

Governance, leadership and economic growth in Singapore

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GOVERNANCE, LEADERSHIP

AND

ECONOMIC GROWTH IN SINGAPORE

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The collapse of imperialism and colonialism after the Second World War witnessed emergence of new nation states in Asia Africa and Latin America. These countries shared certain common structural features like centuries of colonial exploitation, lack of economic infrastructure, absence of stable political leadership, unequal social structure and above all extreme poverty and under developed market system. Thus the main objectives of this Afro –Asian countries after independence were to engage in a massive nation building process through effective socio economic policy framework. Some countries heralded a path towards capitalistic growth strategy where as countries like India followed mixed economic pattern oriented towards socialistic pattern of society. However lack of stable and effective administrative structure coupled with socio-political unrest seriously affected the growth prospects of these new nation states, which ultimately resulted in low GDP growth, under developed status, regional imbalance and prevalence of semi feudal social structure. Even though public expenditure was increased to build up development oriented, pro active administrative structure, in most of the countries these efforts ended up in mismanagement, corruption and authoritarianism. Hence the core concern for the post-colonial countries in Asia and Africa was to build up administrative capability and leadership without undermining the basic values of transparency, integrity and efficiency. Here lies the importance of Singapore as a classic example of effectively utilizing leadership and public management to attain economic growth with sustainability, equity and distributive justice.

Although Singapore inherited the same British model of governance as other Commonwealth states, its governing system has become widely known for efficiency and competence, especially in terms of its role in generating an "economic miracle." Economic growth has remained consistently high—at an average annual rate of 9.8 percent in the 1970s and 8.2 percent in the 1980s. Between 1988 and 1997, its Gross Domestic Product or GDP increased more than 2.5 times; between 1993 and 1997, it continued to rank very high in terms of its business-friendly environment; and by 1994, its per capita GDP (US\$20,000) surpassed that of Australia, Canada, and the UK. These state-led economic achievements make Singapore a good case for studying contemporary reforms in governance based on the principle of the rolling back of the state's economic

management¹. While most countries have adopted the above mentioned business oriented governance reforms due to the alleged inefficiency and mismanagement of the public sector, the Singapore government has introduced such reforms *despite* its efficient and well-managed public sector. Moreover, although many developing countries with heavy external debt have adopted privatization and deregulation, liberalized trade and investment, and restructured their state bureaucracy according to the principles of the "New Public Management" (NPM), often in response to conditions imposed by international aid agencies, Singapore is virtually free from external debt and thus free from such direct external pressure to adopt these reforms².

Against this context this article tries to explain the role of governance and leadership in administration which—fostered economic growth in Singapore. Singapore governance system has been consistently rated by Transparency International as one of the most politically transparent and least corrupt governments in the world, but is also often being criticized for excessive interference in social issues. The article highlights how rapid socio economic transformation and quality of life—was made possible through the ruling political party's [PAP] brave attempt to liberalize the economy and attract foreign capital through various measures. The pervasive role of government is visible in all aspects of economic life in Singapore making it classic example of the direct relationship between transparency and economic development.

Although Singapore labelled itself as a free-enterprise economy, the economic role of government was pervasive. As governing body for both the nation and the city, the government was responsible for planning and budgeting for everything from international finance to trash collection. The government owned controlled, regulated, or allocated land, labor, and capital resources. It set or influenced many of the prices on which private investors based business calculations and investment decisions. State intervention in the economy had a positive impact not only on private business profitability but also on the general welfare of the population. Beyond the jobs created in the private and public sectors, the government provided subsidized housing, education, and health and recreational services, as well as public transportation. The government also managed the bulk of savings for retirement through the Central Provident Fund and Post Office Savings Bank. It also decided annual wage increments and set minimum fringe benefits in the public and private sectors. State responsibility for workers' welfare won the government the support of the population, thus guaranteeing the political stability that encouraged private investment. In general, state intervention in the economy managed to be pro-business without being anti-labor, at least regarding material welfare³.

¹ Shamsul Haque, Governance and bureaucracy in Singapore: Contemporary Reforms and Implications, IPSR ,2004.

