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# The Political Economy of Development in Singapore

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## **Abstract**

Singapore has gone through a rapid transformation during the last forty-five years. From an entrepot predominantly towards commerce and services in the mid-1960s into an economy, which presently specialising in high value manufacturing activities, and regional financial hub for business services in East Asia. This paper aims to overview the issues of the role of state and foreign investment, which has played an important role in achieving rapid economic growth. For instance, in 2002 Singapore's GDP was 24 times compared to 1965 levels. The average annual growth rate for GDP between 1965 and 2006 was nearly 8 % and GNP increased slightly higher over this period. The study examines the international environment and how it contributed to achieve higher rates of growth. It seems that these aspects are overlooked by the researchers. And with the end of the Cold War and with the recent surge in globalisation of production Singapore's economy is being affected. The study will also argue that the historical factors seem to be important in determining a country's development strategies.

**Keywords:** Singapore economy, MNEs, FDI, The role of state and economic diversification

## 1. Introduction

Singapore has gone through rapid transformation during the last forty-five years. From an entrepot predominant towards commerce and services in the mid-1960s into an economy, which presently specialising in high value manufacturing activities, and regional financial hub for business services in East Asia (Richardson, 1994). The country is also a rapidly expanding financial centre served by most of the international commercial and merchant banks. Singapore is highly competitive economy and according to Swiss International Institute for Management Development between 1995 and 2001, the country ranked second in national competitiveness. By 2000, the production of hard disk drive (HDD) in the country reached \$10 billion and accounted for nearly 70 % of the world's total production of hard disk drive. This is a highly standardised and easily transportable product. MNEs (note 1) have invested in the HDD manufacturing in Singapore as the gateway for Asian and global markets (World Bank, 2009; Rodan, 2004).

The study intends to examine critically the role of state, international economic situations and the Cold War tension in the region and how these factors have played a crucial role in achieving rapid growth rates, which I find has been neglected so far. I will also analyse the economic changes in Singapore since 1965. The intention of this paper is to critically evaluate various factors which have contributed towards achieving high growth rates and prosperity, which has been ignored by the mainstream economists.

I find the explanations presented by the international financial institutions are inadequate because of its underestimation of government involvement in the promotion of foreign investment. (IMF, 2009; World Bank, 1993). A weak domestic bourgeoisie invited foreign capital to assist its industrialisation and modernisation process. The government have shown its total commitment towards the policies of active 'export promotion', and openness towards foreign businesses (World Bank, 2009; Shin, 2005; Siddiqui, 1998). There are existing literatures about the role of MNEs (multinational enterprises) in the transformation of Singapore's economy. However, I feel they are insufficient. Some studies have criticised the role of multinational enterprises (MNEs) as counter productive (e.g. UNCTAD, 1996; Dicken, 1998; Eden and Potter, 1993; Mirza, 1986; Vernon, 1977), while others either have overlooked or saw it as positive contribution (Clifford et al, 1999; Gilpin, 1987; Kirkpatrick, 1986).

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, Africa and South Asia, which had followed, what was known as the 'Import Substitution Strategy' (Shin, 2002; Krugman, 1994; Siddiqui, 1998; Bhagwati, 1987; Hirschman, 1968). The setbacks during the 1980s in economic growth led to the change in strategies and gave way to the 'Neo-classical' i.e. pro-market policies, which heavily relies on 'market-forces' and 'international financial institutions' for investment and resources (Siddiqui, 2010). For them, resources allocation is the key to higher growth rates for these countries. It was claimed that East Asian economic growth success was mainly due to export-oriented strategies. The proponent of free-market

(also known as mainstream economist) argues that export-led policies kept private incentives and entrepreneurship in line with those of the global businesses (Girdner and Siddiqui, 2008). As a consequence, higher levels of competition will ensure efficient resource allocations and higher productivity (World Bank, 1993; Bhagwati, 1987; Krueger, 1980). 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 (note 2) (Krueger, 1980). While on the other hand, the critics said that the state played a crucial role in the early years of East Asian development experience of ‘getting the prices wrong’ instead of ‘getting the prices right’ was responsible for achieving dramatic growth rates. These critics found evidence of clear state intervention in these economies and could not be separated the interventionist role of the state (note 3). For instance, South Korea’s successful establishment of selective intervention in heavy industries led to enormous structural changes during the 1980s in its industrial structure and exports (Chang, 1994; Wade, 1990; Amsden, 1989).

This article 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 a favourable international environment, Cold War and the role of state (Siddiqui, 1995). All these factors have together contributed to achieve rapid growth rates in Singapore. It appears to have been overlooked by previous researchers (Rodan, 2004; Huff, 1995). Moreover, the changing international environment and the end of the 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 that historical factors seem to be important in determining a country’s development strategies. Singapore started as a distribution centre and to promote the imperial interest in the region. British interest was to see the free flow of goods, and unhindered international trade and investment. Hence it relied on foreign businesses and liberal trade policies. Dependent on the West is not new phenomenon for the country, since 1862 the island has 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 the supply of crucial raw materials were the important factor for the success of this project (Mirza, 1986).

