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Notes on Singapore's Development Strategy

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NOTES ON SINGAPORE'S DEVELOPMENT STRATEGY

BY

MARIA MONDEJA

Introduction

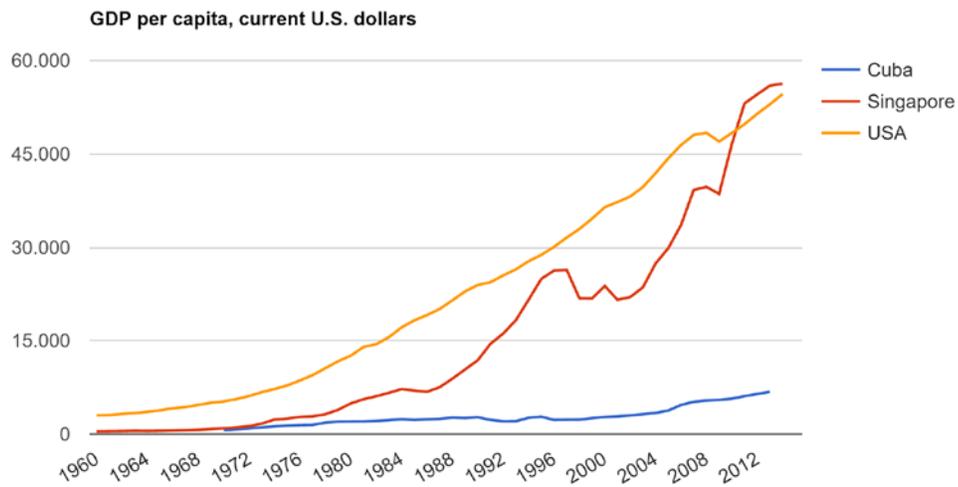
The year 1959 is iconic for both Singapore and Cuba. That year, Fidel Castro and his guerrilla army emerged victorious in their fight against the military government of Batista, taking over Cuba. Meanwhile, on the other side of the world, Lee Kuan Yew, founder of the People's Action Party (PAP), was elected Prime Minister of Singapore. These events represent the beginning of two separate "revolutions" that have profoundly influenced both countries, marked by one party dominance and more than 3 decades of unchanged leadership. Here, however, is where resemblances seem to end. In the last 57 years, Cuba went from being Latin America's third wealthiest country¹ (surpassing even Singapore in the 50') to be at the bottom of the table by most economic indicators. In the same period, a single generation, Singapore went from a third world to developed country with a thriving economy, continually leading most global rankings² (Fig. 1). Singapore's success story is staggering by any standard.

This paper comments on Singapore's lightfast economic development and the lessons that other economies, like Cuba, should take from it.

¹ *Cuba had the third-highest per capita income in Latin America, exceeded only by Argentina and Venezuela and it was "the most heavily capitalized country in Latin America" and its "network of railways and highways blanket the country." The country also had numerous well- equipped ports. Rivero Caro, A. CUBA: THE UNNECESSARY REVOLUTION. Neoliberalismo.com. Retrieved from <http://www.neoliberalismo.com/unnecessary.htm> When Castro came to power in 1959, the total book value of U.S business enterprises in Cuba was greater than in any other Latin American country except Venezuela... on a per capita basis, the book value of U.S enterprises in Cuba was over three times the value for the rest of Latin America as a whole. Johnson, L. (1964). U.S Business Interests in Cuba and the Rise of Castro (p. 3). Retrieved from <https://www.rand.org/content/dam/rand/pubs/papers/2008/P2923.pdf>*

² E.g. "Easiest place to do business" (World Bank); most "technology-ready" nation (WEF); city with "best investment potential" (BERI), 2nd-most competitive country (WEF)

Fig. 1 GDP comparison between Singapore, Cuba and the U.S from 1965 to date.



Measure: U.S. dollars
Source: TheGlobalEconomy.com, The World Bank

Overview of Singapore's Situation in the 60's

From 1946 to 1965 life was a rollercoaster in Singapore. They went from being a separate crown colony of the British Empire to attain internal self-government and later independence, they joined Malaysia and were expelled from it. As a result, Singapore found itself in 1965 with a territory of barely 581.5 km², a diverse ethnic population of 1,879,571, no natural resources and a future full of uncertainty. Besides the threats to its sovereignty from neighbouring countries Singapore faced dire internal conditions. Their fallout with Malaysia brought a significant reduction in their internal market while the retreat of the British forces, Singapore's main client and protector, added economic and political turmoil to the already weak new born state.

