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The Role of the Government in Singapore’s Industrialization

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Since the East Asian ‘miracle’ study (World Bank 1993a; see chapter 1 in this volume), there has been greater attention to the role of the state in nurturing international competitiveness. The East Asian economic performance has sharply contrasted with the generally poorer performance of other industrial and developing countries. Following Japan, the other East Asian newly-industrializing economies (NIEs) have implemented various kinds of industrial policy to transform predominantly agricultural or trading economies.

Singapore is a prime example where an interventionist state has directed an industrialization policy and strategy through various institutions to create a conducive environment with supporting hard and soft infrastructure. Despite the dominant role of its state-owned enterprises (SOEs) in industrial restructuring, the role of industrial policy in Singapore has been obscured because there is an equally heavy reliance on direct foreign investment (DFI) by multinational corporations (MNCs) for capital, expertise, technology and markets. The state creates the environment through incentives and market-supporting facilities, leaving the MNCs and DFI to invest (Low et al. 1993). For a highly export-oriented (EO), internationally competitive, small, open economy, Singapore has neither the resources nor the market base for a more ambitious industrial policy.

This chapter aims to review and assess the role of the state and the impact of its SOEs in various phases of Singapore’s industrialization. It is not meant to be either apologetic or celebratory about the dominance of the state and its SOEs, but rather to offer a critical analytical evaluation. The next section will provide a brief review of Singapore’s experience in state-led industrialization. As it moved from factor-induced industrialization, relying on its initial comparative advantages in terms of location and labour, the role of SOEs also changed to enhance national competitiveness in the global context and ‘anchor’ its regionalization policy (Low 1996), as evaluated in the next section. The prospects for the state and SOEs will then be discussed, given the privatization policy and overall reform of the state to make the private sector the main
engine of growth. The last section summarizes and concludes with some possible lessons for both Singapore and other developing countries.

Singapore's industrialization experience

Government-led industrialization

A distinction should be made between state intervention *per se* and an effective state (World Bank 1997c: 1). It is crucial to match a state’s role to its *capability*, defined as the ability to undertake and promote collective action efficiently. The range of mechanisms available to raise state capability by invigorating public institutions includes rules, restraints, voice, partnership with the private sector and competitive pressures.

Singapore has topped Hong Kong, New Zealand and the USA in one competitiveness index (IMD 1996) and was acknowledged second to the US in another (WEF 1996). It is characterized by a highly effective government, sound financial structure and good management performance.¹ ‘Japan Incorporated’, or close business–government collaboration, is said to explain Japanese growth since the Meiji Restoration. Japan is said, by some, not to be a truly capitalist country because it has a guided marketplace. Its ‘feudal’ bureaucrats set rules, including those which keep foreigners at bay (McMillan 1996: 53). In contrast, Singapore steadfastly embraced DFI and MNCs because of its minute size which, it is said, requires it to be open.

Whereas it became fashionable to roll back the state and privatize SOEs in the 1980s, the mid-1990s saw the return of the state, or at least some renewed legitimacy for it. With growing recognition of the East Asian ‘miracle’, the state was more explicitly recognized as a positive growth agent (Applebaum and Henderson 1992, Campos and Root 1996, Root 1996; World Bank 1996b, 1997c).² For many, the breakthrough came with the World Bank’s endorsement of a ‘market-friendly strategy for development’ involving, if not led by, the state (World Bank 1991; Rajam and Low 1996).³

Singapore’s industrialization: the 1960s–1980s

Public enterprises in Singapore have long played a key role in the economy’s growth and development. Singapore can also be counted as one of the most successful cases of government intervention. Public enterprises were part of the official response to the crises Singapore faced in the 1960s and have since greatly facilitated industrial development and restructuring. Singapore attained self-government from the British in 1959, joined Malaysia in 1963 and was left to become a sovereign state in 1965. It suffered Indonesia’s opposition to Malaysia and the resulting confrontation which cut entrepôt trade. The sterling devaluation of 1967 precipitated Britain’s withdrawal of military forces east of Suez in 1968; the consequence was a further loss of some 20 per cent of both gross domestic product (GDP) and employment, as well as resources needed to build its defence capabilities virtually from scratch.