The decline of Portuguese influence coincided with the rise of British influence in East Asia in the early 19th century. In 1819 Singapore was given to Britain as a reward for their help to the Sultan of Johore against his brother in a local power struggle. The British East India Company managed to establish a post for spice trading. By the end of the 19th century, Singapore became the major commercial and military port of the British Empire in East Asia. It attracted vast number of migrants from the neighbouring countries, especially from China and India. This was mainly due to the political upheavals in their countries. The Treaty of Nanking in 1842, when China ceded Hong Kong to Britain, turned China into semi-colonies of the European powers.

During the British colonial period entrepot trade was the main source of income and trade alone accounted for more than one-third of GDP in Singapore (Rodan, 1989:48). From 1965 onwards the Peoples' Action Party (PAP) showed its commitment to develop industries as a key priority for the country. Prior to 1965 most of the FDI was from UK and was invested largely in trading activities. The UK was the largest investor due to historical and colonial ties. Then 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 Western markets and then encouraged local investors to collaborate. Government claimed that external economic expansion could contribute to domestic businesses in two ways. First, it would create demand for local products and secondly, it would allow Singapore companies to benefit from rapid economic growth in the region, which would mean less dependence on western markets for its exports (Ministry of Finance, 1993). The state also helped and encouraged the local businesses to exploit the opportunities in international economy. Similar patterns were observed in some other East Asian countries (note 4). Subsidies were provided to investors in the chosen 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 (note 5) and the existence of a supportive environment, the businesses were able to take greater risks and long term commitment (Henderson et al, 2002). East Asian government-business relations – which were earlier seen as healthy as synergistic social capital – have since the 1998 crisis have 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 (The Economist, 1998).

During the mid-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 Juong Town Corporation (JTC) was created in 1968 along with Economic Expansion Act to create low production costs sites for foreign investors (Jomo, 1997). From the late 1960s onwards Singapore took a significant initiative to export manufactured goods, which were relatively labour intensive. The question arises why MNEs 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 (UNCTAD, 1996; Low, 1984; Vernon, 1977). 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 polices 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 (Jomo, 2003; Keenan, 1997).

The article is divided into various sections: namely in first in Introduction section a brief summary of Singapore is presented. In the second and third sections macroeconomic indicators and growth strategy is discussed. In the fourth 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 fifth section, Singapore's recent policy of regional economic integration is analysed and finally, in conclusion a brief summary is presented.

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 (Rodan, 2004; Clifford, 1999).

## 2. 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 corporations; low inflation; high saving rates etc. Singapore's GNP increased to more than thirteen fold between 1960 and 1999 and also the country witnessed a sharp decline in both the number of people in poverty and in infant mortality (United Nations, 2000). The annual real GDP growth rates averaged around 8 % between 1965 and 1997, except during the 1980s it fell to 6.7 % mainly due to global recession (see Table 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. A stable macroeconomic environment with low inflation has created a positive environment for a long-term business perspective in the planning investment decisions and provided a good return on their investments.

Table 1. Macroeconomic indicators, 1960 – 2009 (%)

	1960-69	1970-79	1980-92	1990-97	2001-09
Annual real GDP growth rate	8.0	8.3	6.7	8.7	1.1
Annual inflation rate <sup>1</sup>	1.1	5.8	2.4	2.6	2.1

Notes: 1) GDP deflator.

Source: Department of Statistics, several years, Singapore: Ministry of Trade and Industry. *The Economist*, 26<sup>th</sup> January-1<sup>st</sup> February, 2002; [www.singstat.gov.sg](http://www.singstat.gov.sg)

A Rising levels of incomes (see Figure 1) and productivity enabled the government to appropriate a high level of domestic saving (Wong, 1986). These savings were 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.

Another crucial macroeconomic indicator is the rate of savings. The savings could be invested, which would mean less reliance on overseas borrowings. Singapore's saving rates are among the highest in the world. The mobilisation of domestic resources appears to have played a very important role, along side foreign capital in the economic development of the country. High saving and investment marked the developmental policy of Singapore state. Since independence the gross national savings has steadily increased. As shown in Figure 2, the savings rate rose from minus 3% in the 1960s to an average 28% in 1970s, 41% in the 1980s and reached nearly 45 % by 2001. As we see in the figure below the deficits between savings and investment during the period 1965-85 is due to a rise in investment rather than a decline in savings, which coincided with rapid industrialisation, and expanding industries (Phang, 2001).