Singapore's population was composed mainly of migrants from the Malay Peninsula, Indonesia, China, India and Sri Lanka³. In their time as rulers very little did the British to promote anything close to a Singaporean identity. Each ethnic group was let to "their own devices to mobilize resources and develop their own community organization to look after the welfare and religious needs of its members"⁴. This also meant that each community had its own influential leaders, language, traditions and sometimes conflicting interests. In fact, in 1964 Singapore was shaken by racial riots which resulted in dozens of deaths and hundreds of injured. To top it all at least half the population of the time was illiterate, had little or no access to education, housing and health care and the unemployment rate was above 10%. Singapore, however, had a few positive things going on for them, starting with its geographic location.

³ **Source:** National Integration Council > Home. Nationalintegrationcouncil.org.sg. Retrieved from <https://www.nationalintegrationcouncil.org.sg/>

⁴ **Lian, K.** (2016). *Multiculturalism, Migration, and the Politics of Identity in Singapore* (1st ed., pp. 11-28). Singapore: Springer Singapore.

Singapore is located in the mouth of the Strait of Malacca, which has been historically the major maritime gateway to and from Asia⁵. The importance of the Strait for maritime traffic can be traced to ancient times but it suffices to say that at least 40% of the world maritime trade passes through the strait⁶. Since its foundation in the 19th century the port was set as a duty-free port, thanks to which it captured a large number of the maritime traffic in the region. By 1965 this was still true though fierce competition was threatening Singapore's dominance.

The British also left a certain legacy to Singapore. Apart from infrastructure mainly in the port area, including railroads for the transport of commodities between Singapore and Malaysia, the British left a common language, functioning legal institutions and, most of all, the certainty that no one was going to save Singapore but Singapore itself.

Finally, Singapore had Lee Kuan Yew.

⁵ **Hirst, T.** (2014). The world's most important trade route?. World Economic Forum. Retrieved from <https://www.weforum.org/agenda/2014/05/world-most-important-trade-route/>

⁶ **The Economist.** (2017). Retrieved from <http://www.economist.com/blogs/economist-explains/2015/03/economist-explains-23>

Political and Economic Strategy for Development

1. Asserting its independence and laying the foundation as a regional power.

At the moment of its independence Singapore was a powerless country in need to assert its independence. There were the very real threats of being forced into Malaysia under less favourable terms than the ones gained in 1963 or being invaded by Indonesia as part of its president expansionist foreign policy⁷. The first step, therefore, was to ensure that Singapore remained independent and was recognized as such. Consequently, its foreign service officials engaged in actively putting Singapore in the map and rallying allies.

Singapore economic development cannot be understood divorced from the key principles put forward by the government of maintaining (a) an active military and compulsory conscription for deterrence purpose; (b) good relations with other countries in a base of reciprocity, (b) a secure and peaceful environment in and around Southeast Asia and in the Asia Pacific region and (c) a free and open multilateral trading system⁸.

In 1965, the country became a member of the United Nations and the Commonwealth of Nations while, two years later, founded the Association of Southeast Asian Nations (ASEAN). The purpose of ASEAN was to promote “cooperation and, through joint efforts... secure for

⁷ *Ahmed Sukarno was the first president of independent Indonesia. He exhibited a growing authoritarianism, dissolving the elected parliament in 1959 and proclaiming himself president for life in 1963. By 1963 an aggressive, expansionist foreign policy included a geo-political vision of a unified island nation which included both the Philippine islands and the former British colonial territories of Malaysia.* **Source:** Pike, J. (2017). Konfrontasi (Confrontation). Globalsecurity.org. Retrieved from <http://www.globalsecurity.org/military/world/war/konfrontasi.htm>

⁸ Foreign Policy. Mfa.gov.sg. Retrieved from https://www.mfa.gov.sg/content/mfa/overseasmission/manila/about_singapore/foreign_policy.html

their peoples... the blessings of peace, freedom and prosperity”⁹. In 1970 Singapore became part of the Non-Alignment Movement, an informal gathering of States with the purpose of creating “an independent path in world politics that would not result in member States becoming pawns in the struggles between the major powers”¹⁰. While in 1989, Singapore founded the Asia-Pacific Economic Cooperation (APEC), a forum of currently 21 Pacific Rim member economies with the purpose of promoting free trade throughout the Asia-Pacific region. In parallel, Singapore established diplomatic relations with more than 189 countries and started to negotiate in earnest Free Trade Agreements and Investment Treaties.

