |
| Hong Kong SAR | 1.7 | 2.9 | 2.3 | 2.8 | 3.1 | −0.7 | −0.4 | −0.4 |
| Korea | 2.3 | 3.0 | 3.3 | 3.3 | 3.5 | −0.4 | −0.7 | −0.5 |
| Taiwan Province of China | 2.1 | 2.2 | 3.7 | 3.8 | 4.1 | 0.3 | 0.0 | −0.1 |
| *South Asia* | 5.2 | 6.9 | 7.1 | 7.4 | 7.4 | 1.4 | 1.0 | 0.9 |
| Bangladesh | 6.3 | 6.1 | 6.1 | 6.3 | 6.8 | −0.1 | −0.1 | 0.0 |
| India[a] | 5.1 | 6.9 | 7.2 | 7.5 | 7.5 | 1.5 | 1.1 | 1.0 |
| Sri Lanka | 6.3 | 7.3 | 7.4 | 6.5 | 6.5 | 0.4 | 0.0 | 0.0 |
| *ASEAN* | 5.9 | 5.20 | 4.6 | 5.1 | 5.3 | −0.1 | −0.2 | −0.1 |
| Brunei Darussalam | 0.9 | −1.8 | −0.7 | −0.5 | 2.8 | −6.0 | −3.5 | −0.6 |
| Cambodia | 7.3 | 7.4 | 7.0 | 7.2 | 7.2 | −0.2 | −0.1 | −0.1 |
| Indonesia | 6.0 | 5.6 | 5.0 | 5.2 | 5.5 | −0.1 | −0.3 | −0.3 |
| Lao People's Democratic Republic | 7.9 | 8.0 | 7.4 | 7.3 | 7.8 | 0.0 | 0.1 | 0.2 |
| Malaysia | 5.6 | 4.7 | 6.0 | 4.8 | 4.9 | 0.1 | −0.4 | −0.1 |
| Myanmar | 7.3 | 8.3 | 7.7 | 8.3 | 8.5 | −0.8 | −0.2 | 0.3 |
| Philippines | 6.8 | 7.2 | 6.1 | 6.7 | 6.3 | −0.1 | 0.4 | 0.3 |
| Singapore | 3.4 | 4.4 | 2.9 | 3.0 | 3.0 | 0.0 | 0.0 | 0.1 |
| Thailand | 6.5 | 2.9 | 0.7 | 3.7 | 4.0 | −0.3 | −0.9 | −0.4 |
| Vietnam | 5.2 | 5.4 | 6.0 | 6.0 | 5.8 | 0.5 | 0.4 | 0.1 |
| *Pacific Island countries and other small states*[b] | 3.3 | 2.2 | 3.6 | 4.0 | 3.4 | 0.4 | −0.5 | 0.2 |
| *Emerging Asia*[c] | 6.8 | 7.1 | 6.8 | 6.6 | 6.4 | 0.3 | 0.0 | −0.1 |
| *Asia* | 5.6 | 5.9 | 5.6 | 5.6 | 5.5 | 0.1 | 0.0 | −0.1 |

*Sources*: IMF, World Economic Outlook (WEO) database; and IMF staff calculations
*Note*: ASEAN = Association of Southeast Asian Nations
[a]For India, data and forecasts are presented on a fiscal year basis and output growth is based on GDP at market prices
[b]Simple average for Pacific island countries and other small states which comprise Bhutan, Fiji, Kiribati, Maldives, the Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu
[c]Emerging Asia comprises China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam
*Source*: www.cebuictandbpm.com/…/2014/…/ASEAN-Global-Competitiveness-2 (Assessed on 2 June 2015)

Fig. 3, the savings rates rose from minus 3 % in 1965 to an average of 28 % in 1975 and further rose to 41 % in 1985 and reached 45 % by 2001. The deficit between savings and investments during the period of 1965–1985 is due to a rise in

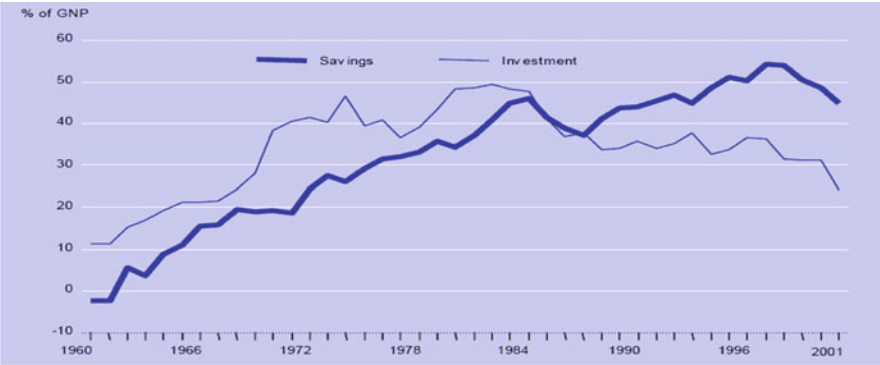


**Fig. 3** Savings and investment trends in Singapore, 1965–2001. *Source*: www.singstat.gov.sg (Accessed on 10 July 2010)

investment rather than a decline in savings, which coincided with rapid industrialisation and expanding industries (Phang 2001).

Within the decade after the independence, the government was able to bring down the unemployment rates at very low levels and kept it at very low levels. Unlike the Phillips Curve model, Singapore observed a steady decline in unemployment without fuelling the inflationary pressures. Singapore succeeded in keeping under control macroeconomic variables and coordinated public sector investment decisions and thus was able to maintain largely stable economy; as a result the foreign companies found it a very attractive country to invest.

Moreover, the public sector savings contribution dominated among the sources of domestic savings. Its share rose from less than 25 % of the national savings in 1975 to 60 % in 1985. Public sector savings included the government budget surplus and surpluses realised by statutory boards. The private sector's contribution was also high mainly due to the government policy of forced savings through social security schemes, i.e. the CPF. It was estimated that from 1967 to 1990, the country's overall savings rates rose by 3.8 % (Huff 1995: 744). CPFs consisted of past contributions made by individuals during their employment period and such contribution was divided equally between employees and employers. The savings of the provident funds provided government cheap money available to invest in infrastructure and housing sector. The savings invested in infrastructure which made possible the expansion of mass rapid transit system, roads, airports, seaports and telecommunications in the country. In fact, it subsidised and made it attractive for foreign companies to invest in Singapore. The government infrastructure investment policy also has had wider 'crowding-in' impact, which means government expenditure was seen as complementary to the private investment, which played an important role in raising the economy's absorptive capacity and investor confidence (Toh 1997).