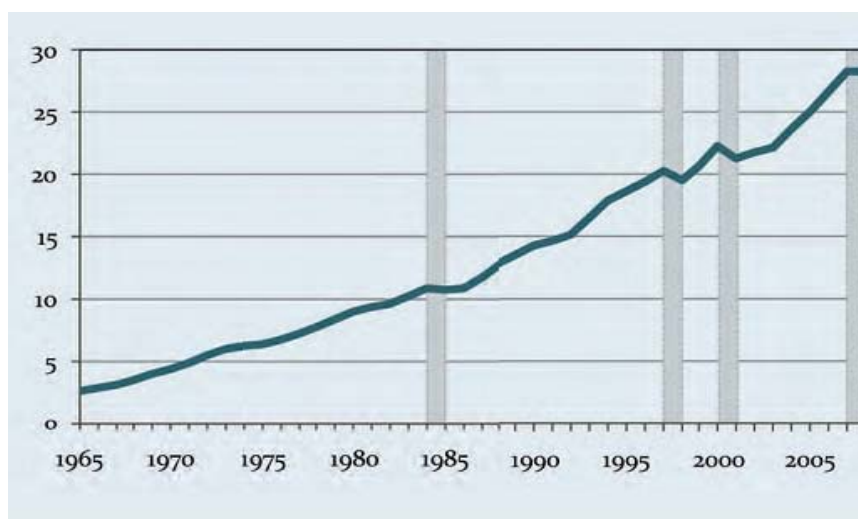


Figure 1. Singapore's Per Capita GDP at 1990s PPP\$

Source: Total Economy Database (September 2009)

[http://www.spp.nus.edu.sg/aci/docs/singapore Competitiveness 2009](http://www.spp.nus.edu.sg/aci/docs/singapore%20Competitiveness%202009)

For the last four decades unemployment has declined, while inflation remained low. Unlike the Philips Curve theory, Singapore observed a steady decline in unemployment without fuelling the inflationary pressures (Kee and Hoon, 2005). Singapore succeeded in keeping

under control macroeconomic variables and coordinated public sector investment decisions and thus attracted private investors.



Figure 2. Savings and Investment Trends in Singapore, 1965-2001

Source: [www.singstat.gov.sg](http://www.singstat.gov.sg) (accessed on 10th July 2010)

Moreover, public sector saving dominated the saving process, which rose from less than 25 % of national saving 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 high mainly due to the government policy of forced saving through social security schemes i.e. the Central Provident Fund (CPF). It was estimated that from 1967 to 1989 the country's overall saving rate rose by 3.8 % (Huff, 1995:744). Central provident Funds 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. The savings invested in infrastructure, which made possible the expansion of a mass rapid transit system, roads, airports, seaports and telecommunications in the country. In fact, it subsidised and made it attractive for the MNEs to invest in Singapore. The government investment also have had wider 'crowding-in' impact, which means government expenditure were seen as complementary to the private investment, which played an important role in raising the economy's absorptive capacity and investor confidence (Toh, 1997; Taylor, 1991)

The World Bank's (1993) study claims that public saving was about 44% of GDP on average in the periods between 1981 and 90 (World Bank, 1993). Toh (1997) agrees the importance of public saving. But his estimation of public saving was higher i.e. average about 53 % during the same period. And the significance of public saving was described as: "Public sector saving has consistently played a significant role in the contribution to national saving" (Toh, 1997:9).



The Figure 3 indicates that private consumption in Singapore is much lower than Korea and Japan, although 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).