Singapore’s active role in the Asia Pacific region lead to the matters of their independence and stability becoming of interest for many countries in and out the region. Having “armed” themselves and with a growing list of “friends”, Singapore’s government was able to focus on building their economy in the marvel that it is today.

2. A free and open multilateral trading system.

It was Sir Stamford Raffles’¹¹ vision for Singapore to be a city of low or no taxes and few regulations as to allow and promote free trade. This regulatory attitude allowed Singapore’s port to succeed in the 19th century and was adopted as a fundamental country policy by Lee

⁹ Reference ASEAN home page

¹⁰ Non-Aligned Movement (NAM) | Treaties & Regimes | NTI. (2017). Nti.org. Retrieved from <http://www.nti.org/learn/treaties-and-regimes/non-aligned-movement-nam/>

¹¹ Sir Thomas Stanford Raffles (born July 6, 1781, at sea, off Port Morant, Jam.—died July 5, 1826, London, Eng.), British East Indian administrator and founder of the port city of Singapore (1819). **Source:** Pearson, H. (1998). Sir Stamford Raffles | British colonial agent. Encyclopedia Britannica. Retrieved from <https://www.britannica.com/biography/Stamford-Raffles>

Kuan Yew and successive governments. In fact, Singapore has worked extensively in being open and economically interconnected with the world.

Currently, Singapore is part of 79 International Investment Agreements (IIA)¹², out of them 66 are in force. From Singapore’s IIAs in force a few stand out, the Singapore-US FTA¹³, the China-Singapore FTA, the Japan-Singapore Economic Partnership, the Singapore-India Comprehensive Economic Cooperation Agreement and the EFTA¹⁴-Singapore FTA. Additionally, Singapore has concluded or is negotiating the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP)¹⁵ and the EU-Singapore FTA. This means that a country about the size of Chicago and with a population of 0.075% of the world total has been able to successfully negotiate, in fairly equal grounds, trade and investment deals with the worlds heavyweights (see Fig. 2). Let’s not forget either that, even when the future of the TPP is uncertain today, this mega agreement was born out of the renewal of the P4, an FTA between Brunei, New Zealand, Chile and Singapore. More interestingly, FTAs are generally

¹² International Investment Agreements. Investmentpolicyhub.unctad.org. Retrieved from <http://investmentpolicyhub.unctad.org/IIA/AdvancedSearchBITResults>

¹³ Free Trade Agreement

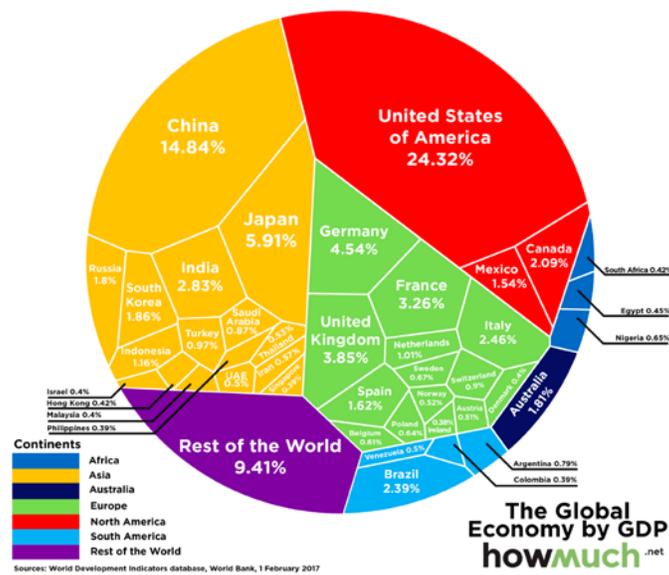
¹⁴ European Free Trade Association

¹⁵ *The Regional Comprehensive Economic Partnership (RCEP) is composed of the 10 member states of the ASEAN and six states with which ASEAN has existing free trade agreements. Jozuka, E. (2017). TPP vs RCEP? Trade deals explained. CNN. Retrieved from <http://www.cnn.com/2017/01/24/asia/tpp-rcep-nafta-explained/>. The RCEP is also one of the three mega treaties creating ripples around the world, the other two are the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP).*



negotiated in an effort to reduce barriers of entrance, which in Singapore’s case were pretty low to begin with. For a city-state without much traditional leverage, Singapore has been very creative when seating in the negotiation table.

