

Model for Development: A Case Study of Singapore's Economic Growth

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The story of how Singapore moved from “Third World to First” (Lee, 2000) is relevant to the study of national development because the difficulties Singapore faced in its beginnings are similar to those many less developed countries face today. As Kofi Annan, the Secretary-General of the United Nations, wrote: “Singapore will be of great interest to people of other developing countries and to all those who are interested in their fate” (Lee, 2000:i) Although this essay shall assume Singapore’s “economic success” to be its favorable economic statistics of high GDP per capita, substantial foreign investment, low inflation, zero sovereign debt, and stable currency (Economist, 2000:86), the description of the underpinnings of Singapore’s model will rely on more qualitative analysis. While it was the increase beyond a certain GDP per capita figure that prompted the World Bank to officially classify Singapore as a “developed economy” (Yeo, 2002:290), behind the numbers is a distinct story of a nation that fought with great determination and integrity for its mere survival before prosperity was a possibility.

Relevance of the Singapore story

Since Singapore went through a major transition over the three decades of its existence as a sovereign state, its model covers growth at different stages of development that are relevant to various countries at different levels of political and economical advancement today. The linkage between political and economical conditions is emphasized because of the reciprocal effects they generally have on one another. While political uncertainty in a country like Northern Ireland had for many years meant stagnant economic growth (Economist, 2000:82), it was short-term economic upheaval that led to the fall from power of President Suharto of Indonesia (Economist, 2000:86). The story of Singapore presents a strong correlation between political and economical realities.

The harsh economical conditions that the people of Singapore faced at independence from Malaysia can be attributed to the intense political turmoil that had grappled the island’s relationship with the peninsula. While the Chinese in Singapore outnumbered Malays three-to-one, the Malay politicians in the Malaysian capital of Kuala Lumpur feared threats to Malay heritage by a growing Chinese population throughout Malaysia and especially in Singapore. As a crowded entrepot of a larger country, the politicians in Kuala Lumpur had calculated that forcing independence on Singapore would have the effect of preserving Malay majority within Malaysia while also stifling the socialist and communist sentiments within the country which usually permeated from Singapore.

Singapore's exit from Malaysia was a unique historical situation. It is hard to think of another example in history when a state was expelled from a larger country. Singapore's problems at independence however were not unique. High levels of unemployment, lack of sanitation, little supply of potable water, and ethnic conflict were conditions that marred Singapore then and still characterize many third world countries today. While the Chinese and Malays were divided by race and language and often fought street battles that ended in carnage, within the Chinese community itself, there were tensions between the Western educated Chinese and those who had been educated at notoriously Communist leaning "middle schools" (Baker, 2000:365-92).

The poverty, political tensions and lawlessness that characterized Singapore then are what epitomize failed states today. Although it is an exaggeration to compare the lawlessness of the Singapore of then to the clearly worse cases in today's Somalia or Sierre Leone, where the authority of the central government cannot even be established, the living conditions of Singaporeans in the old days were just as grim. About three million people, half of who were unemployed, occupied an island that was sandwiched between two large and unfriendly states: Malaysia and Indonesia. As Lee Kuan Yew, the first Prime Minister of Singapore and leader of the ruling People's Action Party (PAP) later recalled: "Singapore was a tiny Chinese island in a large Malay sea" (Lee, 2000:25).

The ambitions of Singapore's two neighbors over it were evident in the policies both Indonesia and Malaysia adopted towards it. While President Sukarno of Indonesia began a policy of "Confrontasi" or confrontation by sending Indonesian marines to bomb the building of a prominent English run bank in Singapore, the Malaysian government flexed its muscles over its tiny neighbor by refusing to move its military out of Singapore. The Malaysian leaders while not interested in having Singapore as part their sovereign territory, nevertheless wanted to establish a relationship of "agong, adi", or what in English would translate into "big brother, small brother" (Lee, 2000:70-102). In such an exemplified situation of political realism, the leaders of Singapore soon realized that in addition to meeting the economic needs of their impoverished people, they also had to strengthen the sovereign integrity of their country.