² Ibid

³ www.photius.com/countries/singapore/

Role of government since independence

Singapore is an island nation located at the southern tip of the Malay Peninsula. It is one of the few remaining city-states in the world and the smallest country in Southeast Asia. When the main island was colonized by the British East India Company in 1819 it contained a fishing village sparsely populated by indigenous Malays and Orang Lauts at the mouth of the Singapore River. The British used the position as a strategic trading outpost along the spice route. Occupied by the Japanese Empire during World War II, it reverted to British rule in 1945 and was later part of the merger which established Malaysia in 1963. Two years later it left the federation and became an independent republic on August 9 1965. The new republic was admitted to the United Nations on September 21 that same year⁴. Singapore followed a unicameral westminster model of governance like British system. Since independence political process in Singapore is dominated and determined by the People's Action Party[PAP] under the charismatic leadership of Lee Kuan Yew. In consequence, foreign political analysts and several opposition parties like the Workers' Party of Singapore, the Singapore Democratic Party (SDP) and the Singapore Democratic Alliance (SDA) have argued that Singapore is essentially a one-party state. Many analysts consider Singapore to be more of an illiberal or procedural democracy than a true democracy. The Economist Intelligence Unit lists Singapore as a country with a "hybrid" system comprised of democratic and authoritarian elements⁵.

There are certain factors which influenced the economic role government in Singapore. When Singapore attained independence in 1965 with complete statehood, the country has to face innumerable challlenges and hurdles. Singapore is a multi-ethnic society with Malay, Chinese and Indian population. Singapore faced enormous problems, including labor and social unrest, a decaying, war-ravaged infrastructure, inadequate housing and community facilities, a slow economic growth rate, low wages, and high unemployment made worse by a rapidly expanding population. The unemployment rate was estimated at 13.5 percent. The struggle for survival in this period deeply affected the economic decision making of Singapore's first generation leaders. After separation from Malaysia, Singapore lost its economic hinterland and jeopardized its hopes for an enlarged domestic market to absorb the goods produced by a small but growing manufacturing sector. Moreover, Indonesia's policy of Confrontation with Malaysia between 1963 and 1966 had substantially reduced Singapore's *entrepot* trade.

In 1968 Britain announced its intention to withdraw military forces from Singapore. Britain's departure meant the loss, directly or indirectly, of 38,000 jobs (20 percent of the work force) at a time of already rising unemployment and rapid population growth; a consequent reduction in the GDP; and an increase in Singapore's own budgetary defense allocation to compensate for the British withdrawal. Another factor which influenced Singapore in heralding a new and unique development path was lessons of India and other third world countries. Since Independence India followed a socialistic pattern of

⁴ www.wikipedia.org

⁵ ibid.

governance with predominant role of public sector. However the economy failed to make a balance between malfunctioning bureaucracy and development agenda. More over strict control over economy and closed door approach towards market economy substantially affected India's growth prospects in an international economy dominated by ideologies of free market liberalization. Hence Lee decided to follow a pragmatic, non ideological and specific approach towards economic development which is not conditioned by any of the existing dogmas on third world development. As Lee rightly remarked, "We learned from the failed policies of countries such as India, Pakistan, Ghana and Nigeria. Many new nations believed that the way to prosperity was state planning of the economy with socialist states being seen as models, he said. But the third world leaders who had demolished old regimes did not take into account that building a new order demanded different capabilities. So my strategy was to turn Singapore, a third world island, into a first-world oasis, by establishing up-to-date facilities in communications and transportation"⁶.

Lee gave economic viability as the top priority. So he designed an efficient and clean administrative structure to carry out the strategies. "To produce results, we had to shape the administration into an effective instrument of policy," he said. In order to have a clean and effective government, Lee argued that government requires complete accountability and open separateness between personal assets and public funds. Corruption he said had to be eradicated. As a leader, Lee said he learned to ignore political correctness when it did not accord with his own experience. In the 1960s and 70's, it was politically correct to be anti-American. He rejected this because the US had the "capital, technology, knowhow and markets." On the other hand, he said, it is a mistake to follow the idea that "democracy is the precondition for economic development." Western ideologies argued that without democracy, Russia could not develop a free market⁷.

