



Citizen-Centered Approaches  
to State and Market



# Singapore: From Third World to First

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## I. Introduction

In the 25 years that Lee Kwan Yew led Singapore, the city state was transformed from a tiny colonial outpost into a thriving, global economic center. Per capita GNP has risen from US\$920 in 1965 to US\$23,300 in 2000. The literacy rate has risen from 72% in 1970 to over 92%. The number of people living in owner-occupied housing rose from 9% of the population in 1970 to 90% by 1990. Singapore's government and public sector are regarded as one of the most efficient and cleanest in the world. Its infrastructure facilities are world-class. All these factors combined contribute to Singapore being ranked amongst the top in terms of global competitiveness and development. Singaporean public sector is considered clean, meritocratic, efficient, and well-structured despite the fact it does not rank highly on democratic participation indices.

## II. Background

Founded as a British trading colony in 1819, Singapore remained a British colony until 1963 (aside from a period of Japanese occupation during WWII). In keeping with its historical roots as a merchant crossroads, Singapore has an ethnically diverse population made up of Chinese, Malays, Indians, Caucasians and Eurasians (as well as other mixed groups) and Asians of different origins. In 1959, on winning the election the socialist People's Action Party (PAP) instigated self-government within the British Empire. In 1963, PAP called a referendum in which the country voted to leave British control and join the new Malaysian Federation. Unification was a lifelong dream of PAP leader Lee Kuan Yew. This dream would however be short lived; independence was imposed (a unique case for the modern world) when in 1965 Singapore was expelled from the Federation following the violence of the 1964 race riots.

## III. State Transformation

The newly sovereign Singapore was an underdeveloped colonial outpost. It had no natural resources, and even after independence, British naval bases on the island provided one fifth of GDP. Unemployment was high, leading to crime and ethnic violence, and large swathes of the population lived in extremely poor housing, often overcrowded and lacking sanitation. Corruption and crime ran rampant in these conditions. Ethnic tensions ran high. However, a series of measures were put in place to transform the state into a prosperous, functional international entrepot. These included:

- i) **Security.** Security was a pressing need and Singapore rapidly developed a military capability to stave off external threats. The country also needed to rapidly create internal stability amongst a discontented and fragmented populous. Singapore had previously been understood as a crossroads, a multi-cultural trading post, but it needed a national identity. The government worked on the assumption that internal stability, civil obedience, order and rule of law would come about through improved conditions. The catalysts of this cohesion would be a common language, job creation, and housing and savings through a market-driven transformation. The government was of the opinion that providing people with jobs was the most effective way of bringing about political and social stability. This attitude highlights the broad and fundamental consideration of the PAP leadership that stability and security at both macro and micro levels was the primary concern if viable bedrock was to be created on which a state could be built.
- ii) **Accountability.** From the onset, the PAP leadership targeted corruption as core problem. To earn the support of the people and to rapidly establish an overall environment in which any level of corruption was not tolerated, PAP attacked corruption top-down. The Corrupt Practices Investigation Bureau (CPIB) instilled stiff penalties for corruption and incentives to be corrupt

were lessened by the high salaries paid to civil servants. Lee also brought the CPIB within the Prime Minister's Office (PMO) and the Bureau's director reported directly to him; making the CPIB wholly independent from the Singapore Police Force and other government agencies. In procurement terms, Singapore retained British practices as a way to standardize procurement processes. The Ministry of Finance sought to build a reputation that would open competition globally for the lowest bidder and value for money, with evaluation and approval decentralized and the due process becoming increasingly stringent for higher-value purchases. Singapore decided to utilize modern information systems technology developed by the West, such as electronic platforms to minimize cash transactions between citizens and government. This also led to fewer occurrences of corrupt informalities and made for better monitoring of cash flows.

