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The State and Private Capital in Singapore's Economic Development

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HISTORY AND POLITICAL BACKGROUND

The modern city of Singapore was founded in 1819 as a free port of the British Empire. Because of its strategic location, it became the entrepot trading hub of Southeast Asia's colonial economy, transshipping the region's raw material exports to, and manufactured and capital good imports from, the rest of the world. In 1965, after a brief and unhappy union with the neighbouring Federation of Malaysia, Singapore became a sovereign republic. Today the city-state, on an island of 622 square kilometers, has a population of nearly 2.6 million, of whom 75% are of Chinese, 15% of Malay, and 6% of "Indian" (including Pakistani and Sri Lankan) ethnic descent. It has been ruled since 1959 by the People's Action Party (PAP), under the leadership of Prime Minister Lee Kuan Yew.

In its early years the PAP, born of the anti-colonial struggle, adhered to a democratic socialist ideology, and drew its support largely from the Chinese-educated population and a left-wing labour movement. In the 1960s, the "moderate" faction led by Lee seized control of the party and the government and crushed the left-wing opposition which broke away from it. By the 1970s the PAP's support base had broadened to include "an alliance of bureaucrats, technocrats, multinationals and local big business" as well as "blue and white collar workers, lower division civil servants, teachers, and medium and small businessmen",[1] reflecting the widespread popularity of its economic and social policies. Between 1968 and 1981, the PAP had a monopoly of all seats in parliament, winning ever-increasing electoral majorities until the last general election in December 1984, when it lost two of the 79 seats in parliament and saw its share of the popular vote fall from 75% in 1980 to 62.5%. This apparently continuing decline

[1] E. F. PANG and H. C. CHAN "The Political Economy of Development in Singapore 1959-1986". in E. F. PANG and H. C. CHAN (eds.) *The Political Economy of Development in ASEAN*, Singapore, Institute of Southeast Asian Studies, 1987 (forthcoming).

in popularity is arguably due to more recent government policies and the party's authoritarian "style" of government, which have alienated some segments of the population, including the local private sector, especially small business, ethnic and religious minorities, young people and women.[2]

Over the years, the PAP's ideology has moved towards the right. The government is typically characterised as an authoritarian regime, and it has progressively restricted democratic freedoms, proclaiming this necessary for social and political stability. Recently, Prime Minister Lee has denounced "Western-style democracy" and the "one-man-one-vote" system which brought him to power, as unsuitable for Singapore, despite over twenty years of peace and prosperity under it. Radical changes are being proposed for the electoral system.[3]

ECONOMIC DEVELOPMENT — AN OVERVIEW[4]

In the early 1960s, the PAP government established tax incentives, tariff protection and industrial estates for import-substituting industries meant to supply the anticipated Malaysian common market of which Singapore would be a part after it merged with the Federation of Malaya in 1963. But political separation from Malaysia in 1965 doomed this development strategy, due to the small size (then 1.6 million people) of the Singapore domestic market. The newly-sovereign nation was dealt another severe blow by the closure of the British naval base and withdrawal of their military services which had constituted 20% of the island's GNP, and provided employment for 30,000 civilian workers. The traditional entrepot trading base was stagnant and threatened by the growing nationalism of regional neighbours and trading partners. In these dismal circumstances, the country had no choice but to turn to manufacturing for export, a strategy which successfully propelled it to newly-industrialised country (NIC) status within a decade.

Fortunately for Singapore, the external economic environment for export-oriented industrialisation was favourable in the late 1960s and early 1970s. World trade was booming, and multinationals from developed

[2] For an analysis of the 1984 election, see L. LIM, "Singapore's Elections: Snatching Defeat from the Jaws of Victory". *Southeast Asia Business* No. 4, Winter 1985, pp. 20-25.

[3] See, for example, the brief discussion in L. LIM, E. F. PANG and R. FINDLAY, "The Political Economy of Poverty, Equity and Growth: Singapore 1959-1987". Paper prepared for the World Bank Workshop on the Political Economy of Poverty, Equity and Growth, in Fez, Morocco, April 25-May 4, 1987. To be published by the World Bank.

[4] For a fuller analysis of Singapore's economic development, see L. LIM, E. F. PANG, and R. FINDLAY, *op. cit.*. See also L. KRAUSE, A. T. KOH, Y. LEE (Tsao), *The Singapore Economy Reconsidered*, Singapore, Institute of Southeast Asian Studies, 1987.

countries were looking for low-wage offshore manufacturing sites in developing countries. Singapore, with its excellent location and infrastructure, abundant low-cost labour and tradition of allowing free trade and capital flows, was an ideal choice and, aggressive courting, more tax holidays and guarantees of labour stability[5], soon brought a flock of eager foreign investors. Besides companies from the U.S. and Europe, which were attracted primarily by lower labour costs, there were also investors from Hong Kong, Taiwan and Japan, who were attracted by Singapore's eligibility for developing-country MFA and GSP import quotas in developed-country markets.

Most of the early export-oriented industries established in Singapore were labour-intensive factories manufacturing electrical and electronic products, or textiles and garments. Shipbuilding and ship-repairing were also quickly established, benefitting from Singapore's excellent port and geographical location, and conversion of the abandoned British naval base facilities. But by the mid-1970s the largest export industry by value was petroleum products, as Singapore became the second largest oil-refining center in the world, processing mainly Middle Eastern crude for the Japanese market. From the late 1960s, oil exploration and extraction in the surrounding southeast Asian region had also given a boost to Singapore's marine and oil services industries, and to shipbuilding, especially the construction of oil rigs. The boom in oil and other commodity prices through the 1970s stimulated the economies of Singapore's regional neighbours, who were also industrialising rapidly: this benefitted the city-state's trade and transportation sectors, and contributed to its growth as a regional and international financial services center, processing foreign debt and equity capital flows into the region. As incomes in the region rose, Southeast Asian visitors on shopping expeditions soon accounted for a majority of Singapore's tourist arrivals, helping it to become the top tourist destination in Asia.