The above observation from Lee makes it clear that Singapore's leadership and government made a strategic policy shift different from other post colonial economies towards export oriented- free market economy which is open but controlled and regulated by state apparatus. Since 1965, the PAP has presided over the formation of a so-called "developmental state" that typically places overwhelming emphasis on national economic development based on state ownership and economic control. In the unique context of Singapore, where the domestic private sector was relatively week, the state and its bureaucracy became the leading actor

to enhance economic growth, generate employment, foster industrialization, finance private investment, build infrastructure, deliver various services, and so on⁸.

In order to achieve these various developmental objectives, the government established a series of development-related institutions or enterprises owned, managed, or supervised

⁶ interview with Lee published in Harward news .For more details see www.ksg.harvard.edu/news/news/2000/lee kuan yew

⁷ interview with Lee published in Harward news .For more details see www.ksg.harvard.edu/news/news/2000/lee kuan yew

⁸ Shamsul Haque, Governance and bureaucracy in Singapore: Contemporary Reforms and Implications, IPSR ,2004

by the state. Examples of such state enterprises include the creation of the Housing and Development Board (HDB) in 1960, the Economic Development Board (EDB) in 1961, the Public Utilities Board (PUB) in 1963, the Port of Singapore Authority (PSA) in 1964, the Jurong Town Corporation (JTC) and Development Bank of Singapore (DBS) in 1968, and the Telecommunication Authority of Singapore (TAS) in 1974 In addition, the Singapore government created Temasek Holdings Ltd in 1974. This major institution has control over many government-linked companies (GLCs) that dominate the nation's corporate sector. It accounts for about 10 percent of Singapore's total output and 25 percent of local stock-market capitalization, and represents expansive government involvement in the national economy⁹.

During the 1960s the government focused on labour intensive industrialization, resulting in full employment in relatively low value-added factories. Emphasis after 1965 was on exporting to the world market. Labour shortages became evident in the 1970s. In order to control the need for foreign labour and increase the value of industrial production, the government began shifting manufacturing toward high technology, capital intensive industries, and high-value services for worldwide export. After a mild recession in the mid-1970s in which a "modest wage policy" was followed, a government report notes that in 1979 "the higher wage policy was resumed in an intensified effort to restructure the economy based on high value-added manufacturing and service activities."

The extensive reach of these institutions indicates the state's dynamic involvement in economic development under the PAP for more than four decades. In carrying out this development agenda, the government ensured the emergence of an efficient, technocratic, and managerial bureaucracy empowered to govern the market system, which represents another feature of Singapore's developmental state. Interestingly, it should be noted here that Singapore depended on a partnership between its economic bureaucracy and transnational corporations, rather than on its own private sector or domestic capital developing in competition with foreign corporations. According to some authors, this state-managed *developmentalism* has worked in favor of legitimizing the government's political power.

As a result of these state centric market oriented outwardly looking policies, Singapore became a first world country within few years. The period from 1965 to 1973 witnessed unprecedented economic growth for the island nation, during which the average annual growth of real GDP was 12.7 percent. Major credit for this development must be given to the effective implementation of soundly conceived government policies, which from the outset took full account of Singapore's strengths and weaknesses. Furthermore, the time was right for structural change in the economy. Enough capital had been accumulated to permit the domestic production of goods that were more capital intensive. The government's economic response to separation from Malaysia and the withdrawal of British military forces included efforts to increase industrial growth and solve the domestic problems of unemployment, population growth, and housing. Growth was achieved because workers were added to the payroll and provided with better machinery with which to work. Even more remarkable, this growth was accomplished with an outstanding record of price stability. Inflation was kept low by the government's

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⁹ ibid.

conservative fiscal policies, which included the maintenance of strict control over the money supply.