- iii) **Human capacity.** At independence Singapore had a low-skilled and low-cost workforce but sought to develop the skills it needed to compete within the region and globally. In partnership with various multinational companies, including Philips of the Netherlands, Rollei of Germany, Tata of India and Seiko and Yokogawa Electric of Japan, the government set up Industrial Training Centers, in which young people were taught, for example, precision engineering and the use of machine tools. In schools, the focus was on science and mathematics. Singapore also sent its brightest students to elite universities in the West. Ngiam Tong Dow emphasized that “the economic imperative was the driving force of [Singapore's] education policies” for the thirty years after independence. The highly industrialized nature of the economy today certainly suggests that these policies achieved their aims.
- iv) **Housing.** In 1960, due to a rapidly increasing population, more than 400,000 people were living in over-crowded conditions in ramshackle “chophouse” buildings or in squatters with substandard living conditions. Through the Housing & Development Board, the government began what would become a massive construction project to provide new accommodation for the large numbers of Singaporeans either homeless or living in slums. In the first two years of the program, over 25,000 housing units were built, more than in the entire previous decade. The project in turn created hundreds of construction jobs and developed a world class construction industry (see market-building below). The combination of employment and improved housing worked to create stability as basic needs were fulfilled. Another important factor was the decision to use private contractors rather than employing construction workers directly. This allowed the HDB to supervise the contractors to ensure standards, and keep costs low by using a large pool of contractors and different sources of building materials.
- v) **Citizenship.** Prior to the creation of a sovereign state there was no specific Singaporean identity. After the creation of the state forced by the 1964 riots, the new government moved aggressively to form a singular Singaporean identity. The government focused on centripetal policies such as language (culture), social and communal behavior (social), meritocracy (economic) to bind individuals to the state over and above other ethnic groups and alliances. The state also moved aggressively to shape activities: provide jobs, dictate norms of behavior, create savings, and direct spending towards communal goals. Policies carefully fed into each other at a tactical level in order for the communal whole to realize the goals of the PAP leadership. For example, the Central Provident Fund forced Singaporeans to save for retirement, allowing them to borrow against those savings in order to buy a home in Singapore, this fostered a commitment to citizenship and was a valuable financial instrument for the country.
- vi) **Nation-building.** Management of ethnicity may have been the area where the most obvious changes have taken place in Singapore. What has remained constant has been a commitment to multiracialism: the four main “races”, the four main languages, and the four main religions receive equal treatment legally. But, until the 1980s, ethnic differences were by and large considered as meaningful in private life only; they were downplayed in the political, cultural or social spheres. The emphasis was on “nation building”, even if ethnicity was mentioned on

identity cards, and was supposed to guide students' choice of a second language of education, after English. English was made the national language to position Singaporeans conveniently for partaking in the global economy, and make it easier for students to study abroad and return with the relevant global knowledge.

#### IV. Market-Building

A cornerstone to the PAP success was a belief that economics would provide the major stabilizing force for their society. The Party chose to attend to the economic welfare of the population, believing that increasing individual prosperity -through jobs and in part through state enforced saving (which in turn funded housing and construction)- would mitigate ethnic and religious conflict. Three elements of the economic approach were critical to success:

- i) **Targeted Technical Assistance and Liberalization.** Following independence in 1965, Singapore began promoting an export-oriented developmental strategy. The PAP leadership sought advice from Dr. Albert Winsemius, a Dutch economist who had become the Chief Economic Advisor to the Singapore government in 1961. Winsemius advised that Singapore should look to attract more investment from abroad and improve its ties with the West so that it would have access to larger markets. A central tenet of the economic reform was 'economic voluntarism'- the concept that economic development would arise through the volitional direction of the people's activities- essentially enabling the market. This was achieved through a number of mechanisms working in concert: active statutory boards such as the Economic Development Board, through the mobilization of private savings via the formation of the compulsory Central Provident Fund (CPF); through important tax incentives, and through land- and town-planning.
- ii) **Consolidation of Labor Laws.** Stringent new labor laws ensured a disciplined and low-cost work force: the 1968 *Employment Act* abolished or reduced a number of social benefits linked to overtime pay and paid holidays while lengthening work time; and the 1968-revised *Industrial Relations Bill* established as management privilege the hiring, firing, promotion, internal transfer of employees, etc. The scope for industrial action was so restricted that strikes became *de facto* illegal and actually very infrequent; simultaneously, the only authorized trade unions switched to leisure activities, adult education and co-operative organization. Real hourly wages were lowered, or frozen at best, until well into the 1970s, when the new full-employment situation restored some of the employees' negotiating power, albeit on an individual basis. To further enable a conducive market environment, modern infrastructures for the airport, port, roads and communications networks were updated, built and vitalized.
- iii) **New Industry Focus- Finance and Construction.** Singapore moved into the banking industry to take advantage of the time difference it enjoyed between the closure of the US markets and the opening of the Swiss market. The Economic Development Board lifted foreign-exchange restrictions on currency transactions with the rest of the world, and repealed interest-withholding taxes on deposits from foreigners. Additionally, one of the biggest challenges facing the Singapore after independence was a major shortage of housing. A further issue was simmering racial tensions following the riots of 1964. The government saw an opportunity to deal with these problems simultaneously. As described above, the Housing and Development Board (HDB) was created to construct apartments with modern sanitation, electricity and piped water at affordable prices. Construction firms emphasized learning among their employees and helped form strategies for human resource development and information technology implementation.