In recent times, when first world countries have intervened in territories like Bosnia, Kosovo, East Timur or Afghanistan, where the apparatus of the state either did not exist or had turned against its own citizens, the question of how to build a viable and lasting system has deluded officials. While the PAP government's pleas for international assistance went unanswered (Lee, 2000:262-287), its leaders remained undeterred. They knew Singapore had to survive on its own. Like other leaders of the third world, Lee Kuan Yew and his team faced more problems than they could handle at once. Without foreign aid, they realized that their limited resources had to be used in a prioritized manner.

A new national identity was first on the agenda. After years of working as part of a federation of Malaysian states, the PAP government had to convince Singaporeans to view themselves as an independent nation. This basic exercise in nation building

naturally led them to the next step: whereas it had been their ambition to make Singapore into the financial and commercial center of a larger country, the leaders of Singapore now had to look elsewhere. Conventional wisdom in economics in the 1960s held that every industrialized nation, especially a small one, needed a hinterland to succeed. Singapore had none. The report of this situation in the American media attracted the attention of Milton Friedman, Professor of Economics at the University of Chicago, who came to Singapore to investigate. At the restaurant where S. Dhanabalan, the Singapore Economic Development Board's senior economist hosted lunch for Professor Friedman, an important conversation ensued (Economic Development Board, 2002: 72-3):

FRIEDMAN: What are you going to do now that you have lost the Malaysian Common Market?

S. DHANA: We don't know what we're going to do but I want to assure you that if you came back in 10 years' time, you will see that we have succeeded.

FRIEDMAN: What kind of answer is that for an economist?

S. DHANA: I'm sorry but the truth is, we have not the slightest clue what we will or should do. We just have the will and the determination. We will not only survive, we will prosper.

FRIEDMAN: Well, good luck.

If Milton Friedman had come back to Singapore after the ten years Dhanabalan had suggested, he would have realized he should have been less incredulous. Without a hinterland and neighbors who would trade with it, Singapore was forced to look out and wide for opportunities it could get. As Lee Kuan Yew recalled in his memoirs, "We had to link up with the developed world...and attract their manufacturers to produce in Singapore and export their products to the developed countries" (Lee, 2000:75-6). For Milton Friedman, the greatest champion of free market capitalism, to have overlooked such a possibility in his conversation with Dhanabalan seems odd today, when "foreign investment" and "export-led growth" have become common cliches in the field of international economic development (Cohn, 2002:375-389). Back then however, because the accepted wisdom of development economists was that multinational corporations (MNCs) were great exploiters of cheap land, labor and raw material (Cohn, 2002:385-6), even Milton Friedman dared not think more imaginatively.

Forced to by all means to find work for their people, the leaders of Singapore engaged in promoting "globalization" before it became fashionable to do so. Lee and his colleagues had been impressed by how the Israelis had leaped over their Arab neighbors who boycotted them, to trade with Europe and America (Lee, 2002: 75-6). The flow of goods, capital and skill between Singapore and its developed trading partners was vital at every stage of its development and is relevant today when studying the effects of globalization on third world countries. However, the reason why Singapore embraced globalization one generation earlier than other third world countries was because it had no choice but go against the dependency theory that was the predominate economic thinking of then. As Lee put it, "Anyway, Singapore had no natural resources for MNCs to exploit" (Lee, 200:76).

The themes of Singapore's model

Whereas Singapore's dire political and economic conditions in the early days are reminiscent to those experienced in many third world countries today, the quick and decisive actions of its leaders throughout its development have rarely been matched elsewhere. The unusual effectiveness of the Singapore government has won worldwide acclaim over the years. The Institute of Management Development's World Competitiveness Yearbook 1997, ranked Singapore as the country most effective and fastest at implementing changes in government policy. Berlin based Transparency International placed Singapore in fourth place worldwide in 2003 for absence of corruption (Mortimer, 1999:191). To explain Singapore's economic success, it is important to understand the predominant themes that have distinguished its governance from less successful third world countries.