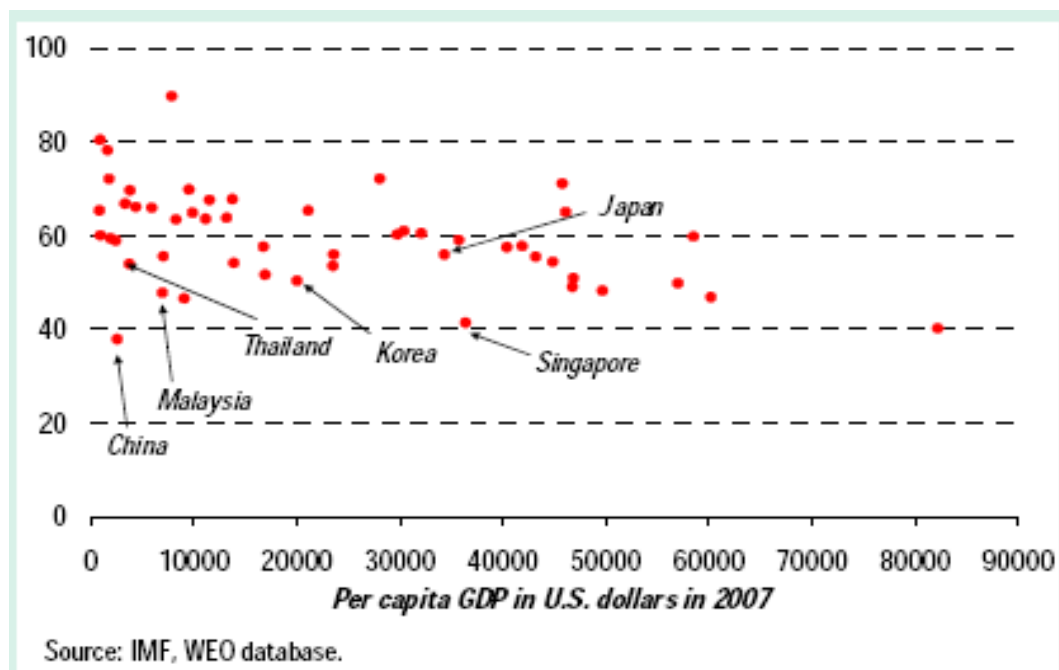


Figure 3. Real Private Consumption in % of GDP for 2003 – 07

Source: Asian Context, IMF, 2009, Washington D.C., p27 (Accessed on 5th August 2010)

Due to recent financial crisis consumers in export markets have reduced their consumption of imported goods. Therefore, Singapore needs to rebuild towards domestic demand 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 need for education, health and old age care. As incomes and living conditions of working people rise further, leading towards expansion of home markets, which made further profitable to reinvest locally.

### 3. The Growth Strategy

Singapore vibrant economy is considered a short of a miracle. Despite many obstacles, it managed to attain prosperity within a short period. However, in mid-1960s, Singapore had large pool of less-educated workforce, high levels of unemployment and poverty, and along with the availability of poor natural resources had limited development 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, business and financial services. Since early 1980s the country moved towards becoming international financial centre and which became increasing vital for

the economic overall growth. 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 corporations 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 manufacturing sector. Moreover, the wages in the electronic industry were lower than the 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 over core competencies of the business. Since mid-sixties multinational companies have moved to Singapore, compelled by the higher wages, increased competition and saturated domestic markets at home resulted in one of the few truly international economy (Mirza, 1986). This overwhelming level of foreign 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 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 attractive places to invest in. Moreover, this policy decision coincided with the restructuring of the production system in the developed countries, where rising trade union activities, production costs, high taxes and competition were the corporate sector found it more profitable to relocate production in low costs areas. Thus, Singapore has benefited from the specific international circumstances and the MNEs found it more attractive to invest in the city state.

Moreover, overseas Chinese subsidiaries have played a prominent role to maintain large scale investment in the economy. Singapore is surrounded by Chinese overseas population in Malaysia, Indonesia, Hong Kong, and also in North America and Western Europe. The foreign investment in the country is highly diversified industrial and sector wise. 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. Japan and other EU countries have largely invested in the manufacturing sector because of the availability of good quality infrastructure and a highly skilled labour force.

Singapore's comparative advantage is reflected in the location on the main East-West communication network, along with the presence of international financial institutions and the availability of excellent infrastructure proved to be best possible destinations 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 Economic Development Board (EDB) during the late 1960s was industrialization. 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 resources development in order to encourage export. EDB is still focusing on the growth of the business sector in this country (SEDB, 1995).

When global recession hit in 1985-86, the government turned its attention to making Singapore a manufacturing and communications hub for foreign corporations. However, between 1965 and 1980, exports 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 exports of manufactures grew faster than manufactured out in the country between these periods.

The manufacturing sectors consist of industries like: electronics, engineering and chemicals. Petrol refining began in the country as early as in the 1960s, which has been developed by the government. Petrol refining plays less important role now than 3-4 decades ago. In terms of employment, manufacturing employment accounted for 21% of the labour, in construction 13% in 2000. It appears that the manufacturing sector has been built by attracting multinational companies into sectors chosen by the government.

The Singapore economy is heavily dependent on exports, which did contribute \$268.9 billion to the nation's net earnings in 2009. Key export commodities include: Consumer electronics, information technology products, petroleum products, pharmaceuticals, and chemicals. There was a rapid increase in the exports of disk drives, printers and PCs during the period 1986 to 1997, but in 2000 semi-conductors, 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 nations increased from 17.5 % to 21 % in 2001, for China from 1.2 % to nearly 4 %, while for developed countries (i.e. US, EU and Japan) it declined from 49.6 % to 12 % over the same period.

The destination of Singapore's export markets 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 becoming one, particularly since early the 1990s primarily due to huge increase in FDI associated low costs of production and expectations of higher profits. The manufacturing sector in China has expanded rapidly during the last two decades and towards higher value export products. For instance, the electronic and PCs are China's largest industries and the country is the third largest producers of these products in the world. Singapore's principal imports are crude oil, electronic components, industrial machinery, motor vehicles, food and beverages, and iron and steel.