The World Bank (1993) study claims that public savings was about 44 % of the GDP on average in the periods between 1981 and 1990 (World Bank 1993). Toh

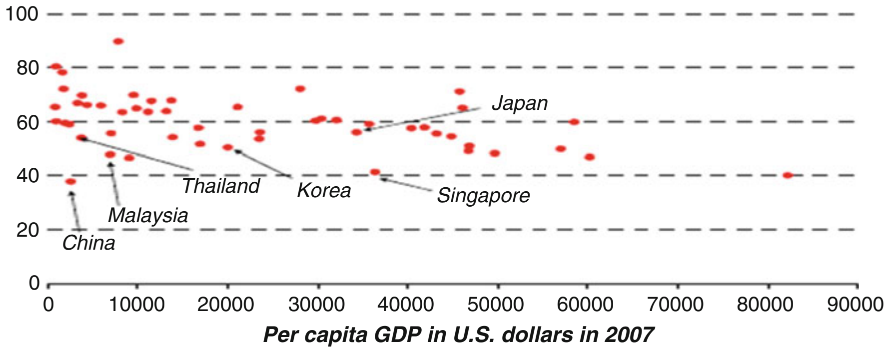


**Fig. 4** Real private consumption in % of GDP for 2003–2007. *Source*: Asian Context, IMF, 2009, Washington D.C., p. 27 (Accessed on 5 August 2010)

(1997) agrees with the importance of public savings, but his estimation of public savings was higher, i.e. average about 53 % during the same period. And the significance of public savings was described as 'Public sector saving has consistently played a significance role in the contribution to the national saving' (Toh 1997: 9).

Figure 4 indicates that private consumption in Singapore is much lower than in Korea and Japan, although its average per capita income is nearly of the same level as Korea (Siddiqui 2009a). Therefore, on private consumption Singapore may need to focus more on its domestic economy as an engine of growth especially in the wake of the recent global economic crisis (IMF 2009).

Due to 2008 global financial crisis, consumers in export markets have reduced their consumption of imported goods. Therefore, Singapore needs to rebuild towards domestic demands in order to return to stable economic growth. It would be feasible to increase spending in social sectors and to build social safety nets because a stronger social protection system will reduce the need for precautionary savings to meet the need for education, health and old age care. As incomes and living conditions of working people rise further, it leads towards the expansion of home markets, which made further profitable to reinvest locally.

Social inequality has been rising since East Asian crisis, although it fell slightly in 2009, but rose again in 2010. The GINI Index for Singapore is at 0.48. This is an increase from 0.478 in 2009, after falling slightly in 2008 from 0.481. The GINI Index for Singapore remains one of the highest among the developed countries (Department of Statistics 2010). But, the government institutions have greatly depoliticised the people as a result to the economic crisis, and rising unemployment is seen as personal failures rather than structural reasons or government policy failures. It seems that depoliticisation has taken roots and the issue of unemployment is individualised.

## 4 The Growth Strategy

Singapore's vibrant economy is considered a sort of a miracle. Despite many obstacles, it managed to attain prosperity within a short period. However, in mid-1960s, Singapore had a large pool of unskilled workforce, high levels of unemployment and poverty, along with non-availability of natural resources, which meant that the country had limited developmental options (Shin 2005). The structural transformation took place, i.e. a shift towards manufacturing sector, and its share in GDP grew from 16.6 % in 1965 to nearly 30 % in 1980, and in 1993 manufacturing contributed to about 28 % of the total GDP and accounted for nearly 28 % of employment. The economy also witnessed the growing importance of a service sector, which included transports, communications, businesses and financial services. Since the early 1980s the country moved towards becoming an international financial centre which became increasingly vital for the economic growth in recent decades. And in 1993, services provided about 27 % of the GDP with 11 % of the total employment (Mookerjee and Yu 1997).

In the early 1980s, large companies invested in computer manufacturing due to availability of female educated workers at a fraction of wages paid in the developed countries. For example, nearly 72 % of those employed in the electronic production were female compared to nearly 43 % in the rest of the manufacturing sector in Singapore. Moreover, the wages in the electronic industry were lower than average manufacturing wages during the 1993.

However, Singapore is not an independent capitalist economy. Singapore's lack of indigenous capitalists marks its inability to chalk out a path of independent development. High-tech and new products are developed and designed overseas in order to have full control core competencies of the business. Since mid-1960s multinational companies have moved to Singapore, compelled by the higher wages, increased competitor and saturated domestic markets at home, resulting in one of the few truly international economies (Mirza 1986). This overwhelming level of foreign companies' involvement, not seen somewhere else, has been achieved just within one generation, largely due to massive capital inflows (Mirza 1986). By the end of 1980s, the country received foreign capital up to 4.6 % of the world and nearly 14.6 % of the total FDI destined to the developing countries in 1988.

The government's policy aimed to promote export-led growth and attract foreign investors by making the country one of the most secure and profitable countries to invest. Moreover, this policy decision coincided with the restructuring of the production system in developed countries, where rising trade union activities, production costs, high taxes and increased competition were the corporate sectors being found more profitable to relocate production in low-cost countries. Thus, Singapore has benefitted from the specific international circumstances and the MNCs found it more attractive to invest in the city state.

Moreover, overseas Chinese subsidiaries have played a prominent role to maintain a large-scale investment in Singapore. The country is surrounded by Chinese overseas population in Malaysia, Indonesia, Hong Kong and also North America and Western Europe. Sector-wise, foreign investment in the country is a highly diversified. For example, inflows of funds from the UK and USA are concentrated in service sector. This most likely reflects their comparative advantage in invisible trade, while Japan and other EU countries have largely invested in the manufacturing sector because of the availability of good quality infrastructure, good governance and highly skilled labour force.

Singapore's comparative advantage is reflected on the strategic location on the main east-west communication networks; along with the presence of international financial institutions and the availability of excellent infrastructure, it proved to be the best possible destination for the foreign investors, especially in financial sector. Singapore managed to build a cluster of financial services, which further created opportunities for specialisation and economies of scale in this sector.