At the heart of the Singapore model is the social contract that was articulated between the ruling PAP run government and the people of Singapore. In essence, it said that while the people were willing to accept more government control, give up some individual rights, and work hard, the government would create the environment that would deliver prosperity and a better quality of life. As Singapore historian Jim Baker notes, "the ramifications of the new social contract were felt first on the economic front" (Baker, 2000:367). With its exit from Malaysia, the Singapore leadership was out to convince investors that Singapore was a safe and stable country to place capital. Not only did Singapore amend its laws to guarantee the preservation of the property of foreign investors, it also demonstrated a willingness to stifle barriers to commerce such as corruption and labor unrest. The autocratic dominance of the ruling People's Action Party (PAP) also provided confidence that national policies would remain stable in the short run, while continued efforts would be made to plan for Singapore's long term challenges.

In contrast to Singapore's offer of stability and rule of law, Indonesia has in recent years been unable to ensure either and has consequently lost the esteem of foreign investors and indigenous capitalists alike. The commonplace street riots in Jakarta and the ethnic massacres throughout the rural districts have had the effect of producing massive capital flows out of Indonesia. In fact, because of the instability in Indonesia, many investors have in panic transferred money to banks in neighboring Singapore. Whereas in one country they cannot predict the political and economic climates each day brings, they know the other has remained stable and its laws unchanged for the last three decades (Economist, 2000:86-9).

To make doing business even less desirable in Indonesia as in most other South East Asian countries, corruption has added barriers to the flow of business and the implementation of official policy in ensuring a fair environment to engage in commerce. For example, at many Indonesian airports, travelers often find themselves delayed at customs clearance until a suitable inducement in cash is forthcoming. In contrast to that, the Singapore Changi airport has been highly rated yearly for efficient service and convenience (Lee, 2000:183).

The Singapore story is a thorn in the side of development specialists from the school of thought that Samuel Huntington has labeled as 'convergence' theorists, who believe that all desirable characteristics of national development (democracy, free markets, higher standards of living, etc.) reinforce one another (Huntington, 1987:3-32). While democracy in Indonesia after Suharto and in the Philippines after Marcos has caused even more economic uncertainty and overall poverty, it has been the reign of an autocratic regime in Singapore that delivered economic development. Eddie Barker, a one time cabinet minister and Lee Kuan Yew's classmate at Raffles College, has observed that Lee's contempt for democracy began as far back as the student council elections in which Lee lost because his opponent made fanciful but unrealistic promises to Lee's modest but achievable ones.

As the democratization of third world countries in Eastern Europe, Latin America and East Asia has shown over the last decade, being elected to office by the general populace provides no guarantee that national leaders will be free of corruption, effective, or dedicated to the national interest. In the case of even President Salinas of Mexico, a moderately respected elected president by Latin American standards, the national interest came second to his personal interest to keep the instability of the Mexican economy brewing while he changed jobs to become the head of the World Trade Organization (WTO). Contrary to the unanimous prodding of his economic advisors who made the case that the Mexican currency and financial markets could be saved from imminent collapse if an immediate devaluation of the currency was made before his retirement, Salinas did not act for fear of blotting his reputation (Soros, 1995:96). Like the Mexican example, the financial collapse of *democratic* Thailand and Russia in 1997 showed that elected leaders who come to power with substantial expectations on their shoulders after intense campaigning in which they promised substantial national development, can never be immune from mortgaging the future of their people to finance grandiose if imprudent national projects that among other things, serve to enrich the cronies that helped in the outcome of the election in the first place. This leads neatly into the second running theme of the managing of Singapore.

Apart from effective governance, the Singapore government exercises considerable discipline in managing the countries economic affairs. While the PAP ran on a socialist platform to get elected, it was careful of which industries the government nationalized. It has generally been the case that the government did not intervene in markets it felt the private sector was doing a good job of meeting Singapore's economical interests. This policy was briefly outlined in a speech titled "Survival" that former foreign minister S. Rajaratnam delivered in the early 1970s. In the speech, Rajaratnam mentioned that the government supported state run corporations like Singapore Airlines and Neptune Ocean Lines because the private sector did not have the ambition or financial backing to start such vital organizations that would make trade with the developed countries possible (Rajaratnam, 1987:237). On the other hand, as Rajaratnam noted, the government was careful not to extend these policies to peripheral industries and "crowd out" what the private sector could do more efficiently.