Thus Singapore's rapid economic growth from the late 1960s through the late 1970s was fairly diversified. By the early 1970s, financial and business services had overtaken export manufacturing as the fastest growth sector of the economy, and within export manufacturing itself, capital-intensive industries like petroleum and shipbuilding were as important as labour-intensive electronics and textiles.[6] Trade (including wholesale and

[5] This was achieved by restrictive labour legislation passed in 1968. See L. Lim and E. F. Pang, *Trade, Employment and Industrialisation in Singapore.* Geneva, International Labour Organisation, 1986.

[6] For more on export manifacturing in Singapore, see L. Y. C. Lim "Export-Led Industrialisation, Labour Welfare and International Labour Standards in Singapore". In L. Demery and T. Addison (eds.), *Wages and Labour Conditions in the Newly Industrialising Countries of Asia,* London, Overseas Development Institute (forthcoming).

retail trade) and manufacturing (nearly 90% of which is exported) became about equal in size as the two largest sectors of the economy by output value, while manufacturing became the largest employer, with about a quarter of the labour force. In the early 1980's construction and transport and comunication became the fastest growing sectors of the economy, and it was not until the recent recovery from the 1985/86 recession that export manufacturing, now much less labour-intensive, has again emerged as the leading growth sector.

Between 1960 and 1984, Singapore's per capita GDP grew at an average annual rate of 8.3%; because of the 1985/86 recession, this fell to 7.7% for the period 1960-1986, with an inflation rate of 3.6% per year.[7] Unemployment fell from more than 10% of the labour force in 1960 to 2.7% in 1984, rising to 4.6% at the end of 1986 due to the 1985/86 recession. The most rapid (double-digit annual per capita GDP) growth occurred between 1966 and 1973, when full employment was reached for the first time. There followed a brief recession in 1974/75 mirroring the world recession induced by the OPEC oil price rise, with steady recovery thereafter turning into rapid growth again from 1978 to 1984. Then came the severe recession of 1985, when negative GDP growth was registered for the first time in twenty years, and unemployment peaked at 6.5% before recovery began in 1986. Overall GDP growth is expected to reach 4% in 1987, with an annual 4% to 6% growth — low by previous standards — being projected for the rapidly-maturing economy thereafter.

Behind this macroeconomic picture lies an all-important structural change in the Singapore economy — the shift from relative labour abundance in the 1960s to full employment in the early 1970s and, by the late 1970s, a chronic labour shortage which persists today. The government reacted to increasing labour shortages in the early 1970s by holding down wage increases and admitting more foreign labour, but this only worsened the problem by delaying structural adjustements and maintaining strong demand for labour especially in labour-intensive export manufacturing industries. In 1979, the government reversed course, declaring that it was launching a "Second Industrial Revolution" which would reduce the labour-intensity and upgrade the technological and skill content of Singapore's manufacturing industries. A key instrument of this new development strategy was a three-year "high-wage policy" designed to force employers to substitute capital for labour, increase productivity, and shift to higher-value products in order to economise on the use of scarce labour resources. New investment incentives and manpower development programs were also installed to

[7] Figures in this paragraph are taken from Table 1 of L. LIM, E. F. PANG and R. FINDLAY, *op. cit.*.

encourage such industrial restructuring, while the supply of foreign labour was restricted to discourage its use.

The economy continued to prosper in the early 1980s, and to attract new foreign investments especially in high-tech industry. The severe recession of 1985 reflected the coincidence of several unfavourable factors. First, the high-wage policy and other government charges had raised production costs above internationally competitive levels, with unit labour costs in Singapore exceeding those of the other Asian NICs (South Korea, Taiwan and Hong Kong) and Japan to reach 98% of U.S. levels by 1985;[8] a strong Singapore dollar compounded this problem. Second, the external market environment deteriorated for several of Singapore's key export industries: petroleum refining and shipbuilding were adversely affected by the oil price slump and by worldwide overcapacity, while the electronics industry — including semiconductors, consumer products and computer parts and peripherals — experienced a prolonged slump in demand. Third, the commodity price slump slowed the economies of neighbouring trading partners, adversely affecting Singapore's trade, tourism, transport and communications, and financial and business services sectors. Fourth, overbuilding resulted in a massive slump in the domestic property market, causing a sharp decline in construction, the fastest-growth sector of the early 1980s.

The government's response to the recession was again to reverse course.[9] It instituted a two-to-three-year policy of "severe wage restraint", reduced employers' compulsory contributions to the employees' Central Provident Fund (CPF), eliminated additional wage levies, and proposed far-reaching changes in the wage-determination system to make it more "flexible". Taxes (including the corporate profit tax) and the rates and fees charged by government monopolies for the provision of various services were reduced, and efforts have begun to reduce the role of the state in the economy — by selective deregulation and the privatisation of state enterprises — and to nurture local private enterprise. Tax incentives previously available only to manufacturing firms have been extended to selected service activities, and multinationals are being vigorously encouraged to locate "operational headquarters", not just manufacturing facilities, in the country. The goal is to branch out from manufacturing, turning Singapore into a "total

[8] U. S. Bureau of Labour Statistics figures, cited in L. Y. C. Lim "Export-Oriented Industrialization and Asian Labor". Paper presented at the Conference on Origins and Consequences of National Development Strategies: Latin America and East Asia Compared, Duke University, March 31-April 1, 1986. To be published in a forthcoming volume edited by Gary Gereffi.

[9] See Ministry of Trade and Industry, Singapore, *The Singapore Economy: New Directions*. Report of the Economic Committee, Febraury 1986.

business center" for international corporations, and an information services center for the world.