The key task of the EDB during the late 1960s was to achieve industrialisation and modernisation of the economy. This was based on the plans made by Dutch economist Albert Winsemius. But a shift happened during the 1990s. The Strategic Economic Plan (SEP) in 1991 was more bent on pursuing education and human resource development in order to encourage export of high-value goods. The EDB has focused on how to achieve steady growth of business sector in Singapore (SEDB 1995).

When global recession hit in 1985–1986, the government turned its attention to make Singapore a manufacturing and communications hub for foreign companies. As a result, between 1965 and 1980, export of manufactured products became important for the country's rapid economic growth. The proportion of direct manufactured exports to GDP increased from 12.7 % in 1965 to nearly 50 % in 1980 and further to 60 % by 1992. The importance of export could be seen from this that the export of manufactured products grew faster than manufactured output in Singapore between these periods.

The manufacturing sector consists of industries like electronics, engineering and chemicals. Petroleum refinery began in the country as early as in the 1960s, which has been developed with the government support. Petroleum refinery plays less important role now than three to four decades ago. In terms of employment, manufacturing employment accounted for 21 % of the labour, while in construction 13 % in 2000. It appears that the manufacturing sector has been built attracting multinational companies into sectors chosen by the government.

The Singapore economy is heavily dependent on exports, which did contribute US$268.9 billion to the nation's net earnings in 2009. Key export commodity includes consumer electronics, information technology products, petroleum products, pharmaceuticals and chemicals. There was a rapid increase in the exports of disc drive, printers and PCs during the periods 1986–1997, and in 2000 semiconductors, a higher-value-added product, became an important export item. Singapore's export by markets (% of domestic export) has changed during the last 25 years. For example, its exports to ASEAN countries increased from 17.5 to 21 % in 2001 and for China from 1.2 % to nearly 4 %, while for developed countries (i.e. the USA, EU and Japan), it declined from 49.6 to 12 % over the same period (Siddiqui 2015b).

The destination of Singapore's exports has changed since the mid-1980s. For instance, the developed countries are still important, but their shares have been declining. China in the past has not been Singapore's export competitor, but it is now, particularly since the early 1990s, primarily due to huge increase in FDI associated with low-cost production and expectations of higher profits. The manufacturing sector in China has expanded rapidly during the last two decades towards higher-value export products. For instance, China is the third largest producer of electronic products in the world (Siddiqui 2015b). Singapore's principal imports are crude oil, electronic components, industrial machinery, motor vehicles, food and beverages and iron and steel.

Figure 5 shows the economic and sectoral changes between 1997 and 2009. The figure indicates that after the post-East Asian crisis, i.e. since 2000, the financial sector has grown more rapidly than manufacturing, while earlier the situation was the other way round.

The country has got large inflows of foreign capital, has the world's highest investment ratio for over 40 years and hosts about 5000 MNEs. By the beginning of 2001, MNEs accounted for three quarters of manufactured output and 85.3 % of Singapore's direct (produced in Singapore) manufactured exports (Siddiqui 2015a). The government of Singapore subsidises private investors through its active policies such as investment incentives, high-quality infrastructure provisions, and through education and training. Moreover, subsidies were mainly concentrated on strategic industrial clusters and were targeted by the government to persuade foreign investors.

The industrial upgrading in 1980–1990 was an attempt to further collaborate with the MNEs towards upgrading industries and technologies, i.e. high-technology

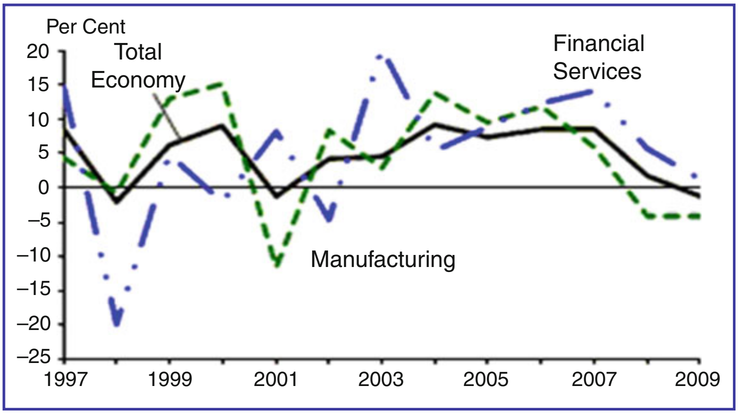


**Fig. 5** Growth and sectoral trends between 1997 and 2009. *Source*: http://www.economywatch.com/world_economy/singapore/; www.singstat.gov.sg; www.singstat.gov.sg (Accessed on 10 July 2010)

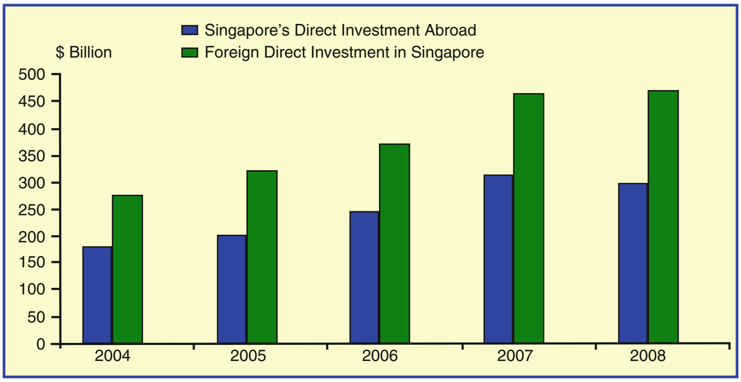


**Fig. 6** Singapore's foreign direct investment inward and outward between 2004 and 2008. *Source*: http://www.economywatch.com/world_economy/singapore/; www.singstat.gov.sg; www.singstat.gov.sg (Accessed on 4 September 2010)

and high-value-added manufacturing, for example, an offer of larger tax concessions and breaks to foreign investors who are planning to invest in high-tech and high-value-added manufacturing products (Bello and Rosenfeld 1990). The government also made resources available to Nanyang Technological University and also huge funds were made available to the existing university, i.e. National University of Singapore, to enhance its computing and engineering, particularly R&D activities. The government of Singapore played an important role in regularly upgrading its economy by attracting MNE investment into targeted sectors.