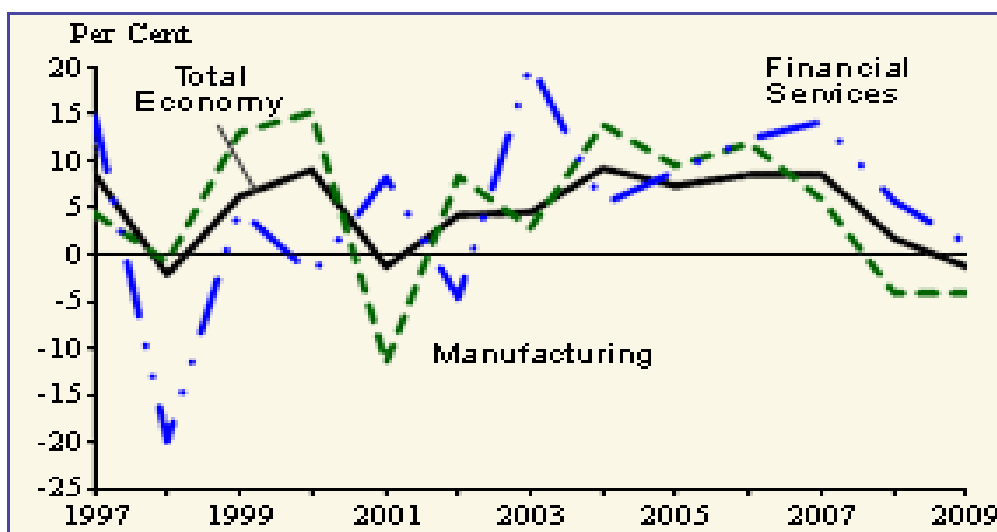


Figure 4. Growth and sectoral trends between 1997 and 2009

Source: [http://www.economywatch.com/world\\_economy/singapore/](http://www.economywatch.com/world_economy/singapore/);

[www.singstat.gov.sg](http://www.singstat.gov.sg); [www.singstat.gov.sg](http://www.singstat.gov.sg) (Accessed on 10th July 2010)

Figure 4 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 highest investment ratio for over forty years and hosts about 5, 000 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. The Singapore government 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 those were targeted by the government to persuade foreign investors.

The industrial upgrading of 1980-90 was an attempt to further collaboration with the MNEs towards upgrading industries and technologies i.e. high technology 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 so to open Nanyang Technical 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 Singapore government played an important role in regularly upgrading its economy by attracting MNEs investment into targeted sectors (Low, 1998; Shin, 2005).

As Figure 5 shows, Singapore's outward investment has steadily grown i.e. from nearly \$180 billion in 2004 to \$300 billion in 2008. However, it has suffered slightly 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.

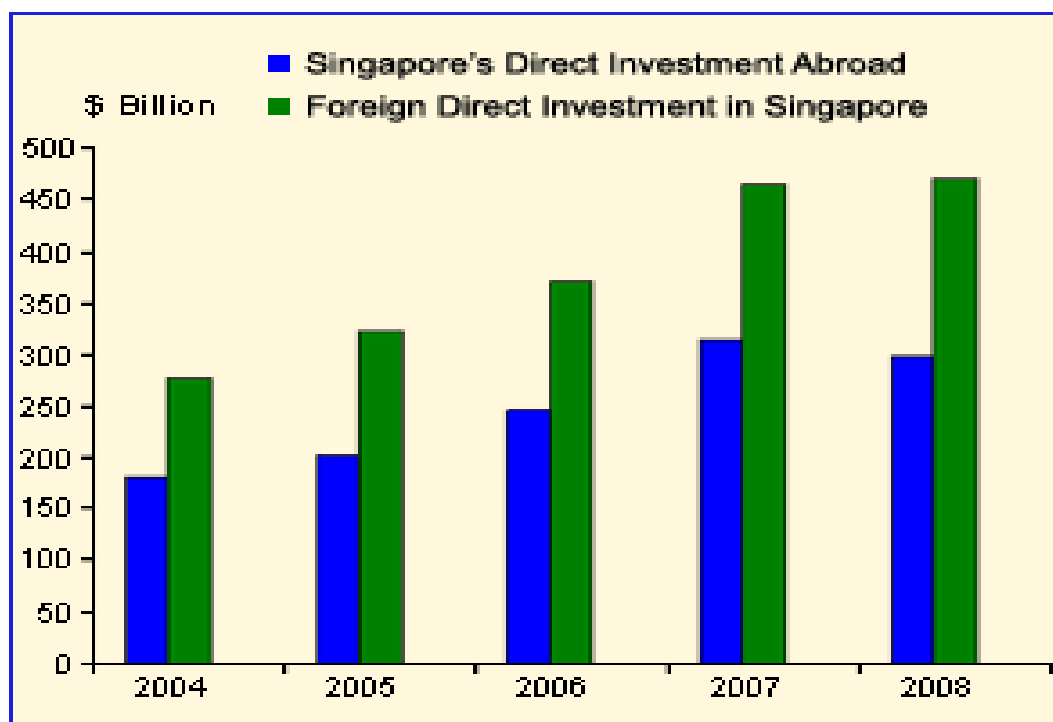


Figure 5. Singapore's foreign direct investment in-wards and out-wards between 2004 and 2008.