So far, the immediate policy measures appear to be successful. Production costs have been lowered, manufacturing is expanding again, and new foreign investments are soaring. Business confidence has picked up, the local stock market is booming, and even the domestic property market is beginning to recover, although rents remain sufficiently depressed by excess capacity to contribute to lower costs. The external market environment has also taken a turn for the better. Recovery in the worldwide electronics industry has caused a rapid rebound in the Singapore industry, and oil and commodity prices have been increasing since late 1986. Singapore has also become one of the main beneficiaries of the worldwide currency realignment. Its currency has dropped with the U.S. dollar, making exports more competitive.[10] Japanese companies hurt by the strong yen are also expanding or establishing new production facilities in Singapore for export back to Japan or to third-country markets. Because of its political stability, excellent infrastructure and incentives, and growing skills and industrial experience, Singapore is especially attracting more capital-intensive and high-tech investments, while more labour-intensive activities continue to be relocated to neighbouring countries. Singapore is also increasingly benefitting from its location in a rapidly-growing segment of te world market for particular industries, such as electronics and computers.[11]

There remain potential external constraints to Singapore's continued economic development along its desired path of high-tech manufacturing and high-value services for export. These include protectionism — aimed both directly at Singapore and at, for example, Japanese companies which use it as an export base; technological and structural changes in particular industries — such as automation in electronics and night-time financial trading in Chicago; and increased supply-side competition from both developing countries (e.g. Mexico, Thailand) and developed ones (e.g. because of reindustrialisation efforts in declining regions of the U.S. and Western Europe, which offer many of the same investment incentives and government support).

But the major constraint on Singapore's economic development in the future is domestic, rather than external — and that is the limitations

[10] In contrast, competitors Taiwan and South Korea are seeing their currencies rise, and are more severely threatened by both protectionism and domestic political unrest.

[11] For a fuller discussion of these developments, see L. Y. C. Lim, "Capital, Labour and the State in the Internationalization of High-Tech Industry: The Case of Singapore". Paper presented at the Conference on Transnational Capital and Urbanization on the Pacific Rim, University of California-Los Angeles, March 26-27, 1987. To be published in a forthcoming volume of conference proceedings.

imposed by its small size. Already, growth and new investment in the export manufacturing sector, especially electronics, are being severely constrained by shortages of skilled and unskilled labour, which also threaten to undermine the wage restraint policy, despite a liberalisation of foreign labour imports. The government has launched a vigorous campaign, including generous fiscal incentives, to increase birth rates of all but the poorest segments of the population; but the results of this are uncertain and long-term at best. More immediately, the government is extending child-care facilities and subsidies to encourage more women to work (as nearly half already do), as well as to have more children. But the country's development dilemma remains rooted in the labour market, where wages are at risk of rising above internationally competitive levels if they increase to clear the tight domestic market.

THE ROLE OF THE STATE[12]

Since self-government in 1959, the state has been the single most important actor in the Singapore economy. The PAP

> felt that the state had to play a catalytic and pivotal role in creating the physical infrastructure and development institutions needed to promote economic growth, as well as take the lead in establishing new economic activities, especially in industries where the private sector had neither the experience nor the capital required to operate successfully.[13]

Beginning with the provision of infrastructure and social services, the government soon moved into direct production undertaken by state-owned companies, which numbered about 450 by the early 1980s, and had a turnover amounting to about a quarter of Singapore's GDP in 1983.[14] Their profit-making activities cover a wide range of manufacturing and service industries including iron and steel, shipbuilding and repairing, oil refining, petrochelmicals, shipping, financial services, air transport, armaments, tourism and property development. Forty statutory boards, some of them surplus-generating, provide a wide range of services including housing for four-fifths of the population.[15] telecommunications, utilities, industrial estates, etc.. In 1984 the seven largest statutory boards providing public

[12] This section draws heavily from L. Lim, and E. F. Pang, *Trade, Employment, ect., op. cit.* and L. Lim, E. F. Pang and R. Findlay, *op. cit.* and the references cited therein.

[13] L. Lim, E. F. Pang and R. Findlay, *op. cit.*, p. 26.

[14] L. Low, "Privatisation Policies and Issues in Singapore". Department of Economics and Statistics, National University of Singapore, Staff Seminar Paper No. 7, October 1985.

[15] See, for example, the discussion in L. Y. C. Lim, "Social Welfare in Singapore". In K. Singh Sandhu and P. Wheatley (eds.), *Singapore: The Management of Success*, Singapore, Oxford University Press, 1987 (forthcoming).

services reported combined earnings totalling 27% more than the profits of the ten most profitable publicly-listed companies.[16]

In addition,

> the government dominates the property market since it holds about 75% of all land in the country and houses 80% of the population; it dominates the capital market as the major holder of domestic savings channelled through the Central Provident Fund (CPF), POSB and Development Bank of Singapore (DBS); and besides employing 11% of the labor force (and a third of all university graduates), it also intervenes actively in the labor market, regulating both the supply and the price of labor as well as controlling its organization... Government revenue accounted for 29.4% of GNP in 1984, a proportion which rises to 43.5% when the current surpluses of state enterprises are included; while public sector gross saving was 64% of gross national saving.[17]

Wide-ranging government macroeconomic, microeconomic and social policies also have a major impact on the private sector, and on the economy at large.[18]

This huge state machinery is operated by a large and powerful bureaucracy which constitutes a major support group for the government. Recruitment into especially the upper echelons of the civil service, the statutory boards and state-owned companies is meritocratic, based largely on academic achievement and technocratic skills. The PAP recruits its members of parliament and political leaders heavily from this group of public officials, who come disproportionately from the working-class and from dialect-group minorities within the Chinese community. They not only do not belong to the local business class, but also have interests which are separate from and sometimes arguably opposed to those of this class. State agencies generate surpluses from, rather than provide subsidies to, the private sector. Many public sector employees are now also paid more than equivalent workers in the private sector, in addition to having more secure and possibly higher-status jobs. Top-level civil servants and especially cabinet ministers are extremely well-paid by international standards, some with annual salaries running into six figures in U.S. dollar terms; they have mostly been exempt from the wage restraint imposed on the rest of the population after the 1985/86 recession.

So long as the economy prospered, it was generally accepted that the strong role of the state was both necessary and desiderable for development, and the dissatisfactions of the local private sector were ignored, with the

16 *The Straits Times*, 6 April 1985.