As shown in Fig. 6, Singapore's outward investment has steadily grown, i.e. from nearly $180 billion in 2004 to $300 billion in 2008. However, it has suffered slight setback from $320 billion in 2007 to $300 billion in 2008. Inward investment in Singapore has increased from $180 billion in 2004 to $450 billion 2008. It clearly indicates that the FDI inward investment has been very important for the economy of the country. Singapore's outward investment was limited before 1990. By 1994 Singapore-based companies investments had increased by 29 %. This trend continued and in 1997 the amount invested abroad by Singapore domestic businesses tripled since 1990. Nearly two thirds were invested in Asian countries, 10 % in Europe and 5.5 % in North America.

Singapore took a keen interest in inviting foreign companies by providing them with complementary assets like infrastructure, a highly skilled labour force, fiscal incentives, etc. The workers' skills were upgraded continuously to maintain the country's competitive advantage position, and the EDB was given the primary task of attracting overseas investors. However, immediately after independence the government aimed to exploit the global geopolitical situation and its relationship with the industrialised countries to provide maximum benefit to foreign investors rather than to establish local industries who might be potential competitors with them (Huff 1995; Mirza 1986).

Krugman (1994) argues that East Asian economic growth is not sustainable because it relies mainly on factor accumulation, which is subject to diminishing returns, rather than productivity growth. The mainstream economists saw the East Asian crisis in 1998 as vindication of Krugman's findings. Krugman (1994) emphasised that productivity growth has played no role in the rapid growth rates in the country and the total amount of output growth could be explained by the increase in the quantities of inputs of especially capital and labour alone. He added that any further improvement in the efficiency and skills of the labour force was limited and there was no scope for increasing the participation rate (Krugman 1994).

Singapore at present is trying to develop as a service centre for linking key electronic manufacturing activities within the region. Thus it appears that Singapore has shifted from a key centre of manufacturing to regional headquarters to MNEs, while reallocating manufacturing centres across the region. The government is also building clusters to create a favourable domestic environment for pharmaceuticals and the biomedical industry.

The economic crisis of 1998 has led to significant changes in economic policy in the region. Short-term considerations such as IMF emergency credits to restore market confidence have shaped many economic reforms of the last two decades of the East Asian countries. Moreover, investment policy goals also changed in the region. Foreign ownership limits and domestic participation requirements have been phased out in most sectors, although some differences remain among countries in the region. During the post-economic reforms, IMF insisted on higher interest rates.

The Asian crisis began with Thailand's currency the *Bhat* value which declined sharply (15 %) in July 1997. But soon the crisis spread to South Korea, Malaysia and the Philippines and to a lesser degree to Hong Kong and Singapore. Moreover, after the Plaza Accord of 1985 being signed between the USA and Japan, as a consequence the US dollar was devalued by 50 % against the Japanese yen. Due to the overvaluation of the *yen*, it became more profitable for Japanese businesses to invest abroad including in Singapore. Hence, Japanese investors found cheaper to produce in other East Asian countries rather than domestically and the FDI from Japan witnessed a dramatic surge in East Asian region (Siddiqui 2009a). The recent financial crisis of 2008 did affect Singapore adversely and its economy contracted by 0.5 % in the third quarter of 2008 compared to the same period last year. Sharp decline was witnessed in biomedical sciences, the manufacturing sector, construction and tourism.

It seems true that investment in services is sensitive to changes in skill differences, while manufacturing investment is perhaps less sensitive to such things. Singapore is able to attract both high- and low-end manufacturing investments; the low-end investment passed towards neighbouring countries, while high-end manufacturing stays in the country. Since the 1990s, Singapore's skill share rose at much higher levels in relation to those of its neighbour. As a result, a tendency for a rapid rise in vertical orientation in outward investment for both manufacturing and services from Singapore to other ASEAN countries was observed (Siddiqui

2009b). Furthermore, many MNEs also use Singapore as a base to launch investment in neighbouring countries.

Since the East Asian economic crisis in 1998, the government of Singapore has adopted an increased degree of neoliberal economic policies to increase integration with global markets and gain the confidence of MNEs, but it also further exposed the domestic producers to international competitive pressures. This will have an impact on the local workforce, and the long-term social contract between people and government based on full employment was seen as a reward for adopting ‘market-friendly’ policies under strain.

However, unlike Japan and South Korea, Singapore largely depended on MNEs rather than indigenous companies for modern technology. As it was stated above, nearly 75 % of the country’s manufacturing output was contributed by MNEs, and also foreign capital provided nearly two thirds of the equity capital of its manufacturing firms. Therefore, it is clear that in the case of Singapore, MNEs played a major role in the technological transfer from the corporations’ headquarters to subsidiaries.

The recent arrival of globalisation is widely discussed among the researchers. Its main aspect is the less control over cross-border flows of goods and services. Since the 1998 Asian crisis and especially with the adamant of the free-market policies, the MNEs became the dominant forces in the global economy (Siddiqui 2009b). Singapore also witnessed a slowdown in growth and also a rise in unemployment, but by 2000 the GDP growth rate increased and FDI inflows started to rise again.

## 5 The Role of the State

In this section the role of the state vs. the market in economic policies will be discussed. The role of the state in economic affairs has been problematic. On this issue two views could be seen widely, namely, (1) the neoclassical explanation and (2) the radical view. The neoclassical (also known as mainstream) economists are concerned with the existence of market failures, which exist when the market mechanism fails to perform its role as the ‘invisible hand’ in the allocation of resources (Krueger 1980). The radical theorists view the state as the supporter and promoter of the interests of the capitalist class (Pitelis 1991). The internationalisation of capital itself via MNEs to accumulate further and dominate markets, however, needs a system of nation states to defend its global interest. As Pitelis (1991) argues, ‘all translational capital, state functionaries and labour have some interest in the persistence of the nation state’ (Pitelis 1991: 144).