Source: [http://www.economywatch.com/world\\_economy/singapore/](http://www.economywatch.com/world_economy/singapore/);  
[www.singstat.gov.sg](http://www.singstat.gov.sg); [www.singstat.gov.sg](http://www.singstat.gov.sg) (Accessed on 4th September 2010)

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 Economic Development Board (EDB) was given the primary task of attracting overseas investors. However, immediately after independence the government aimed to exploit the global geo-political 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 as a key centre of manufacturing to a 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.

Singapore became independent in 1965 and its economy changed dramatically within less than three decades from a traditional entrepot to modern manufacturing and financial centres in Asia. By the 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 and therefore it was said that Chinese network approach has played an important role in building inter-firm relations in Southeast Asia including Singapore (Scott, 1991) (note 6). 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 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 (Hamilton, 1991; Redding, 1991; Henderson et al, 2002). Chinese business behaviour in Southeast Asia is seen to have been influenced by Chinese traditions and business practices (Fukuyama, 1995). 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 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 etc. 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 remains 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 declined sharply (15%) in July 1997. But soon the crisis spread to South Korea, Malaysia and Philippines and to a lesser degree to Hong Kong and Singapore. Moreover, after the Plaza accord of 1985 signed between the US 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 are 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 was observed for a rapid rise in vertical orientation in outward investment for both manufacturing and services from Singapore to other ASEAN countries (Siddiqui, 2009b). Furthermore, many MNEs also use Singapore as a base to launch investment in neighbouring countries (Chellaraj and Mattoo, 2009).

Since the East Asian economic crisis in 1998, the Singapore government has adopted an increased degree of neo-liberal 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 a reward for adopting 'market-friendly' policies is 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-third 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 (Dicken, 1998; Sachs and Warner, 1995). 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 (note 7) (Siddiqui, 2008). Singapore also witnessed a slow down in growth and also the country witnessed a rise in unemployment but by 2000 the GDP growth rate increased and FDI inflows started to rise again.

#### **4. The Role of the State**

In this section I will discuss the role of the state vs the market in economic policies. 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).

I will argue that role of the state becomes increasingly important as globalisation accelerates, contrary to mainstream economists claim that increased role of market forces would leads towards a reduced the role for the state (Stiglitz, 1989). Singapore has heavily relied on government intervention (note 8). For instance, the government regulate 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 19<sup>th</sup> century ideology is based on notions such as these “invisible-hand”, as the best to allocate resources and unbridled competition as the means to efficient production (Siddiqui, 2010; 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 polices, 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 People’s Action Party (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 is not essential factors for economic development. It has been argued that ‘authoritarianism’ and ‘discipline’ is 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 (Rodan, 2004). In recent years, following the economic diversification strategies, the government has invested overseas of more than S\$100 billion (note 9) of the taxpayers’ money in overseas investment (Rodan, 2004). Another its corporation namely Temasek Holdings presides over more than S\$70 billion in 2006, most of it is invested in



forty large businesses, which accounts for nearly a quarter of the country's stock market. The company performance and portfolio has 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" (note 10)

In the capital markets, the government also plays a major role. For instance, its Central Provident Fund and Post Office Savings bank hold a majority of national savings. The Monetary Authority is responsible for monetary policies and acts 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 the Wee Ee Cheong, former deputy chairmen 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) (note 11).

In the mid-60s, the housing situation was in deep crisis and the government has made housing sector as a priority area of policy concern. The Housing Development Board 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 average around 9 % of the GDP annually was spent on housing construction, which was more than double amount spent developed countries like US and UK (Miles, 1994). The housing sector is dominated by public sector, which then sells on 99 years 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 Central Provident Fund (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 existent 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 efficient and charging the occupants 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: 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. Those workers, who thought to go on strike, meant losing jobs. The government always highlighted that the tiny city state with almost no natural resources, lack of workers cooperation would mean withdrawal of developmental activities. It was said compliance and obedience was 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 (note 12).

The government's new economic strategy i.e. biomedical sciences, work retraining scheme, setting up industrial parks abroad are 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 remain 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 polices seem to in three phases: the setting up manufacturing during the period 1965-1980, the industrial upgrading of 1980-90, 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 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 (note 13). 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 % for Taiwan and 15.2 % in South Korea (Pereira, 2000).