17 L. Lim, E. F. Pang and R. Findlay, *op. cit.* pp. 28-29.

18 See *ibid.* for a discussion of various government policies and institutions which have influenced economic development.

government defending its right to operate competing business.[19] Indeed, the "autonomy" of the state from private interest groups has been identified as an important reason for Singapore's economic success, allowing the government to pursue policies based mainly on technocratic principles.[20]

Not until the recession of 1985/86 was the state's role in the economy seriously questioned, and even criticised for contributing to the recession. Foreign and domestic private enterprise alike chafed at being over-regulated, over-charged for public services, and "crowded out" of various markets by the state, and at being victimised by government policy errors in the labour market (resulting in wage increase outstripping productivity growth), the property market (resulting in massive overbuilding and a property market collapse which weakened financial institutions), and the financial market (plagued by over-regulation and excessive government interventions). Dominance of the economy by large state and multinational enterprises was also considered to have contributed to the weakness of the small local private sector, one of the main features distinguishing the Singapore manufacturing sector from that of its more resilient Asian NIC competitors. The huge surpluses of the profit-making public sector, it was argued, mirrored and contributed to the growing deficits of the now loss-making private sector.

In response to these criticisms, the Economic Committee appointed by the government to review the economy, and chaired by the Prime Minister's son, Brigadier-General Lee Hsien Loong[21] (now the Minister for Trade and Industry), articulated a strategy of deregulation, liberalisation and privatisation, aimed at reducing the role of the state in the economy and promoting local private enterprise.[22] Even before the recession, government leaders had been increasingly espousing a more laissez-faire ideology. Fearing that the population's growing dependence on the government for its basic needs might be detrimental to individual work effort and productivity, the PAP in the early 1980s began cutting back on social subsidies.[23] In the productive sector, Brigadier-General Lee in particular appears to be more favourably disposed than some of his predecessors towards reliance on market forces and a more "flexible" economy. The recession appears

[19] See, for example, K. S. Goh, "Government-owned Enterprises", speech at the INCOME Annual General Meeting, 20 June 1977.

[20] See, for example, the discussion in E. F. Pang, and H. C. Chan, *op. cit.*.

[21] Like all Singapore males, the younger Lee served in the military, then stayed on as a career officer until he resigned from the armed forces to enter politics in 1984.

[22] See Ministry of Trade and Industry, 1986.

[23] See, for example, L. Y. C. Lim, "Singapore's Success: The Myth of the Free Market Economy". *Asian Survey*, Vol. 23, No. 6 (June 1983), pp. 752-764 and L. Lim, "Welfare in Singapore ect.", *op. cit.*

to have been the catalyst causing this emerging philosophy to be more widely-accepted.

The government has already embarked on a program of selective divestment of state-owned corporations. But given the sheer size, weight and profitability of the public sector, and the corresponding weakness and limited absorptive capacity of the local private sector, privatisation is at best a gradual and long-run prospect. Indeed, industrial restructuring and technological upgrading in a more competitive world market may even require more, rather than less, government support of and participation in the establisment of capital-intensive high-tech manufacturing and high-value services. Large state corporations are also better placed than small local private firms to "go multinational", as exhorted by the government. In any event, reducing the role of the government as a "player" in the economy does not necessarily reduce its role as "planner", which will remain. The labour market, in particular: will continue to require some "management" or — a now more popular word — "guidance". At the same time, the state bureaucracy from which the government draws much of its political support has a considerable vested self-interest in the continuation of a large and powerful state sector, and is likely to resist its dismantling. Finally, the PAP and especially the Prime Minister himself continue to have a patriarchal and even arrogant attitude towards the population they govern, and thus to justify state interventions in the population's social, economic, family and personal behaviour. The persistence of such an attitude does not augur well for a major reduction in state controls and interventions in the economy or the lives of the people of Singapore.

THE ROLE OF FOREIGN CAPITAL

Foreign capital has been heavily involved in Singapore since its founding in 1819, engaged mainly in commodity trading, the import-export business, transportation and finance. Some foreign manufacturers eventually set up assembly plants to supply the local consumer goods market, and this accelerated in the early 1960s with tariff protection and anticipation of the Malaysian common market. In the late 1960s, multinationals began establishing labour-intensive export manufacturing facilities in the newly-sovereign nation, especially in electronics. They were joined by the major oil companies and their suppliers, and in the early 1970s, by international banks and other financial institutions. The services sector saw foreign franchises and direct investments in activities ranging from hotels and other properties and construction, to retail stores and fast-food restaurants, catering both to visitors and to the increasingly affluent local population. As the manufacturing sector deepened in the late 1970s, it attracted a wider range of industries, including suppliers of the established multinationals, and companies selling to the Asian regional market. This has continued into the 1980s, with high-tech manufacturing and some services dominating new, now more capital- and skill-intensive, investments.[24]

Singapore is such a favoured location for foreign investors that in the early 1980s it accounted for nearly half of all the foreign investment going to Asia as a whole. As of 1986, the stock of foreign direct investment in Singapore was US$11.4 billion, the third-highest total among developing countries, after Brazil and South Africa. This sum amounted to 79% of Singapore's total external liabilities in 1986, while the flow of new investment averaged 6.9% of GDP between 1982 and 1985, by far the highest ratios for developing countries.[25] Even in the severe recession year of 1985, Singapore attracted more than US$500 million of new foreign investments in manufacturing alone, a sum expected to reach more than US$800 million in 1987.

Singapore's attractions for foreign investors are well known:

> political and financial stability; free trade and capital flows; a good and welcoming government; speedy and efficient processing of investement applications; a minimum of burocratic red-tape; excellent physical and social infrastructure; strategic geographical location; peaceful labor relations and a disciplined labor force; and various tax and other incentives... The abundant, low-cost labor supply of the late 1960s has been replaced by a more educated, skilled and experienced labor force whose quality and efficiency is high; while government investment incentives have moved away from encouraging labor-intensive to encouraging capital- and skill-intensive activities, including R & D. There is now also a budding local supplier industry.[26].