Developmental state is a notion that an economic policy launched with the aim to promote industrialisation in the country. In Singapore such tasks were given to groups of technocrats who enjoy substantial political support to carry out long-term policies to promote industrialisation. It is evident in state direct regulation and participation in order to get such specific outcomes. In Singapore there is clear evidence of large government intervention in the economy through planning and facilitating the expansion of industries. By actively providing logistical and infrastructural support to foreign companies, while at the same time investing in education and housing, was seen key to promote industrialisation and exports. Moreover, the government appeased foreign companies' labour-unfriendly measure and trade union rights were curtailed. A bill was introduced rendering strikes as illegal, and annual and medical leaves were reduced to increase the capital accumulation process. The government was able to clearly side with the capital, while the dissent was not tolerated and government deployed all necessary measures, repressive state apparatus if necessary, to ensure smooth process of accumulation and profits. 'Many have internalised the belief that economic success requires social and political stability and these necessarily come at the expense of sacrificing some political and constitutional rights. If economic growth represented the "pragmatic" goal of the Singapore state, it was reproduced at the level of everyday life in a culture of mass consumption. The ideology of pragmatism thus grounded the legitimacy of the PAP in the fulfilling of this criterion of growth' (Liow 2011: 247).

The role of the state becomes increasingly important as globalisation accelerates, contrary to mainstream economists which claim that increased role of market forces would lead towards a reduced role of the state (Stiglitz 1989). Singapore has heavily relied on government intervention. For instance, the government regulates land, labour and capital resources and their allocation. It sets prices on these very resources on which private investors largely rely on their future business calculations and investment decisions.

Moreover, in the 1980s international financial institutions propagated the virtues of free-market policies as the way to achieve rapid economic growth and prosperity for the developing countries. This nineteenth-century ideology is based on notions such as this 'invisible hand' as the means to allocate resources and unbridled competition as the means to efficient production (Siddiqui 2012a; Chang 1994). Government intervention in the economy was criticised as inefficient, a waste of resources and a threat to the personal liberties of the individual. Singapore was taken as the best example of the success of the free-market model (World Bank 1993). Contrary to this claim, Singapore's success is not due to free-market policies, which could be emulated by other developing countries.

The history of modern Singapore is intertwined with the former Prime Minister Lee Kuan Yew and his PAP. The PAP has ruled the country since it became independent. And in the name of development, the PAP established an authoritarian state which disregarded human rights and state force was used to crush any genuine critique of the government policies. The government used dictatorial means to make the way for the so-called 'free-market' model. Wages were kept down to make it internationally competitive. It seems that the government directives and interventions did manage to successfully achieve high levels of competitiveness. These government directives were observed in key areas such as labour markets, state-owned enterprises (SOEs) and forced savings (Toh 1997). Singapore's experience indicates that democracy and a free press are not essential factors for economic development. It has been argued that 'authoritarianism' and 'discipline' are better and necessary to achieve higher growth rates.

After the global economic crisis in the mid-1980s, the government began establishing government-linked corporations (GLCs); they were either owned by the government or via state-controlled entity in vital areas of the economy such as telecommunications, airlines, electronics and shipbuilding. The chairman of these GLCs came from PAP senior officials. The state through GLCs dominates the domestic economy—ranging from financial sector such as Developmental Bank of Singapore to utilities to land and property development to manufacturing. In recent years, following the economic diversification strategies, the government has invested overseas more than S$100 billion of the taxpayers' money. The government of Singapore's corporation, Temasek Holdings, presides more than S$70 billion in 2006; most of it is invested in 40 large businesses, which accounts for nearly a quarter of the country's stock market. The company performance and portfolio have not been fully disclosed or open to external regulations. Dhanabalan, the chairman of the Temasek, says: 'As long we are not asking outsiders to put money in, there is no reason to tell them our financials'.

In the capital markets, the government also plays a major role. For instance, its CPF and Post Office Savings Bank hold a majority of national savings. The Monetary Authority is responsible for monetary policies and acts as a country's central bank. The Banking Act of the 1970 had directed the banks and insurance companies to seek the Monetary Authority's approval for the appointment of their chief executive officers. This has been explicitly revealed by Wee Ee Cheong, former deputy chairman of the United Overseas Bank: 'A few years ago, the major shareholders of small bank proposed to appoint two of his family members as Directors but this was rejected by the Authority (Monetary Authority of Singapore)' (Tsui-Auch and Lee 2003).

In the mid-1960s, the housing situation was in deep crisis and the government has made housing sector as a priority area of policy concern. The HDB was set up to provide housing to the inhabitants (Miles 1994). Since then the share of residential construction in gross national investment and in GDP averages around 9 % of the GDP annually which was spent on housing construction and was more than double the amount spent by developed countries like the USA and UK (Miles 1994). The housing sector is dominated by the public sector, which then sells on a 99-year leasehold basis to the private households. The construction is carried out by private contractors through open tenders system. In 1966 the government owned about 40 % of the total land, which at present has doubled, i.e. 80 %. At the same time, the home ownership has also risen from 29 % in 1970 to more than 90 % in 2009. The CPF has played a key role to boost housing demands (Miles 1994; Low 1984).

It is useful to examine the sources of financing for the housing sector. Between 1960 and 1980, the forced savings was 'locked up' in CPF and could only be withdrawn for housing (Koh 1987). This still explains the existence of public debt despite annual budget surpluses. The Housing and Development Board provides mortgage loans to buy flats. The interest rate charged by the Housing and Development Board is below that rate of commercial banks. The government claimed to redistribute income through the housing policies. And indeed most households in the country have benefitted from access to houses. The government's Housing and

Development Board assists housing to nearly three quarters of the population in public housing estates. With the exception of the lowest-income public housing, they are profit-making and not subsidised. This is achieved by a combination of cost efficiency and charging the occupants at full costs. The government is the key player in the land market, where it holds about three quarters of all land in the country (Peebles and Wilson 2002; Phang 2001; Miles 1994).

Moreover, the government was able to control labour mainly due to the following: immediately after the independence, the government nationalised all labour unions in order to register with the National Trade Union Congress (NTUC). The PAP normally appoints the general secretary of the NTUC. Going on strikes by workers meant losing their jobs. The government always highlighted that the tiny city state with almost no natural resources and lack of workers' cooperation would mean withdrawal of developmental activities. It was said compliance and obedience were the only guarantee for growth and prosperity, while at the same time all these helped the government to keep wages low to make the country attractive for foreign businesses. The government established a Workforce Development Agency (WDA) in 2003 with the task of retraining workers who have been made redundant to find work especially in the service sector. The policy of total collaboration with the MNEs has led to undermine the growth of the domestic capitalist class in the country.