The government also promoted sectoral diversification and since mid 1980s promoted the increased investment in high value added products and service sectors. The country has promoted tourism as part of its diversified economy since the 1980. Tourists visiting Singapore over the years from 2.6 millions visiting in 1980 to 6.2 people in 1998. Also in response to 1985 recession to diversify its economy and sources of income by encouraging its own domestic capital to expand in other developing economies. In the mid-1990s government took initiative to restructure and diversify the economy with its 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 the Prime Minister Goh Tong stressed the country's commitment towards further integration with the global economies in order to build "world-class Singapore", as 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" (note 14 (Goh Tong, 22<sup>nd</sup> August, 1999, [web3.asia1.com.sg/archive/sg/1/one/one1a.html](http://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 towards 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 Economic Development Board 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. The Singapore biomedical policies is 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 work force, the government invested heavily in biomedical training and education including awarding a large number of scholarships to overseas and local of 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 (note 15).

To highlight the key role played by the country manufacture sector, although only 25 % manufacturing enterprises were foreign owned, employed 25% of workforce and contributed to almost 72% of the total country's exports in 1982. Foreign companies 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 inter-industry textiles is exported in return for high tech products. The intra-trade activities are 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 with 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. Singapore government 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 and the

presence of cluster of complementary firms, shortages of labour in the 1980s the government suppressed wages to make it attractive for foreign investors (note 16).

Singapore relatively witnessed fewer difficulties from the increasing instability of global financial markets. Since the country relied MNEs for capital, technologies and management, the availability of domestic savings and thus, had little need for rely on foreign debts (note 17).

The country has become a hub of foreign investment because of its strategic location and favourable government policies. The Singapore government 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 US is the leading foreign investor in Singapore, accounting for about \$106.5 billion worth assets in the manufacturing and services sectors.

The government also employed various other measures 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 discipline 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% 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 Singapore’s government 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, 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

## **5. 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 21<sup>st</sup> 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 24<sup>th</sup>, 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 US. The reason seems for this increase in FDI in Malaysia by Singapore based firms. In early 1960s Singapore was producing labour-intensive goods such as textiles, and household electric goods, also petroleum refinery, while in 1980s and 1990s to capital and skill intensive electronic goods and financial services.

The global recession in the mid-1980s hit Singapore severely and the government realised that existence of small domestic markets and the absence of local entrepreneurship thanks to the large presence of foreign companies. The country's 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 (note 18). The government also saw this as a counter measure 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 have been saturated and seen a safe bit to invest abroad. Nearly three-quarter of the Singapore's FDI was located in Asian countries such as Malaysia 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 work force 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 US and Japan in 1985, which resulted in the rising of cost of production, especially in manufacturing sector in Japan. This certainly provided an opportunity of

Singapore's government to attract Japanese investors, who are trying to find other locations of their production due to rising costs domestically. The factors contributed to make the country favourable place for investors such as stable macroeconomic environment and attractive government incentives. The government also realised that Special Economic Zones in south China with relatively cheap labour (Chen, 1995; Siddiqui, 2009b), the MNEs might transfer their lower value added operations from Singapore. Therefore, it was rather seen a survival strategy by the government to rapidly move towards higher value added activities and government formulation of the 'Regionalization 2000' Project was aimed specially to meet this 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 known as 'regionalisation strategy', where the government and GLCs invested in industrial parks 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. Singapore's government's 'regionalisation policy' strategy, which is aimed at local businesses to locate production in Singapore-developed industrial parks some countries in East Asia. It appears that these industrial parks did manage in encouraging local businesses to invest in these overseas parks, but failed to generate enough profits to provide an substitute of the domestic economy (Pereira, 2005).

In the early 1990s, the government realised globalisation was making Singapore less economic competitiveness. Although, earlier international integration with the global capital benefited Singapore with influx of FDI, but 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).

There seems that MNEs have two prime motives, which are factors and markets (Henderson et al, 2002). 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, which includes supplementary elements which makes it possible that production process take place smoothly such as availability of infrastructures, educated workers, fiscal incentives, tariffs etc. The second one 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 for maximise profits. It is said that global production networks could be potential source of economic growth for the developing economies due to believe that such networks could possibly generate employment, earn foreign exchange, and transfer new technology and management to the host country (Lall, 1996).

## 6. 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 is 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 (note 19) (Shin, 2005; Cotton, 1995).

In 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 US. Japan’s spectacular economic recovery of a country destroyed in the Second World War, 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 (Watkins, 1998). 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 on the other hands (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 Cheabols 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, less dependent of foreign technology, than those of Singapore.

## 7. Concluding Remarks

Since mid-sixties, Singapore had sustained very high economic growth rate, with relative price stability, full employment and the inflation rate below world's averages (Nolan, 1990) (note 20). 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 a huge foreign exchange reserves 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. For the country the future challenging tasks could be the rising "grey" population and pensions of continuously rising number of old people.