For Singapore, on the other hand,

> foreign investment has been important as a source of the capital, technology, entrepreneurship, managerial and financial expertise required for industrialization but lacking in a pre-industrial economy. Foreign investment also provided the access to foreign markets so essential for the succes of an export-oriented industrialization strategy. Output and employment growth and industrial diversification and deepening have progressed much more rapidly than would have been the case without foreign investment.[27]

In particular, at independence, industrial entrepreneurship was lacking in both the private and the state sectors, which also lacked the necessary links to the world market that multinationals provided. At the same time, foreign

[24] See L. Lim, "Capital, Labor and the State etc." *op. cit.*

[25] IMF figures cited in *The Economist*, June 20, 1987, p. 71.

[26] L. Lim, E. F. Pang and R. Findlay, *op. cit.*, pp. 64-65. See also L. Lim, "Capital, Labor etc" *op. cit.*

[27] L. Lim, E. F. Pang and R. Findlay, *op. cit.*, pp. 65-66.

capital inflows help to offset Singapore's chronic and large balance of trade deficit. Today, foreign firms are particularly important as a source of the new technology that Singapore needs to upgrade its economy, but can never completely develop for itself because of its small size, limited resources and the opportunity costs and risks involved.[28]

One-third of all firms in Singapore are wholly or majority foreign-owned, and in 1981 foreign funds amounted to 40% of all investments in the country, 80% of it coming from five countries — Britain, United States, Hong Kong, Malaysia and Japan (in that order). Since 1981 the U.S. has dominated new investments every year, followed at a distance by Japan until 1986, when new manufacturing investments related to the rise of the yen made Japan the largest foreign investor. The large British and U.S. investments are concentrated in high-earning petroleum refining and other high value-added manufacturing, whereas Asian investments are mostly in lower-earning, small trading firms and low value-added, labour-intensive manufacturing. Earnings remittances have been small relative to the capital invested (less than 20% of inflows between 1970 and 1981), while foreign investments, being highly export-oriented, have contributed substantially to Singapore's large balance of payments surpluses since the late 1960s.[29] Nearly half of the foreign investment funds have flowed into manufacturing, especially petroleum (40% of gross fixed assets in manufacturing in 1980) and electronics (16%). In 1984, wholly- or majority-foreign-owned firms and joint ventures (with private or state partners) accounted for 71% of output, 82% of direct exports and 53% of employment in manufacturing, where they are much more heavily export-oriented, and have higher value-added, than local firms.

Singapore's development strategy of relying heavily on direct foreign investment has brought undoubted benefits in higher levels of growth, employment, productivity and incomes. But this prosperity is very much dependent on the decisions of foreign firms, making the economy vulnerable to a loss of international competitiveness, as happened in the 1985/86 recession. Dependence on foreign investment also increases the government's perceived need to control and modify many aspects of social and economic life and behaviour in order to ensure a continued favourable climate for foreign investors, who are still considered crucial for Singapore's economic success, in services as well as manufacturing. But after the experience of the recession, the government is now also putting greater emphasis on the nurturing of local private firms.

[28] For e full discussion of this issue, see L. LIM, "Capital, Labor etc" *op. cit.*
[29] For more details, see L. LIM, E. F. PANG and R. FINDLAY, *op. cit.*

During the colonial era, private enterprise of many nationalities thrived in Singapore. Typically, European — mainly British — capital was found in large oligopolistic corporate enterprises heavily engaged in international trade, while immigrant Asian — mainly Chinese — capital operated smaller-scale competitive family business engaged mainly in internal or regional (Southeast Asian) trade. Although there was competition between the two types of private enterprise, linkages were mainly complementary, and the Asian enterprises became characterised as "compradors" or agents of the larger European capital. Both types of capital prospered largely on the basis of servicing the commodity exports of neighbouring territories, particularly Malaya, in which they were heavily invested.

In the 1960s, when tariff protection and tax holidays began to be offered to import-substituting industries, some of this trade-based, by now "local" Chinese capital ventured into manufacturing, often in joint ventures with "foreign" companies from which they obtained technology, supplies and expertise. In the texitile and garments industries, foreign partners were often other Chinese from Hong Kong and Taiwan who had the required manufacturing expertise and the foreign market contacts which were later useful when exporting became necessary; many of them were also interested in getting access to Singapore's MFA quotas for sales in Western markets. In the electronics industry, the foreign partners were Japanese consumer good manufacturers.

When large numbers of export-oriented multinationals flocked to Singapore begining in the late 1960s, and especially after the passage of GSP legislation in importing countries encouraged local content, new business opportunities opened out for local entrepreneurs willing to venture into manufacturing as suppliers of industrial inputs for the multinationals. Many did so, again sometimes in joint ventures with more experienced Hong Kong, Taiwan or Japanese companies. In the electronics industry, their origins were diverse,[30] including individuals with trading or technical/engineering backgrounds, and over time, more and more have come from the ranks of experienced local employees of the multinationals, which have often encouraged and supported their ventures.[31] In the 1980s, more industrial entrepreneurs are beginning to emerge, especially in the

[30] See the discussion in L. Y. C. LIM "Chinese Business, Multinationals and the State: Manufacturing for export in Malaysia and Singapore". In L. LIM, and L. A. P. GOSLING (eds.), *The Chinese in Southeast Asia*, Volume I: *Ethnicity and Economic Activity*, Singapore, Maruzen Asia, pp. 245-274.

[31] See, for example, L. Y. C. LIM, and E. F. PANG, "Vertical Linkages and Multinational Enterprises in Developing Countries", *World Development*, Vol. 10, No. 7, July 1982, pp. 585-595.

computer industry, where some of the local firms now compete internationally with the products of multinationals also located in Singapore. Not all of these local firms are small-business start-ups; many are spin-offs or subsidiaries of larger local conglomerates and thus have adequate capital financing. One such company, Wearnes Technology, even manufactures its IBM-clone computer in the U.S., for sale on the U.S. and European markets.