The government established the National Science and Technology Board (NSTB) in 1991 to promote R&D. The government created National Computer Board and also provided incentives to attract FDI into the electronic sector. In addition to this, the government is currently building two large projects, namely, the Tuas Biomedical Park and Biopolis, which are designed to support the growth of pharmaceutical and biopharmaceutical manufacturing.

The government's new economic strategy, i.e. biomedical sciences, retraining scheme and setting up industrial parks abroad, has aimed to diversify economy to continue steady economic growth. In Singapore, still the government remains the dominant agent for change acting through a series of interventionist measures, while the domestic capitalist class still remains absent and the working class remains relatively disempowered. The overseas investors knew that they 'could trust Singapore because other MNEs always said Singapore lived up to its commitments'. For example, according to the Chairman of DuPont: 'In other countries things would constantly come unglued, whereas in Singapore, once they said something, they stuck to it' (Schein 1996: 125).

The government policies were in three phases: the setting up of manufacturing during 1965–1980, the industrial upgrading of 1980–1990, and finally, regionalisation programme of 1990–2010. The country had a purposive economic strategy to encourage MNEs to collaborate and fully participate in the country's industrialisation process. The government also realised that foreign investors would choose to invest if they are confident of higher returns from their operations. Therefore, the state promised to provide best possible environment for businesses, for instance, the policy of making it a duty-free export processing zone and tax breaks for foreign investors. Between 1974 and 1984, the average rate of return of

US companies in Singapore averaged 35.4 %, compared to 16.9 % in Hong Kong, 18.4 % in Taiwan and 15.2 % in South Korea (Pereira 2000; Siddiqui 2013a).

The government also promoted sectoral diversification and since mid-1980s promoted the increased investment in high-value-added products and service sectors (Stiglitz 1989; Wade 1990). The country has promoted tourism as part of its diversified economy since the 1980. Over the years from 2.6 million tourists in 1980 to 6.2 in 1998 visit Singapore. Also in response to the 1985 recession, to diversify its economy and sources of income, Singapore encourages its own domestic capital to expand in other developing economies. In the mid-1990s the government took initiative to restructure and diversify the economy by shifting its heavy reliance on manufacturing exports towards service sector and aimed to create the country as international centre for services. For instance, in 1999 Prime Minister Goh Tong stressed the country's commitment towards further integration with the global economies in order to build 'world-class Singapore' as he said: 'we should now go global by forming strategic alliances or mergers with other major players. Indeed, we have no choice—where the industries are consolidating worldwide, we are either become major players, or we are nothing' (Goh Tong, 22nd August, 1999, www.web3.asia1.com.sg/archive/sg/1/one/one1a.html).

In recent years, there have been massive shifts of job relocation by foreign businesses towards other neighbouring countries. To prepare for this changing business environment, Singapore has been focusing on more capital-intensive skilled oriented sectors such as biotechnology sector. The government plans to shift workers from manufacturing towards service sectors; however, it would be difficult to upgrade manufacturing workers to become biotech researchers. In recent years the government EDB has taken initiative to boost the sectors such as pharmaceuticals, biomedical technology and health-care services. The government aims biomedical science sector to generate US$18 billion and create 15,000 new jobs by 2015. Singapore's biomedical policies are not designed to assist local companies, as other countries might do, but to invite MNEs who are linked to the biomedical sector and offer subsidies to those international companies to invest in Singapore (Pereira 2006). Moreover, in order to ensure adequate supply of highly skilled workforce, the government invested heavily in biomedical training and education including awarding a large number of scholarships to overseas and local students to take research in this sector. And also the government amended immigration laws to allow 'foreign talent' in biomedical sector to be employed by the MNEs.

To highlight the key role played by the country manufacture sector, only 25 % of manufacturing enterprises were foreign owned, employed 25 % of workforce and contributed to almost 72 % of the total country's exports in 1982. Foreign companies are attracted by cheap and disciplined labour and rapidly growing regional markets. The production carried out by MNEs can take the form of exports to the source country or to other countries or could be used as inputs into export-oriented industries in host country. All these three types of activities can be found in Singapore such as interindustry textiles exported in return for high-tech products. The intra-trade activities also prevailed, where subsidiaries of MNEs are involved in part of a global production process. Thus, due to this the development is far from independent and rather peripheral, which is heavily dependent on developed economies and foreign companies.

Singapore's export-led development coincided with the search by the MNEs to reduce costs of production through cheap labour and raw materials in the 1970s. The government of Singapore intervention influenced market clearing levels largely due to measures such as the Employment and Industrial Relations Act of 1968. As suggested by findings of Lim and Pang: 'de-politicised the labour movement, established de facto government control over unions [and] transferred bargaining power from workers to employers' (Lim and Pang 1986: 11). Despite the attractiveness to production location due to the excellent infrastructure, the presence of cluster of complementary firms and shortages of labour in the 1980s, the government suppressed wages to make it attractive for foreign investors.

Singapore relatively witnessed fewer difficulties from the increasing instability of global financial markets. Since the country relied on MNEs for capital, technologies and management, the availability of domestic savings, thus, had little need for reliance on foreign debts.

The country has become a hub of foreign investment because of its strategic location and favourable government policies. The government of Singapore enforces a pro-foreign investment and export-oriented economic policy, helping the nation attract large-scale foreign investments despite its relatively costly operating environment. The USA is the leading foreign investor in Singapore, accounting for about $106.5 billion worth assets in the manufacturing and service sectors.

The government also employed other various measures and depoliticised and disciplined workers to make the country more attractive for foreign investors. For instance, the government regulated the labour market in the 1960s by disciplining the workers with the Trade Union Bill, Employment Act in 1968 and the Industrial Amendment Act (Rodan 1989: 48). The government also invested heavily to expand infrastructure through major government-owned industries. Rodan (1989) argues that 'the government's thinking that the question of industrial structure should not be left solely to the market—especially given the absence of domestic industrial bourgeoisie of any consequence' (Rodan 1989: 77).

As living conditions and availability of medical facilities improved, the participation rates increased. For example, the participation rate of the population has risen from 58 % in 1975 to 63 % in 1985 and 65 % in 1996. It was largely due to an increase in female participation rate. The male participation rate between 1985 and 2000 has varied around 78–79 %. It seems that the dramatic increase in female participation was due to spread of education among females. For example, by 2000 the proportion of female students was about 43.5 % in two public universities and also the female teacher ratio was still lower, i.e. only 21 % of teaching staff were females (Peebles and Wilson 2002).