The upward wage policy launched the Second Industrial Revolution (SIR) aimed at discouraging labour-intensive industries in favour of brain industries. The government was characteristically direct. Prime Minister Lee concluded an analysis of Singapore's 1981 economic performance with the statement¹⁰: "All sectors of the economy have to mechanize, automate, computerize, and improve management; or relocate their factories." Speaking to Parliament, Minister of Trade and Industry, Goh the younger (distinguished from then Deputy Prime Minister, Dr. Goh Keng Swee, who served in the Cabinet since 1959), summarized government philosophy for the next twenty years:

Our job as a government is to set out our objective, direction, and modus operandi clearly and unequivocally and lead. The rest is up to Singaporeans to achieve and excel¹¹.

After the oil crisis government initiated a massive economic restructuring programme with emphasis on technology, computer education and human capital development. By 1990s Singapore was able to develop itself as a market leader in electronics, petrochemicals and international trade. Government diversified its strategy in 1990s promoting manufacturing and service sectors as two chief pillars of the economy. Hence government announced several incentives for these industries to increase productivity and economic growth.1990s witnessed the process of economic globalization world over. With the end of cold war and collapse of centrally planned economies in USSR and Eastern Europe, neo-liberal ideology based on free market economy internationalization of capital became the buzzword. Naturally other countries in Asia which followed socialistic or mixed economic pattern shifted towards deregulation, privatization and integration with world economy. China altered its policy towards market socialism and India liberalized its economy. This has resulted in emergence of these economies as potential competitors in Asian market. Since these countries enjoy vast man power potential, globalization provided rich dividends in terms of FDI in service sector. Singapore government realized the significance of these Asian giants in the region and accordingly designed pragmatic policies to further diversify and consolidate its economic capabilities. Another factor which affected the prospects of Singapore was Asian financial crisis. Even though the leadership was able to check adverse effects of the crisis, being an outward oriented economy, the regional crisis sent shock waves throughout the system. To overcome this Singapore government reduced business costs and provided new incentives to attract global investors. The labor market policies were also revised to make them more flexible and competitive.

Another area where government took keen interest and proactive role was to make Singapore part of international trading system through multilateral and bilateral trade

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¹⁰ Thomas.J.Bellows, *Bureaucracy and Development in Singapore*.

¹¹ ibid.

agreements. Singapore received the Most Favored Nation [MFN] status from all leading trading partners including US, Japan, Australia and India. When WTO was established as the international forum for facilitating and regulating trade among countries, Singapore took keen interest in WTO deliberations and strategically used the forum for its economic prosperity. Initially Singapore's trade policy was centered on multinational trading systems like GATT[General Agreement on Tariff and Treaty], WTO etc and regional trading blocs like ASEAN[Association of South East Asian Nations]. Bilateral trade agreement was not a major policy priority for the country till mid-1990s. However the second half of 1990 witnessed a major policy shift towards Free Trade Agreements [FTAs] with other countries and regional- sub regional associations. Since then Singapore initiated FTAs with New Zealand, Australia, Japan, EFTA, India etc. There are mainly two reasons for this policy shift towards bilateral trade. Firstly, Asian Financial Crisis had largely undermined the significance of the region as a whole and led to substantial decline in FDI flow. Foreign Direct Investment to ASEAN witnessed a sharp decline from 21.5 Billion US Dollars in 1997 to 13.1Billion Dollars in 1999. Secondly, 90s witnessed the rise India and China as leading Asian players in international trade. Naturally Singapore realized the necessity of more open trade policy coupled with closer economic ties with other countries. With free trade as its only option, Singapore is more open and flexible in signing free trade agreements with potential partners. Supportive of global free trade, multilateralism, and WTO, it is realistically active in regional trade agreements, from ASEAN, and APEC to Asia-Europe Meeting and Forum on East Asia-Latin American Economic co-operation [FEALAC] to being a first mover in bilateral free trade agreements.