Clearly, the presence of multinationals has stimulated the growth of local private enterprise at least in some sectors of the economy. Overall, local investments multiplied nearly ten-fold between 1970 and 1981, despite or even because of the rapid influx of foreign investments which generated many local linkages. Many of these local suppliers (like suppliers everywhere) may be considered highly dependent on their multinational customers. But with the 1980s boom in high-tech investments especially, this dependence has become mutual, with multinationals which manufacture a large share of their world output in Singapore[32] becoming highly dependent on their local suppliers. Indeed, a kind of "dependency reversal" sometimes occurs, especially in boom times, as local suppliers are scarce and can quickly develop alternate customers among competing multinationals, but not vice versa. Nor are all local joint-venture partners necessarily "junior" or subordinate to their foreign partners; I have come across at least one case of a capital-intensive company (in oil-rig manufacturing) where the Singapore partner bought out the American partner and now operates its former headquarters as a subsidiary in Texas.[33] More generally, new venture-capital companies owned by various Singapore conglomerates are now looking to purchase high-tech companies abroad (especially in the U.S.) with a view to transferring some of their technology and production to Singapore, if appropriate.

While on the output side local private capital has been enhanced by foreign capital producing for the external market, the situation is quite different in domestic input markets, particularly the labour market. Here foreign and local private capital are clearly competitive with each other, as well as with the state. Because foreign firms are typically large, well-capitalised, productive and highly profitable, they can usually afford to pay higher wages and salaries, as well as offer more secure employment with better promotion prospects, than smaller, less profitable local firms. They are therefore preferred employers, and in a tight labour market, this has

[32] For example, Seagate Technology, an American company which is the worlds's largest manufacturer of computer disk-drives, makes virtually all of its output — about half the world's supply — in Singapore, and describes itself as "a Singapore company doing a little bit of R & D in the U.S.". See L. Lim, "Capital, Labor etc", *op. cit.*

[33] *Ibid.*

tended to deprive local firms of scarce skilled and unskilled labour. Because local firms are usually more labour-intensive than foreign firms, they have also been more seriously affected by high wages in the 1980s, since labour costs form a larger share of their total production costs. Not surprisingly, many more local than foreign private firms succcumbed to bankruptcy during the 1985/86 recession. Ironically, when capital-intensive multinationals raise their wages to attract more labour, they often only attract it away from their more labour-intensive local suppliers, to the disadvantage of both. The ever-increasing number of multinational investors thus promotes (by enlarging market opportunities) and undermines (by creating labour shortages and raising wages) the local private sector.

Local and foreign private capital are also competitive with each other, and sometimes with state capital, in some domestic output markets — for example, in financial and business services, retail trade, property development and construction. It is local private capital in these sectors which has been complaining the most about foreign competition and requesting protection, such as restrictions on the entry of foreign firms into the local market for professional services. The state has routinely refused to grant such protection, or subsidies, and in recent years has increasingly liberalised many sectors in which foreign participation was previously limited — particularly in financial services. For example, over the past year, many local stockbroking companies — including family businesses of many generations' standing — have been bought into or over by foreing firms from several countries. Foreign capital participation has also been welcomed, with some limitations, in the privatisation of state-owned companies.

The government's new development strategy following the 1985/86 recession includes placing more emphasis on the development of local business, in order to offset (but not to reduce) the economy's dependence on multinationals and potential vulnerability to their externally-based decisions. A Small Enterprises Bureau has been set up to provide new support services — including technical, financial and marketing support — for small local business; but these services are intended only to boost successful firms, not rescue troubled ones.[34] Singaporeans are now being exhorted to be entrepreneurial, but the current structure of incentives is still arguably biased against entrepreneurial risk-taking — given the easy availability of alternative highly-paid, secure and high-status employment in state and multinational bureaucracies, and given also the competition that many local private enterprises have to face from either or both state

[34] Thus, for example, local firms frequently held up by the government as "models" for others to emulate received no assistance when they ran into difficulties during the 1985/86 recession — even where the government itself was a shareholder, and some of its policies could have been responsible for their problems.

and multinational enterprises in the domestic market. Concern has also been voiced that Singapore's highly exam-oriented educational system might discourage individual risk-taking and creativity.

The government is also encouraging local (both state and private) firms and even individual citizens to venture abroad for both investment and employment. In fact, local private business has long been involved in "international" activities, historically concentrated in neighouring Southeast Asian countries, mainly Malaysia and Indonesia, and in commodity production and trading. More recently, manufacturing investments have become more common, as firms have begun relocating labour-intensive operations to more labour-abundant, lower-wage neighbouring countries. Financial, professional and business services have also found ready markets in other countries of the region. Singapore is usually one of the top five investors in Malaysia and Indonesia, although some of this investment originates from foreign-owned enterprises in Singapore.[35] Some larger Singapore businesses, including Chinese family businesses have been increasing their investments outside of the Southeast Asian region — in a variety of activities including property holdings in Australia, Canada and the U.S., hotel developments in China, and high-tech and service sector investments in the U.S.. Finally, several state enterprises have been increasing their international activities, both as an extension of Singapore's role in international trade, finance, transport and communications, and based on their own long experience in efficiently providing many public services at home. A substantial proportion of Singapore's national savings (including citizens's compulsory CPF savings) is also invested abroad by the government's overseas investment company.[36]

Outward investment and employment by Singapore's local private firms and citizens is likely to continue as the economy matures and builds up its skills, experience and contacts. But they are unlikely to become a major source of new economic activities and income, for several reasons. Many if not most of Singapore's home-based businesses which can be successfully internationalised already are, with most of the remaining smaller and poorly-capitalised enterprises being weak candidates for internationalisation. In particular, businesses which find it difficult to compete with foreign enterprises at home are unlikely to do better abroad. Singapore lacks a sufficiently large domestic market base to anchor local firms wishing to become multinational — unlike, for example, India, Brazil and South

[35] For more on Singapore's home-based multinationals, see E. F. Pang and V. Komaran, "Singapore's Multinationals". *Columbia Journal of World Business* Vol. 20, No. 2, Summer 1985, pp. 35-44.

[36] Note that Singapore has one of the highest per capita foreign reserves in the world.

Korea — nor does it posses indigenous technology which would give it market advantages in other countries. Competition in foreign countries is fierce, including from other so-called "Third World multinationals", and restrictions on foreign firms are plentiful.