In contrast to the Singapore government's economic discipline, Prime Minister Julius Nyerere embarked at about the same time of Rajaratnam's speech, to nationalize everything in Tanzania from petrol stations to bicycle repair shops. Although a personal friend of both Lee Kuan Yew and S. Rajaratnam, Nyerere was tempted by the flawed theory that only complete socialism would work in the long run. In his memoirs, Lee Kuan Yew expressed regret of how Nyerere, a highly intelligent man, had led his country to almost complete economic bankruptcy and collapse by the time he was finished with his socialism program in the 1980s ((Lee, 2000:400-6).

As a small nation with nothing more to offer than hardworking people, Singapore realized that it had to build for itself financial credibility to win the trust of international partners. Unlike Hong Kong, which had relied on the backing of the Bank of England, Singapore could not borrow on the international markets in the name of a developed country's central bank. To avoid inflation, the risk of devaluation, or balance of payment problems, the Singapore government was careful to prioritize its economic planning and implement each plan at stages over the long run. In doing so, it held substantial amounts of official reserves even while being an underdeveloped country with its economy in great need for public spending. This discipline was held in good times and bad. While the economies of its neighbors collapsed under huge amounts of short-term debt borrowed in foreign currency when the Asian economic crisis struck in 1997, Singapore stood out of as an island of stability in a sea of disparity.

The third theme underlining Singapore's economic success has been the importance the government has attached to the development of Singapore's human resources and the investments it has made in its own people. While the PAP ruthlessly smashed all independent labor unions and consolidated what remained into a union umbrella group called the National Trade Union Congress (NTUC), which it directly controlled, it did set up technical schools as well as paid foreign corporations to train unskilled workers for higher paying jobs in electronics, ship repair, and petrochemicals. For the benefit of those who still could not get industrial jobs, the government enrolled the participation of the NTUC in creating labor intensive, "un-tradable" services, mostly for the purposes of tourism and transportation. In building up Singapore's human resources, the government on the one hand alleviated unemployment, but to do so it established orderliness in labor-corporate relations. The result has been the creation of a business environment where investors do not fear uprisings from their employees, while at the same time they take advantage of the incentives the Singapore government provides for them for training the people they hire.

The governments of countries like Iran have been obsessed with preventing the flow of money from their countries, but have not cared to reduce the emigration of highly talented individuals. In contrast, the Singapore government has allowed money to flow freely but has instead come up with strategies to convince talented individuals to have a stake in Singapore society. This strategy has been based on the realization that in the long run, it is skilled and highly motivated people who improve economic efficiency and thus produce economic growth. The International Monetary Fund has reported that Iran loses more than 60% of its university graduates annually, while Singapore has been noted to

retain not only its best and brightest but also attract those of other countries from around the world. Many skilled and competitive individuals from both developing and developed nations have been attracted by Singapore's offer of easy transition to Singapore living and opportunities to make a decent living without being heavily taxed (Economist, 2000: 86-89). It is talented individuals at work who allow Singapore, an island which even has to import its water, to run a GDP per capita roughly 25 times that of Iran, a country liberally endowed with petroleum, natural gas and other minerals ((Economist, 2000:86-9).

Reconsidering the Singapore model in a theoretical context

While Singapore's historical circumstances at independence were similar to those felt by many third world countries today, it is not realistic to expect other nations to become as economically successful by simply replicating the Singapore model. From a theoretical perspective however, the most noteworthy aspect of the Singapore model that deserves further evaluation is the constitution of modern Singapore. By defining a constitution to be both implicit and explicit conventions of behavior of the various factions of society, it can be argued that the Singapore constitution will be difficult to replicate in other countries, and consequently, Singapore's successes will be hard to replicate.