As a result of these pragmatic measures, Singapore economy withstood all crises- both external and internal. Since mid-2003, Singapore's economy has recovered rapidly due to a favorable external environment, supportive macroeconomic policies, and continued structural reforms. The latest report on economy recently released by Government of Singapore shows that growth picked up pace in the second quarter of 2007, with GDP expanding by 8.6 per cent year-on-year following 6.4 per cent in the previous quarter. Growth on a seasonally-adjusted quarter-on-quarter annualized basis increased to 14 per cent from 8.8 per cent in the first quarter. Overall, the Singapore economy grew by 7.6 per cent in the first half of 2007. Growth has become more broad-based in the second quarter, with the financial services and construction sectors registering double-digit growth, and the manufacturing sector remaining healthy despite a slowdown in electronics. Financial services expanded by 17 per cent in the second quarter, up from 14 per cent growth in the first quarter. The banking cluster was supported by strong growth in both the domestic segment and offshore Asian Dollar Market, with loans to non-bank customers rising by 10 per cent¹².

Singapore's economy is vibrant, competitive, and innovative. It is a mixed economy with government providing most of the infrastructure and exercising much control over the pace and direction of development, no small feat in an economy so internationally dependent that its foreign trade is double its GNP. In dollar amounts, its exports nearly equal Taiwan and South Korea. The Singapore government moved from annual detailed

¹² www.todayonline.com/articles/204947.asp

planning to target setting shortly after independence in 1965 as the economy grew faster than government offices could plan. The former Foreign Minister calls it the world's first global city. Much of Singapore's economic and political success is because of the civil service. The editor of *Euromoney* describes Singapore as "the most governed of democratic states."This description can only be appreciated by recognizing the importance of the civil service. There is a pervasive notion of forward planning though no comprehensive five-year plan exists. The key to forward motion is seen as recruiting the most talented people as elected officials and as top civil servants.

Singapore's survival and economic take-off required far reaching government programmes as well as creative and innovative private-sector efforts to provide the successes set into motion by government activities. Discipline, productivity, commitment, effort, specialization, hierarchy, order, and effective organizational chains-of-command are the most notable attributes of the country's post-1959 society.

Singapore Civil Service: An Overview

During the past three decades, government leaders have used the civil service as the key institution in Singapore's developmental strategy. This premier role is revealed partly in the rapid growth of the public service during the first fifteen years of PAP rule. Since independence, the PAP government depended on the civil service to build a state and create the conditions which would maintain it in power. The initial complementary roles of the higher civil service and government-political leadership eventually led to a near-synthesis in outlook and approach. The bureaucracy became largely responsible for drafting and promoting many of the government's policies and programmes and in the process enabled the ruling party to consolidate its position. Identifying Singapore as a meritocracy calls attention to its technocratic orientation. Technocracy, or government by technocrats, means that policy formulation in Singapore is by individuals with specialized skills obtained through advanced educational achievement, a minimal requirement being a university degree. Entry, promotion and tenure are based on educational qualifications and performance.

Notable feature of the government bureaucracy in Singapore has been the lack of corruption. Since its independence in 1959, Singapore has stood out in successfully combating the corruption within politics and administration, which it inherited from the colonial period. The first important step was the enactment of comprehensive anticorruption legislation in 1960, in the form of the Prevention of Corruption Act. The legislation has been made even more stringent and comprehensive through subsequent amendment. Under one of the amendments, a bribery offense can be committed even if no bribe was actually taken, so long as the intention to do so is proven. In addition, the policy of paying civil servants and employees adequately is the major force to combat corruption as it sought to reduce the temptation to take bribes or extort and embezzle money¹⁴.

¹³ http://sunzi1.lib.hku.hk/hkjo/view/50/5000233.pdf

¹⁴ http://www.dbj.go.jp/singapore/english/PDF/S21e-4.pdf

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Economic, social, and political development requires autonomy and creativity as well as an effective, interventionist government staffed by a highly qualified and dedicated civil service. Singapore has come closer to achieving this mix than most other Third World countries. There is much that other developing countries could adopt from the Singapore experience.

Rolling Back of State?