As for working abroad, this is unlikely to be attractive or feasible for many Singaporeans, whose skilled labour especially tends to be already in short supply and strong demand at home, where wages are higher and living standards better than in all but the most affluent countries of the world. Those who do venture to work and live in affluent Western countries are probably unlikely to return, or to remit their earnings home (since parents, for example, tend to be well taken care of by their own CPF savings). Since it is the most highly-skilled who are the most employable overseas, such a "brain drain" would also worsen Singapore's own domestic skill shortage.

THE IMPACT ON LABOUR[37]

The PAP came to power with the support of a left-wing labour movement, which it soon subdued and undermined through political arrests, reorganisation, administrative controls and restrictive legislation, particularly the 1968 Employment and Industrial Relations Acts. These actions established labour peace and have been widely credited with attracting the foreign investment which has been so crucial to Singapore's economic growth and development.

Economic growth and development have changed the labour force itself. The establishment of labour-intensive electronics and garments export factories, and the growth of financial services, vastly increased female participation in the labour force, in production and clerical occupations. The attainment of full employment in the early 1970s led to an increased influx of foreign workers, especially unskilled males in shipbuilding and, later, construction. Foreign, mostly male, managerial and professional workers concentrated in the financial and business services sector, and also in manufacturing. The spread of education and the upgrading of industry beginning in the late 1970s has increased the proportion of skilled jobs, while the proportion of unskilled jobs has declined as labour-intensive operations are moved out or automated. The Singapore labour force in the 1980s is thus younger, more educated, more skilled, more middle-class,

[37] As I have discussed this subject at length elsewhere, this section will be brief. See, for example, L. LIM, "Export-Led Industrialisation etc", *op. cit.*; "Export-Oriented Industrialisation etc", *op. cit.* and "Capital, Labor etc." *op. cit.*; L. LIM and E. F. PANG, *Trade, Employment*, etc., *op. cit.*, and references therein.

[38] See, for example, discussions in L. LIM, "Export-Led etc." and "Export-Oriented etc.", *op. cit.*

more female and more foreign than it was in the 1960s. The rate of unionisation has fluctuated around 20% of the labour force, with manufacturing being the most heavily-unionised sector.

Government interventions in the labour market have been profound. Besides being the largest employer in the country, the government's business policies have affected the demand for labour, while its education, training, population, immigration and social policies have influenced labour supply. The CPF compulsory savings scheme has affected the cost of labour, as has government wage policy, affected through the National Wages Council (NWC) established in 1972. In the 1970s, cautious NWC wage recommendations and a liberal foreign labour policy caused wages to rise more slowly than labour productivity, depressing them below markets levels. Beginning in 1979, a high-wage policy, large CPF rate increases, and discouragement of foreign labour did the opposite, raising wages more rapidly than labour productivity, and above internationally competitive levels. This contributed to the severe 1985/86 recession, when massive layoffs occurred and unemployment temporarily rose above the full-employment level for the first time since the more short-lived 1974/75 recession. The government then instituted its wage restraint policy, and once again has begun liberalising foreign labour imports. Nominal wage increases have fallen sharply, but real wages continued to increase in 1985 and 1986, in part because of negative inflation. Wages seem likely to increase further in 1987 because of the rapid if selective reapperance of labour shortages, especially in the export manufacturing sector. Unemployment fell back to 4.6% by the end of 1986.

Institutionally, the union movement which was reorganised in the late 1960s was restructered again in the early 1980s, the 1968 Employment and Industrial Relations Acts were amended in 1984, and the wage determination system based on NWC wage recommendations and collective bargaining is presently undergoing reform. The economic goal of all these changes is to decentralise the union movement and collective bargaining, while reducing the role of the state to allow wage determination to become more "responsive" to market forces and to worker and company performance. However the PAP retains its tight control of the labour movement, whose central secretariat is run by PAP members of parliament, under the leadership of a Cabinet Minister.

Politically and institutionally, the labour movement in Singapore has lost power and autonomy since the 1960s, although it is still represented in tripartite organisations and in parliament by government party members-turned-union bureaucrats. The extent to which this has been necessary for Singapore's development, especially in the 1960s, may be debated.[38] What is undeniable is that labour has prospered materially along with the rest of the economy under this regime. Employment expanded and unemployment fell dramatically[39] despite large increases in the labour force due to population growth, increased female participation and substantial foreign labour imports. Per capita income increased by 4.4 times in real terms between 1960 and 1984, reaching US$6,800 (US$6,200 for the indigenous population) in 1984 and causing Singapore to rank 22nd among the world's nations, ahead of such European countries as Spain, Portugal, Greece, Israel and Ireland. Income distribution improved between the mid-1960s and early 1980s. Various social indicators — life expectancy, literacy rates, educational attainment, health and nutritional standards, housing standards, social security, etc. — have also shown great improvement,[40] and consumption standards have risen dramatically.[41]

Economic security, ever-increasing living standards, and the opportunity for upward mobility have resulted in a Singapore working-class which, despite some dissatisfactions, basically supports the PAP, the state, multinationals and private capitalism. This is likely to continue for the time being. However there are several factors which might eventually erode at least some of this support: they include continued wage restraint; slower economic growth in the future; further reductions in government social subsidies; greater income disparities as the skill hierarchy expands and wage-determination is "decentralised"; perceived inequalities in the government's treatment of the highly- and lowly-educated and of different ethnic groups; rising educational levels and affluence resulting in stronger desires for non-economic goods such as individual and political freedoms and more autonomy from the all-powerful but no longer all-providing state; and so on. Much depends on how the PAP itself manages ongoing social, economic and political changes.

CONCLUSION

Several features of Singapore's development stand out as unique, or at least unusual, among developing countries, and form an integral part of its political economy.