Fig. 2 The largest economies in the world according to their GDP.¹⁶



3. Singapore, the regional ‘hub’

Singapore’s independence was coincidental with the start of the economic awakening of Asia. For the past five and a half decades the region has seen enviable economic growth that has been both consistent and robust¹⁷.

¹⁶ Grey, A. (2017). The world’s 10 biggest economies in 2017. World Economic Forum. Retrieved from <https://www.weforum.org/agenda/2017/03/worlds-biggest-economies-in-2017/>

¹⁷ Asian Development Bank quoted in 50 Years of Asian Economic and Emissions Growth. (2017). Brink – The Edge of Risk. Retrieved from <http://www.brinknews.com/asia/50-years-of-asian-economic-and-emissions-growth/>

One may argue that absent these external circumstances Singapore's economic development would have been different. As a result of this 'awakening' the region has seen constant flows of goods, services, people and investments. Singapore's strategy has been to capture these flows, absorb them to some extent and serve as an originating point by becoming a hub in the region¹⁸.

a) Entrepôt trade and industrialization.

Singapore's port, while subjected to fierce competition, has been aggressively modernized and expanded until becoming one of the leading sea freight trans-shipment hubs¹⁹ in the world. Being the top transshipment hub, Singapore is connected to 600 ports in around 123 countries globally. Consequently, entrepôt²⁰ trade has been and continues to be one of the main economic activities in Singapore. By the time Singapore became independent, however, it was clear that entrepôt trade was already insufficient to sustain Singapore's economy and its growing population.

Consequently, Singapore has exploited its connectivity by becoming an export-oriented economy based on value-added manufacturing. This means that raw or partially manufactured

¹⁸ A hub is a strategically located place where goods, people, business and operations converge before being directed elsewhere

¹⁹ *Transshipment can be defined as the process of transferring containers from one cargo ship to another in order for containers to reach their final destination. This in turn provides more flexibility in terms of where a shipping container can be transported.* **Source: In Pictures: Top 5 Transshipment Hubs. (2015). Porttechnology.org. Retrieved from https://www.porttechnology.org/news/in_pictures_top_5_transshipment_hubs**

²⁰ *Entrepot trade refers to a trade in one centre for the goods of other countries. Merchandise can be imported and exported without paying import duties in entrepot trade. Because of favorable trade conditions, profit is possible in entrepot trade.* **Source: Entrepot Trade Law and Legal Definition | USLegal, Inc.. Definitions.uslegal.com. Retrieved from <https://definitions.uslegal.com/e/entrepot-trade/>**

products come to Singapore and after being processed in the country, Singapore exports value-added products elsewhere. This is to a great extent achieved thanks to the country vast network of free trade agreements already mentioned. In this way, Singapore, while recognizing the importance of the entrepôt trade and investing accordingly, worked to lose its dependency of this kind of trade through industrialization.

In 1961 Singapore's Economic Development Board (EDB) was created to lead Singapore's industrialization. A year later construction of the first industrial park, Jurong Industrial Estate, started. In 1968, three years after becoming operational, there were already 153 factories fully functioning in Jurong, while 46 were being constructed and set up. However, Jurong was just the beginning, parks of this nature can now be found throughout Singapore.

More than focusing in developing one sector or industry in particular, the Economic Development Board has addressed the industrialization of Singapore as a means to an end, not the end itself. In the 1960's and the 1970's Singapore attracted labour intensive industries and provided ready-built standard factories to facilitate speedy set-up for the companies²¹. The key elements of this stage of industrialization was to eradicate unemployment and attract foreign investment.