My findings about the Singapore development strategy of the last nearly forty five years contradicts neo-classical also known as free-market theory and more resembles to 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 public enterprises, organised by very determined political leadership, could run efficiently and profitably. The "[government] monopolised a fair share of entrepreneurial and business brains in its enterprise [and] tapped the private sector by seconding business elites into its enterprises" (Low, 1984: 274).

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 and the recent stagnation and increased power of financial sector in the metropolitan countries has ended the hopes for 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, accelerate the growth of financial sector. 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 Singapore model is obvious because of its overdependence on foreign capital and lack of indigenous capitalist class. In fact, prior to East Asian crisis, Singapore has followed state interventionist policies, which is quite contrary to the “market friendly” approach prescribed by World Bank (Huff, 1995). In Singapore, decisive departure from “free-market” model and state managed policies towards businesses allowed rapid growth to take place successfully. As Singapore’s Strategic Economic Plan notes, “Economic planning has played a very significant role in the development of Singapore for more than thirty years” (Singapore, Economic Planning Committee, 1991: 14)

The East Asian crisis in 1998 led to the change in strategies and given way to the ‘Neo-classical’ model, which relies on ‘market-forces’ and ‘international financial institutions’ for investment and resources (note 21). For them, resources 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 need for education, health and old age care.

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## Notes

Note 1. Multinational Enterprise (MNE) A corporation that has production operations in more than one country for various reasons, including securing supplies of raw materials, utilizing cheap labour sources, servicing local markets taking advantage of tax differences, and bypassing protectionist barriers (Oxford dictionary: Oxford University Press).

Note 2. It appears that the neo-classical economists have developed ideas based on largely isolated from historical complexities and institutional development (Chang, 2004).

Note 3. For instance, Chang, 2001, argues that South Korea's textile industry received tremendous amount of promotional supports.

Note 4. For instance in Korea, '.. that in direct exchange for subsidies, the state demands certain performance standards from firms' (Amsden, 1989:146).

Note 5. 'Trusts' has been defined as a form of social capital (see Fukuyama, 1995).

Note 6. See for instance Scott, 1991, Redding 1991, Hamilton, 1991.

Note 7. During the 19th and later half of the 20th century, a little more than half of the foreign investment, also known as FDI, went directly to the primary sector during this period. And later on the growth of FDI in the manufacturing sector was seen as response to rising tariff barriers and also by moving to low production cost to increase profitability. Moreover, since the 1980s and the imposition of free-market further enhanced this trend when trade liberalisation progressed hand in hand with the rapid spread of production networks by MNEs (Dicken, 1998).

Note 8. Other key variables of globalisation include rising international trade, liberalisation of financial markets and labour migration (Jomo, 1997).

Note 9. S\$ is meant for Singapore dollar and the current exchange rate is 10 S\$ = 1 British £.

Note 10. Cited in Clifford, Shari and Einhorn (1999) Business Week, 5th April, p22.

Note 11. Quoted in Tsui-Auch, Lai and Lee, Yong-Joo (2003:512), <http://www.sagepublications.com/>

Note 12. For more detail about Singapore's biotechnology policy, see A. Pereira, (2006) "Biotechnology FDI in Singapore, in Transactional Corporations, Vol. 15, No.2, pp99123.

Note 13. For detail discussion on export-processing zones see Chen (1995).

Note 14. Goh Chok Tong, National Rally Speeches, Singapore, 22nd August, 1999, [web3.asia1.com.sg/archive/sg/1/one/one1a.html](http://web3.asia1.com.sg/archive/sg/1/one/one1a.html)

Note 15. See [http://www.biomed-singapore.com/bms/sg/en\\_uk/index.html](http://www.biomed-singapore.com/bms/sg/en_uk/index.html).

Note 16. For instance to keep cost of production internationally competitive, employers' contributions to the compulsory superannuation scheme, the Central Provident Fund etc. have been reduced. For more detail see Garry Rodan, 1989.

Note 17. The ratio of Singapore's external debt to its GDP, for example, was only 22 % in 1982, which was much lower than other East Asian countries like South Korea's 52 %. Moreover, the actual amount of the government debts was much less because the large proportion of Singapore's debt was owed by the MNEs (Shin, 2002).

Note 18. Outward investment was seen to an opportunity so that Singapore's companies could enter US and EU to promote a shift to higher value added production. However, they were ineffective because there was hardly any Singapore's business ready to challenge western companies in the developed countries.

Note 19. However, from the late 1970s onwards Taiwan changed its policy towards MNEs and encouraged to form joint ventures between foreign and domestic companies in high tech industries.

Note 20. The annual inflation in the GDP deflator was 1.2% around 1965-70, 4.9% in 1970-79 and 3.4% in 1981.

Note 21. For detail about the 'free market' policies in other region such as Central America, see 'Free market polices and its consequence' by Siddiqui (1998)