[39] For more details, see L. Lim, "Export-Led etc.", *op. cit.*

[40] See L. Lim, "Social Welfare in Singapore", *op. cit.*

[41] For example, among the *poorest* 4.8% of all households surveyed in 1982, 85% had refrigerators, 81% had televisions, 56% had thelephones, 19% had washing machines, and 6% had video cassette-recorders. Cited in L. Lim, "Export-Led etc", *op. cit.*

First, Singapore has unambiguosly benefitted from its classically "outward-oriented" development strategy. Imports of foreign capital and exports to the world market have both served it well through different stages of its post-colonial development — the earlier labour-abundant, labour-intensive phase, and the currently-developing labour-short, capital- and skill-intensive phase. Growth, employment, incomes, technology and skills have all been higher than they otherwise would have been without such an outward orientation. The resulting dependence on and vulnerability to foreign market forces and economic actors is a cost, but it has not so far been a high one, with only two relatively brief recessions — 1974/75 and 1985/6 — occurring in twenty years. The 1985/86 recession in particular was due as much to domestic as to external factors, and it is the externally-oriented sectors of the economy which have since rebounded the fastest.

Second, Singapore's economy is heavily dependent on the regional Southeast Asian economy, and not only on the more distant world market. Much of its development in the past twenty years has been a continuation and extension of its traditional role as the trading, finance, transport, communications, services and now information center of the region. Thus Singapore's past rapid growth, its recent severe recession, and current recovery, all reflect economic developments in its regional neighbours, especially the effects on them of commodity price movements determined by world market forces. Overall, the country's strategic geographical location has been an important economic asset.

Third, the small size of the Singapore economy initially facilitated its rapid growth, but is increasingly becoming a limitation on further growth. A small urban economy is more readily transformed both physically and socially, reaches full employment more quickly, and even when operating at full capacity does not significantly affect world markets and thus is less subject to protectionist pressures than larger exporters. But it also possesses only a limited domestic market and limited resources (especially labour), must always be dependent on the outside world as self-sufficiency (including such basic needs as food and water) is impossible, and cannot be fully diversified.

Fourth, the state through its institutions, policies and direct participation has played a crucial role in shaping the economy, and especially in delivering social services to the population. To a considerable extent the Singapore government followed a strategy of "distribution before growth"[42] which benefitted the populaton at large, resulting in political and social stability early on in the development process. The state both substituted for private

[42] See E. F. PANG and H. C. CHAN, "The Political Economy of Development etc" *op. cit.*.

capital and enterprise where that was lacking, and facilitated and managed massive inflows of foreign capital and enterprise. Its activities fostered growth overall in the 1960s and 1970s, but began to have detrimental effects on the economy in the 1980s. This suggests that while a strong and active state might be necessary in the earlier stages of economic development, it may become less necessary and less desiderable as the economy matures.

Fifth, foreign capital has played a much more, and local private capital a much less, prominent role in Singapore's development than has been the case for most other developing countries, including the other Asian NICs. Local private capital is both complementary and competitive whith foreign capital, and has been both strengthened and weakened by its overwhelming presence. Both foreign and local private capital have also suffered somewhat from the strong role of the state in the economy, especially in the 1980s. While a relatively weak local private sector originally contributed to rapid growth by not resisting foreign investment, and by allowing an "autonomous" state to emerge and direct the process of economic development along technocratic rather than interest-group lines, this has now been identified as a major weakness of the Singapore economy, especially as compared with the other Asian NICs. Twenty-old years of rapid economic growth have not produced an indipendent national capitalism in Singapore, and it is doubtful whether this would ever be possible or even desirable, given the structural constraints imposed particularly by the country's small size. At the same time, however, the strong state and Singapore's great attractiveness to foreign capital have protected national interests by increasing the country's bargaining power vis-a-vis foreign investors and employers over time. Conservative government management of abundant national savings also cushions the country's vulnerability to external economic shocks over which it has little or no control, although possibly at the cost of sacrificing some current growth.

Sixth, labour is in an ambivalent position in Singapore. On the one hand, its institutional and political power (especially vis-a-vis the state) has been severely circumscribed by government policies and controls; on the other, its material welfare and market power (vis-a-vis employers) have increased steadily with economic growth. State backing has also occasionally strengthened labour's bargaining power vis-a-vis foreign employers, who are preferred to local employers because they typically offer higher wages, better working conditions, more secure jobs and better prospects for union organisation. I have suggested elsewhere[43] that in some ways Singapore's labour force could be considered to be a "comprador proletariat", since it generally supports multinationals, whose presence ensures more

[43] L. Lim, "Capital, Labor etc", *op. cit.*, and "Social Welfare etc." *op. cit.*

employment opportunities, stronger labour demand and greater market power for labour. (Local capital, on the other hand, is divided between "comprador" and "national" elements.)

Finally, it is interesting to speculate on the relationship between Singapore's economic development and its political evolution. At the present time, the trend in the economy is towards deregulation, liberalisation and privatisation, to reduce the role of the state and strengthen that of the local private sector especially. This may have to be at the expense of local labour (e.g. prolonged wage restraint, large imports of foreign labour), since local private capital can less afford to be generous employers than multinationals or state enterprises. However, labour's market power will be difficult to undermine, and according to laissez-faire principles, it should not be undermined (or resource misallocation will result).

There are no signs of similar liberalisation and relaxation of government controls in the political arena. On the contrary, political controls appear to have been tightened recently, and the established Western-style parliamentary system is undergoing substantial government-induced transformations. Economic maturity does not appear to be matched by political maturity, at least on the part of the ruling party, which appears to be terrified of letting true democracy develop. The government may be correct (although this is debatable) in asserting that strict political controls and the reining in of civil liberties were necessary in a more turbulent and uncertain past, in order to ensure political stability and labour peace — essential conditions for the type of development strategy that Singapore pursued after 1965. This reasoning is less acceptable today, largely as the result of the very success of this development strategy, which by spreading prosperity among workers has seriously undermined the appeal of left-wing ideology. Rather, given the greater affluence and stronger economy of today's Singapore, and the increase in its citizens' educational attainment, worldly experience, intellectual sophistication and political maturity, a more liberal political system is called for to go with the more liberal economic system that is being developed. The PAP's attempts to prevent or contain this historical development suggest that, like the self-interested bureaucracy which is likely to resist privatisation, the ruling party is increasingly motivated primarily by the wish to keep itself in power. This despite the possible economic costs that could arise — for example, from growing political dissatisfaction, an increased "brain drain", declining investor confidence, and damage to Singapore's international image and prospects for developing as an "information services center" for the world — which requires absence of censorship and a minimum of government controls.

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