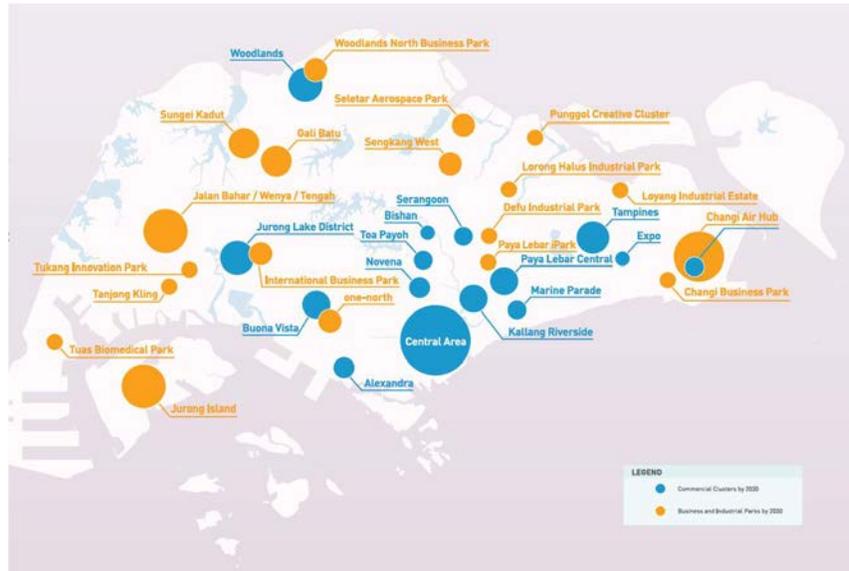
During the 80' the EDB strategy shifted from labour intensive industries to develop Singapore into a modern industrial economy based on science, technology, skills and knowledge²². Finally, in the last two decades, the focus has once more shifted this time towards increasingly sophisticated industries with emphasis in R&D, ICT, and other innovation activities²³

²¹ Kaushik, D. (2012). Evolution of Industrial Landscape in Singapore. Lecture, 48th ISOCARP Congress 2012.

²² Ibid.

²³ Ibid

Fig. 3 Commercial and industrial clusters in Singapore by 2030



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b) A business hub and investment destination

Singapore industrialization was achieved in great measure by attracting massive flows of foreign investment. However, competition for foreign investment in the region has also been fierce. Fig. 4 below shows the evolution of direct investment flows in the East Asia & Pacific Region²⁵ while Fig. 5 shows how Singapore has fared compared to its closest competitors in the region.

²⁴ Ura.gov.sg. Retrieved from <https://www.ura.gov.sg/uol/master-plan/View-Master-Plan/master-plan-2014/master-plan/Key-focuses/economy/Economy>

²⁵ American Samoa, Australia, Brunei Darussalam, Cambodia, China, Fiji, French Polynesia, Guam, Hong Kong, Indonesia, Japan, Kiribati, Democratic People's Republic of Korea, Republic of Korea, LAO PDR, Macao, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, New Zealand, Northern Mariana Islands, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu and Vietnam.