Although there have been some managerial changes in the state in Singapore, especially after globalization, its dominant role remains largely intact, especially since it was called upon to deal with the recent financial and economic crisis in Asia. It should be emphasized, however, that while the economic sphere of the developmental state has undergone some market-driven reforms, the political realm of the state has hardly changed in terms of shifting toward greater participation of opposition parties and civil society groups in policy decisions. As Singapore emerged as a developmental state, the public sector became the dominant player in most sectors of its national economy. It continued to expand as the government created the abovementioned state enterprises and government linked companies concerned with housing, electricity, water, the port, the airline, banking, telecommunication, manufacturing, media, transport, and so on .As an umbrella organization, Temasek Holdings has played a crucial role in managing and monitoring government investments (worth S\$70 billion) in state enterprises and other companies. The government's main justifications for such an active and interventionist role of the public sector have been to substitute for the weak private sector, ensure rapid industrialization, and maintain political and economic stability¹⁵.

But during the past two decades, this leading role of the public sector became less pronounced as the government began to allow local and foreign private firms to compete in sectors that had been traditionally reserved for state monopolies. Banking, insurance, power, health and other sectors are more open to foreign players. Irrespective of the precise scale of this change toward greater competition, it does represent a significant shift in the role of the traditionally dominant public sector. This is also evident in the government's statements that it is inclined to change public agencies from "first class regulators" to efficient "facilitators" of business activity. Although the public sector still remains quite dominant in Singapore, its role is now to support the private sector by creating an atmosphere conducive to business, in terms of favorable corporate tax rates, infrastructure facilities, trade rules, and business licenses.

Changing nature of state and governance has reflected in policy framework and implementation also. Thrust towards nationalization and strengthening of state apparatus has gave way to deregulation, privatization, corporatization, outsourcing, withdrawal of Subsidy and reduction in public spending. Government also initiates deregulating administrative laws and contracting out services to meet cost effectiveness. However, compared to the more substantial changes in favor of market forces in many countries, the policy shift in Singapore has been rather slow and piecemeal.

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¹⁵ Shamsul Haque, Governance and bureaucracy in Singapore: Contemporary Reforms and Implications, IPSR, 2004

Conclusion

With a multicultural population (77.8 per cent Chinese; 14 per cent Malays; 7.1 percent Indians; and the rest of the population, consisting of the Eurasians and others (Singapore Census of Population, 2000), the island-Republic of Singapore indeed needs a strong government. The Singapore Government does "provide the necessary infrastructure" with a "politically stable" and "conducive environment for the growth of business". Singapore's success is bolstered by the Government's continuous efforts in laying down the required support, and infrastructure¹⁶.

Singapore plays a leading role in changing the destiny of post colonial countries in Asian region, by heralding the unique success path of economic growth, industrial competitiveness coupled with political stability and transparency. Even though the country was constrained by geographical limitations and a vast natural resource base, the city- state was able to lay the foundations of economic prosperity and diversity through effective utilization of its entrepot status. When other Asian countries faced a chequered history of economic under development, political instability and social unrest, Singapore attempted a brave step towards liberalization, international trade and capitalistic growth strategy which ultimately made the country a 'brand' among other countries. Now Singapore serves as a regional headquarters for more than 3000 multinational companies and has world class financial and service sectors and above all a highly efficient physical infrastructure. The country consistently ranks high among 'most attractive countries for international business' and has achieved a per capita GDP level comparable to levels of developed western nations. According to the World Economic Forum's Global Competitiveness Report 2006-2007, Singapore edged out Japan, Hong Kong and Taiwan to be the most competitive Asian country, while coming in fifth in world rankings. The world's highest PC penetration among households, the well-networked broadband systems and the high-tech transport system- all symbolize Singapore's economic achievements.

Developmental and paternalistic state and political system has played a vital role in Singapore's economic success. Even though critics often repudiate the repressive and anti human policies of Singapore government and administration, one cannot deny the fact that Singapore has one of the most efficient and meritocratic administrative system based on service delivery and transparency. In the absence of a strong private sector, the state enjoyed considerable autonomy to pursue an interventionist, but effective, mode of economic management. Although the domestic private sector has recently become an active partner in economic development, the role of the state still remains crucial in Singapore.

¹⁶ Patrick Kim Cheg Low, Father Leadership:The Singapore Case Study, www.emeraldinsight.com/0025-1747.htm

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