As it was discussed earlier in this essay, the contract between the PAP and the people of Singapore constituted certain additional powers being granted to the government and the taking away of some individual rights. The disorder in the old Singapore had convinced citizens of the legitimacy in suspending certain rights of intellectual expression and arrest without charge of certain groups of people who instigated national disunity. As Theodore Cohn explains, some theorists have termed such tenancies in countries like Singapore as the manifestation of the "Confucian political culture" only inherent to East Asian societies (Cohn, 2002:390). However, this theory does not completely explain the Singapore constitution. The high levels of patronage within the government services in other East Asian countries and the general mistrust of foreigners cannot be observed in Singapore, even though such traits are the hallmark of the Confucian mentality.

To explain the Singapore constitution, one has to go beyond observing the PAP contract with the people and Confucian tenancies. The openness of Singaporeans to foreigners and foreign ideas is arguably the founding principle of Singapore. When Sir Stamford Raffles claimed the island of Singapore with only a population of a hundred indigenous people as property of the British East India Company, he naturally had to import everything needed to build a viable society. Singapore became the meeting point of immigrants from China, India, Europe and the territories now comprising Indonesia. In more than a hundred years of colonial rule, the populace of Singapore accepted British authority without question. As long as the authorities could guarantee better prosperity than from where they originally came from, the people were content. When the British abandoned Singapore during the Second World War however, British rule lost its legitimacy with the Singapore populace and a new constitution was made with the

nationalist leaders of David Marshall's Worker's Party and afterwards the PAP. The critical point to be noted is that the new constitution improved the previous one and did not replace it.

To expect nations with long histories and complex political cultures to stop all independent politicking in favour of a unified political system like that of Singapore's would be ludicrous. In such a situation, even when a system is established by an authoritarian government that uses violence to smash independent thinking as it has been the case in Iran, the costs outweigh the advantages of projecting a unified political system. In Iran for example, the loss of confidence in the political system has produced a mass exodus of Iranians to other countries in search of more civil liberties and political freedoms.

Some critics of the Singapore system would go even further to suggest that even Singaporeans have been disadvantaged by the strict controls imposed by their government. Since realists and liberals often overlook vague but broader conflicts between classes of people, the bitterest critics of the Singapore government are usually those who subscribe to the historical structuralist perspectives that have evolved from Marxist thinking. As Cohn explains, some historical structuralist would argue that a country like Singapore which relies heavily on foreign MNCs to produce on its territories have not really achieved economic development. Cohn goes on to explain that these theorists would argue a country like Singapore has merely "ascended to a semi-periphery" state of development, too reliant on foreign economic powers (Cohn, 2002:390).

Considering that Singapore makes favorable conditions for foreign MNCs by putting its own people at certain disadvantages while they work for those organizations, the historical structuralist view should not be taken lightly. Singapore laws severely restricts workers from using work strikes to gain leverage in labor disputes and MNCs are usually allowed to impose over the board pay cuts on all employees during periods of economic recession. The strict adherence to severe criminal laws in Singapore by the judiciary has also earned Singapore the notoriety of imposing the death penalty most per capita than any other country in the world. The leaders of the PAP have long argued that these austerities are necessary to ensure the working of a very small state, which on its own will not survive occurrences of lawlessness.

Whether or not their obsession with survival is justified, the leaders of Singapore are increasingly finding a communications gap between themselves and the people. While the leaders have been glorifying Singapore's achievements and the need to reach even higher levels of economic development, *The Straits Times*, the largest circulating newspaper in Singapore, reported in the year 2000 that most Singaporean youth wished they had been born either European, Japanese or North American. Many local commentators interpreted this to mean that the youth in Singapore were attracted to living in those countries because their own society was not as open and tolerant. Questioned on the poll in an interview while he was visiting Harvard University, Lee Kuan Yew replied that at least the Singapore youth were well off enough to contemplate such philosophical

dilemmas, than wonder how they would find their next meal. His comment however missed the point; the new generation of Singaporeans has started to find the proper distribution of resources more important than their continued accumulation.

Conclusion

In conclusion to all the points considered in this essay, it should be noted that the story of how Singapore moved from “Third World to First” is relevant to the study of international development. The difficulties Singapore faced in its beginnings are similar to what many less developed countries face today. Leaders in the third world should take note of the major themes that have characterized Singapore’s economic success, while keeping in mind of the disadvantages that are inherent to the Singapore model.

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