The financial sector has been developed in the way of offering tax breaks for foreign firms and the government of Singapore has taken advantage of its location which meant it could fill a time gap that then existed. Many of the foreign financial institutions operating in Singapore are not concerned with the domestic economy because it is so small. They use it for regional and global operations. In 1997, the government introduced reforms in financial sector on the suggestions of IMF. The main aim was to introduce more competition, transparency, etc. It also meant the banks to disclosure hidden assets that they did not report on their balance sheets.

## 6 Regional Economic Integration

In 1985, the government launched a policy to promote the country as a regional hub. It undertook two key policies, namely, to develop highly specialised niches and upgrade the productivity in the domestic sector. It is also known as cluster strategy of promoting key industries in telecommunications, electronics and pharmaceuticals. During the last two decades, the country has shifted from low-value manufacturing products to high-value products such as innovation, insurance, banking and financial services.

Since 1992 the government has been encouraging the businesses to expand into ASEAN countries and also in China. This was seen very crucial for the continuous growth of the country's economy in the twenty-first century. As Dr. Yuan, an MP and also the director of the Institute for Policy Studies, has said, 'One of the Singapore's options is to diversify from excessive dependence on a slow-growing South-East Asia and focus more on opportunities elsewhere, such as China, South Asia etc. .... The crisis has taught us that putting all our eggs into the regional basket has its pitfalls, and that it is more prudent to aim at greater diversification' (The Straits Times, January 24th, 1999).

Singapore is promoting a technical hub and regional knowledge centre and the government is doing every possible effort to develop higher-end capabilities. The existence of higher-tier suppliers becomes increasingly crucial in attracting MNEs' higher-end investments. Recently Singapore has increased its economic relations with its neighbour, particularly with Malaysia in electronics. For instance, total trade with Malaysia exceeded that of the USA due to the increase in FDI in Malaysia by Singapore-based firms. In early 1960s Singapore was producing labour-intensive goods such as textiles, household electric goods and petroleum refinery, while in 1980s and 1990s capital and skill-intensive electronic goods and financial services.

The global recession in the mid-1980s hit Singapore severely and the government realised the existence of small domestic markets and the absence of local entrepreneurship thanks to the large presence of foreign companies. The country took a major initiative in early 1990s towards regionalisation and created favourable conditions by ensuring its success. The regionalisation process was seen to encourage local private and state companies to regionalise their activities. The government also saw this as a countermeasure against future recession. Through the policy of regionalisation, the government provided various incentive schemes to invest in neighbouring countries. The state took active role in promoting outward investment of its domestic companies. It seems that this was only possible when the domestic economy has been saturated and seen as a bit safe to invest abroad. Nearly three quarters of Singapore's FDI was in Asian countries such as Malaysia, which alone absorbed 60 % in 1990.

In 2000, Singapore has initiated eight large-scale industrial parks in neighbouring countries such as China, India, Indonesia and Vietnam. These overseas projects are positioned in premier location for Singapore's potential investors. The country is increasingly dependent on production and exports of value added that its highly skilled workforce could produce.

Singapore's regionalisation development programme of 1990–2010 coincided with a number of other regional factors such as appreciation of Japanese yen since the Plaza Accord was signed between the USA and Japan in 1985, which resulted in the rising of cost of production, especially in manufacturing sector in Japan. This certainly provided an opportunity for the government Singapore to attract Japanese investors, who are trying to find other locations for their production due to rising costs domestically. Factors such as stable macroeconomic environment and attractive government incentives contributed to making the country a favourable place for investors. The government also realised that because of the Special Economic Zones in south China with relatively cheap labour (Siddiqui 2009b), the MNEs might transfer their lower-value-added operations from Singapore. Therefore, it was rather seen as a survival strategy by the government to rapidly move towards higher-value-added activities, and government formulation of the 'Regionalisation 2000' Project was aimed specially to meet these specific challenges: 'The strategic intent of regionalization programme is to build an external economy that is closely linked to and which enhances the domestic economy by participating in the growth of Asia. This programme seeks to form a network of strategic zones in key markets with emphasis on building good linkages between our regional projects and domestic clusters' (SEDB 1995: 8).

Singapore in the 1990s invested in national developmental projects also knows as 'regionalisation strategy', where the government and GLCs invested in industrial park programmes. Singapore invested in several cities in industrial parks in the neighbouring countries. It was claimed that these industrial parks would be able to earn considerable profits, which would supplement the country's domestic economy. The government's 'regionalisation policy' strategy aimed at local businesses to locate production in industrial parks developed by Singapore and some countries in East Asia. It appears that these industrial parks did manage to encourage local businesses to invest in these overseas parks, but failed to generate enough profits to provide a substitute of the domestic economy (Pereira 2006).

In the early 1990s, the government realised globalisation was making Singapore less economically competitive. Although earlier international integration with the global capital benefited Singapore with influx of FDI, since 1990s capital began to move at much larger scale into other East Asian countries such as China, Malaysia, Thailand and Vietnam because of lower costs of production. Globalisation also includes global production networks, which is formed when big corporations disperse their production across different locations across the world. The motive for this dispersion could vary, but mainly to seek higher profits. As summarised by Ross and Trachte (1990), 'Its [MNEs] ability to scan the globe for investment possibilities makes possible a rationale assignment of resources and ruthless pursuit of the exact combination of local policies, labour conditions, transport considerations, and so forth for any commodity or part' (Ross and Trachte 1990: 66).

It seems that MNEs have two prime motives, which are factors and markets. First one refers to factors of production necessary to carryout production of goods and services. It not only includes primary factors, e.g. labour, capital, raw materials, etc., but also secondary factors, e.g. supplementary elements which make it possible that production processes take place smoothly such as availability of infrastructures, educated workers, fiscal incentives, tariffs, etc. The second refers to domestic or regional markets for the products. Based on these two factors, the MNEs will look for optimal locations for production. Given that, many big corporations disperse the production, i.e. create a chain of production sites, often across national boundaries, in order to seek optimal location for production to maximise profits. It is said that global production networks could be potential source of economic growth for the developing economies because such networks could possibly generate employment, earn foreign exchange and transfer new technology and management to the host country (Lall 1996).