#### V. Key Factors

A number of key factors underpinned the Singaporean transition. These included:

- i) **Authority and Leadership.** The Singaporean leadership dates back to the post-war period in the 1940s when a small group of students found each other in England. This group included the core team that would dominate Singaporean politics during the transition, including Lee Kuan Yew, Goh Keng Swee, Hon Sui Sen, S. Rajaratnam and Lim Kim San. The unity of the group and its personal history allowed it to work as a holistic unit without sacrificing operational ability, and to question long held beliefs and ideologies. In practice, this group performed as a management team with Lee serving as CEO. He understood the need to reduce the cost of decision-making in order to efficiency drive through the reforms necessary to transform society.
- ii) **Building Systems.** Singapore benefitted from the construction of durable but flexible institutions. During Lee's tenure, the Singapore government successively pushed through at least four radical directional changes- from labor-intensive import substitution, to labor-intensive, export-oriented manufacturing; to moving the entire economy up the value chain, and lastly, turning the focus sharply to infrastructure, human capital, and high technology. Implemented deftly, this strategy kept Singapore's economy growing. What is noteworthy is that, at each stage, the leadership sought the citizens' inputs, thus helping to strengthen the people's sense of identity with the vision set out by the leaders.
- iii) **Visioning.** The PAP leadership did not necessarily know how they were going to achieve their vision for Singapore, but they were great students of other countries and keenly aware of what they did not want to be, and what they did not want to happen to their society. Lee's comments on the damaging effects of welfare state in Hong Kong and the United Kingdom underpinned a determination to create a society that would work hard to achieve success.
- iv) **Management of the Regional and International Environment.** Lee didn't want certain types of conditional aid; and other things he did want (military support) were not forthcoming – at heart these decisions were about PAP retaining control of their direction. The refusal of aid with strings forced PAP into creative problem solving and in the process the creation of a pragmatic austerity that would serve the management team well over the following years. This set the tone for controlled and sustainable growth built on a solid foundation of fiscal discipline and recognition of internal capabilities and capacity. It also forced the country to develop an internal resilience capable of rapid step growth.
- v) **Utilizing Existing Assets.** The Singaporean leadership set a clear goal of where and what they wanted to be. At the same time, they borrowed heavily from existing institutional infrastructures such as the CPIB and judicial system. Whilst Singapore clearly had to change in order to develop a meaningful economic relationship with the West, and for internal stability, continuity was an important message. The symbolic gesture of maintaining the statute of Raffles sent a clear message that business would continue as usual, and that investments would be secure.
- vi) **Pragmatism of Values.** At independence, the PAP (which had been a traditional Leninist party to that time) abandoned communism and moved towards pragmatism. The new direction still maintained a focus on the individual but from a more pragmatic or paternalistic perspective. The leadership discovered other, non-Western, sources of thinking to serve modernization and development. Lee brought the concept of “Asian values” to the world of ideas – a vague concept, but a clear attempt to contest the universality of human rights, and to deride Western vices. While one can argue with the tenets of these beliefs, it was the ability of the leadership to ensure flexibility that allowed for progress to be made.

## VI. Conclusion

At the time of independence, Singapore was deeply corrupt and threatened by ethnic, economic and political problems that could have torn the country apart. Now, half a century later, the transformation of

the country is incredible, and Singapore seen as a pioneer of good governance and free-market reform both within Asia and around the world. The transition is not by any means complete- further progress will require continued attention to social and economic issues. Singapore does, however, hold some important lessons for other countries facing difficult transitional processes.