Fig. 5 Foreign direct investment, net inflows (BoP, current US\$)²⁶

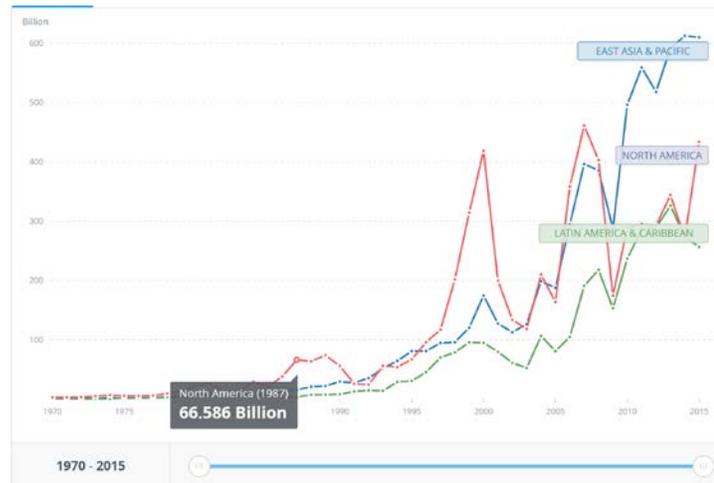
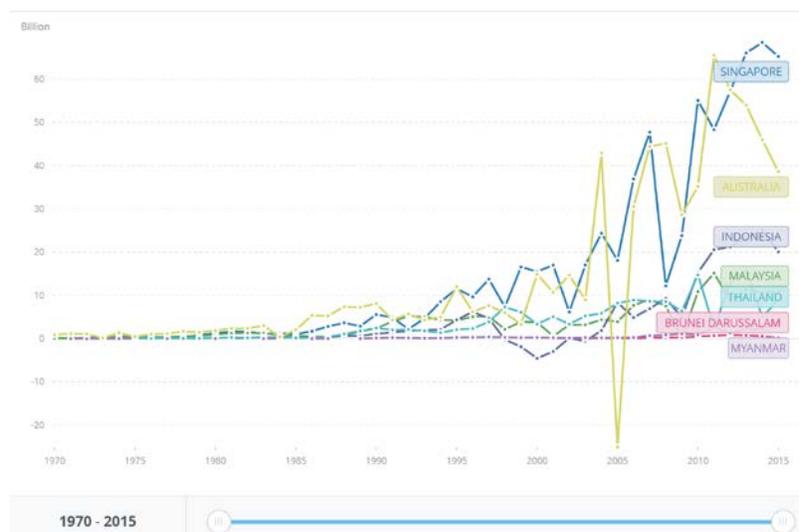


Fig. 6 Foreign direct investment, net inflows (BoP, current US\$) for Singapore, Australia, Indonesia, Malaysia, Thailand, Brunei Darussalam and Myanmar.²⁷



²⁶ Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. Data are in current U.S. dollars. **Source:** Foreign direct investment, net inflows (BoP, current US\$) | Data. Data.worldbank.org. Retrieved from http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?contextual=default&end=2015&locations=Z4-ZJ-XU&start=1970&view=chart&year_low_desc=false

²⁷ Ibid

It can be seen that Singapore has been winning the race for foreign capital, but how is that a city-state became a prime investment destination in the region? The short answer is because Singapore's policies has been crafted, and more importantly enforced, with investors "well-being" in mind.

When a person or company thinks about investing in a foreign country two risk are taken into account: the economic risk and the political risk. The political risk can be measured in terms of the political stability of a country, their willingness to honour their contracts and debts and to maintain a hospitable climate for outside investment. In fact, in a recent survey performed by the World Bank investors reported giving top priority to the following elements when assessing an investment target **(i)** a legal framework defining investors' rights and obligations and **(ii)** payment discipline and enforcement. On the other hand, the economic risk involves, for example, the country's ability to pay back its debts²⁸. Logically a country with a strong economy and financially healthy should provide more reliable investments than a country with weaker finances or an unsound economy. However, investors generally prefer to deal with economic risks because political risks carry to much unpredictability and arbitrariness.

The focus of the PAP has been to address the political risk by focusing in creating a small and efficient government based in meritocracy. Without ignoring some concerns about freedom of speech in the country, the fact remains that the PAP has remained in power for so long because it has deliver on its promises to Singaporeans. Furthermore, this is a government that embraces all foreigners, their cultures and beliefs, provided that they come to Singapore to

²⁸ Lamech, R. and Saeed, K. (2003). What international investors look for when investing in developing countries. Washington, D.C.: World Bank Group, Energy and Mining Sector Board.

contribute and that they are respectful of others. In fact, this is one of the pillars of Singapore's society: respect.

Remaining in power for so long allowed the PAP the "luxury" to plan and execute their economic and social policies in accordance with the country's needs and the surrounding circumstances.

Conclusions

Singapore's success responds to a unique mix of internal and external circumstances that bloomed thanks to brilliant leadership and a pragmatic and hardworking population. As such, it is hardly something that can be entirely reproduced elsewhere. However, many lessons can be learnt and applied from what Singaporeans have achieved. Especially now that calls for trade and investment protectionism are on the rise. If Singapore achieved what it did was, first and foremost, for embracing globalization and being open to trade, investments, technology and people. Without substantial land or natural resources they rapidly understood that their key asset was the people itself. Upon this knowledge, they built a country marked by meritocracy competitiveness and respect to each other, which extends to all areas of life, especially the government.