## 7 The East Asian Experience

The existing literature on political economy has pointed out that the policies and institutional mechanisms of the states in East Asian countries including Singapore have shaped the business strategies of the private businesses (Wade 1990; Amsden 1989; Johnson 1982). The government institutions were normally given tasks of economic and industrial policies in shaping the business decisions. The government assumed the role of 'developmental state' to modernise the economies and consistently provided guidance to the market. And also other Southeast Asian economies like Taiwan heavily regulated the FDI to help and build domestic industrialisation (Shin 2005; Cotton 1995).

The East Asian countries, such as Japan, had broken all previous historical records in rapid increase GDP growth rates, from the 1950s onwards in comparison to West Europe and the USA. Japan's spectacular economic recovery of a country was destroyed in the Second World War; the development of a very competitive manufacturing sector and fully modernised society with rising living standards was seen no less than a miracle until the 1990 (Siddiqui 2009a). It was soon followed by South Korea under Park Chung Hee in the late 1970s and also Taiwan was not far behind in catching up in the process of industrialisation and modernisation. Moreover, Japan, South Korea and Taiwan were creatures of US occupation and certainly the Cold War did play a crucial role during this period. But due to the Cold War, these countries have had some freedom to protect their businesses against MNEs. For instance, despite the lack of military autonomy, Park Chung Hee regime did manage to keep foreign capital at bay while promoting domestic corporations (Wade 1990; Amsden 1989).

The economies of South Korea and Taiwan grew fast during the 1970s and able to rapidly increase their exports. Their developmental policy model is known as 'outward orientation' (i.e. export led), which was heralded as successes compared to slow growth in the developing countries of Africa and Latin America. Both South Korea and Taiwan were able to successfully develop domestically owned businesses, largely in the private sector. Both countries developed their manufacturing production towards overseas markets, while at the same time protected their domestic markets. The government provided direction to achieve stated goals. And in South Korea, the government managed the industries through its control of banks. With control of credits the government made access to low-cost financing conditional on investment in new technologies and industries on meeting export targets. This method promoted and developed a handful of favoured borrowers, who emerged as chaebol, i.e. family-owned big corporate groups. In Taiwan the state also promoted new technologies, but through public investment in few selected state-owned industries. Both countries welcomed foreign investors towards strategically selected low-wage export processing sectors but also required them to share technologies with local firms.

However, there are local differences, for instance, the economic policies in South Korea and Taiwan (both are ex-Japanese colony) are conditioned by their background. Despite their heavily reliance of export-led growth, they undertook the policies of inward-looking Japanese model. As a consequence, Taiwan and South Korean indigenous companies are larger and more powerful and less dependent on foreign technology than those of Singapore.

## 8 Conclusion

Since mid-1960s, Singapore had sustained very high economic growth rate, with relative price stability, full employment and the inflation rate below world's averages (Nolan 1990). During this period the economy was diversified from entrepot trade and British military services to manufacturing, transport, financial and business services. The country has accumulated huge foreign exchange reserves in which the government is investing in assets abroad. There is no doubt that poverty, illiteracy and housing shortages have been removed from this island, but these benefits have been brought at considerable costs in terms of, for instance, independent development, human rights, freedom and workers' rights.

My findings about the Singapore developmental strategy of the last 50 years contradicts neoclassical also known as free-market theory and resembles more on state intervention. The government also controlled trade unions and wages. The government completely accepted the dominance of foreign corporations in export sectors. Rapidly expanding manufactured sector greatly helped to reduce unemployment. However, the country's workers were kept firmly under government control.

The study also finds that Singapore differs from the experiences of the other East Asian countries in many aspects. For instance, the country closely collaborated with MNEs and ensured that local bourgeoisie does not develop to an autonomous force. The reasons for such decision appear to be mainly due to lack of domestic capitalist class and also during the colonial period, these local merchants and capitalists were quite comfortable and used to deal with the metropolitan capital without any major conflicts. Therefore, despite some difficulties, it was easier for PAP to collaborate with foreign capital as they have done in the recent past.

However, Singapore like Korea and Taiwan undertook keen interest in expanding the role of the state in the economy and the developmental process and did not hesitate to move into the areas seen as crucial to expanding technology and export capacity such as manufacturing and steel and ship building sectors. The growth miracles of other East Asian countries like South Korea and Taiwan were not of blanket integration in the world market. But these countries had witnessed consistently state intervention and direction, along with favourable international Cold War policies in the region. As a result they were given access to Western markets and capital on a scale no other developing countries had experienced. With the end of the Cold War, the recent stagnation and increased power of the financial sector in metropolitan countries have ended the hopes for a project of national capitalist development. As Patnaik notes, 'This new phase also entails the end of bourgeois economic nationalism as a practical project in the Third World, i.e. of the attempt of the Third World bourgeoisie to carve out a space for itself and build a capitalism that is relatively autonomous of imperialism' (Patnaik 1999: 67). With the recent globalisation and the neighbouring countries' ambitious plan to invest in the development of seaport, Singapore will face increased competition in the overseas markets.

The policy options towards the adoption of neoliberal policies may provide some short-term boost to economic growth, but it heavily relies on privatisation, deregulation and trade liberalisation and acceleration of the growth of financial sector (Siddiqui 2013b). The finance and banks grow much faster than the real economy and at the same time the trade liberalisation has distributed manufacturing production globally. However, the vulnerability lies with such development as the Singapore model is obvious because of its overdependence of foreign capital and lack of indigenous capitalist class.

The East Asian crisis in 1998 led to the change in strategies and given way to the 'neoclassical' model, which relies on 'market forces' and 'international financial institutions' for investment and resources. For them, resource allocation is the key to higher growth rates for these countries. The proponent of free market argues that export-led policies will keep private incentives and entrepreneurship in line with those of the global businesses. As a consequence, higher levels of competition will ensure efficient resource allocations and higher productivity and higher growth rates.

The paper finds that the national economic policies do matter, as it could potentially influence the investment decision of MNEs, and also in Singapore the government policies were often seen as response to changing market and international business environment. For long-term solutions, the government should take initiative to expand domestic markets by increasing the income of working people, and at the same time further efforts should be made to diversify the economy and control over the MNEs. Singapore needs to focus more towards increasing domestic demand in order to return to stable economic growth. It would be feasible to increase spending in social sectors and building social safety nets because a stronger social protection system will reduce the need for precautionary savings to meet the need for education, health and old age care.

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