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Singapore: Growing Wealth, Poverty
Avoidance and Management

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Singapore is a very new nation, gaining political independence from British colonial government and subsequently separation from Malaysia in 1965. However, in the short forty-years as a city-state-nation, it has elevated itself from a declining trading post in the twilight of the British Empire to a first world, capital exporting economy. The nation's economic success is indubitable and globally recognized, giving this city-nation a voice in the global economy beyond its small size. It would be too easy to dismiss Singapore's economic success to its size; an entirely urban economy without the drag of a rural hinterland. Smallness has its disadvantages; for example, Singapore is completely devoid of natural resources, including land and population, and thus dependent on the global market for all its needs, from food to imported labor to the materials that are necessary to feed its complex capitalist economy.

Detractors may also dismiss Singapore's economic success on account of its authoritarian political regimes, particularly during the more than twenty years the first Prime Minister, Lee Kuan Yew. The People's Action Party (PAP), under Lee's leadership had ruthlessly suppressed dissent and opposition in the early days of its ascendancy to absolute political power. By the early 1970s, the Party had eliminated all effective political opposition and has since then governed without any opposition in parliament. It has also over the years, modified election rules and procedures which will practically ensure the return of the Party to power in the five-yearly general elections. Undoubtedly, the absolute hold on power contributes to the economic success, as the absence of oppositions shields the public service, enables the government ministries and bureaucracies to set long term plans and manage their implementations without intermittent disruptions caused by changes in government. However, one should note that during the early 1960s till the end of the 1970s, when political repression was most intense in Singapore, there were many authoritarian regimes in the Third World and economic failures far exceeded successes in these authoritarian regimes. Given the history of most authoritarian regimes in Asia and Africa, one might rightly argue that absolute political power had a greater tendency to lead to corruption and economic disaster than to economic success, as the case of Singapore, among a handful of other Asian nations. It is precisely this tendency of authoritarian regimes to failure that it is necessary to examine and explain Singapore's economic success in terms of the continuity and changes in policies the long-governing PAP had put in place since the inception of its rule.

Export Oriented Industrialization

The history of the political economy of Singapore's rapid industrialization has already been well documented (Rodan 1989, Tremewan 1994). Therefore, only a skeletal sketch of it is necessary here. Singapore did not embark on export-oriented industrialization until mid-1960s. In the late 1950s, the PAP leadership believed that an independent city-state economy would not be viable. They hoped to build on 'import-substitution' industrialization in an enlarged market with its membership in Malaysia in 1963. Membership was short-lived. It separated from Malaysia in 1965, where upon the leaders immediately recast their economic orientation towards export-oriented industrialization, declaring itself a 'global city' where the world is its hinterland and market.¹ Export-oriented industrialization, a process pioneered by Japan in its transformation from an economy devastated by war to the second largest economy of

¹ Rajaratnam (2006), 'Singapore: Global City'.

the world, had been adopted by all the successful East Asian newly industrializing economies, namely, Hong Kong, South Korea, Taiwan and Singapore.

These East Asian locations entered the export-oriented industrialization at a propitious time when the manufacturing enterprises from developed economies of the West and Japan moved low-end manufacturing to low-production cost/cheap labor locations abroad to escape high labor costs at home. Significantly, at the time, three of the largest pools of surplus labor in Asia were unavailable for capitalist exploitation: the People's Republic of China (PRC) was simply not interested in capitalism; India was engaged in its own form of 'socialism' based on state enterprises and import substitution and, Indonesia was caught up in political turmoil of the 1965 coup-and-massacre, and by the 1970s it had come into oil wealth. The result was that Singapore, along with Hong Kong, Taiwan and South Korea, had very little competition for foreign investments from the mid 1960s till the early 1980s. Had any of these locations come into the market for foreign investments at the same time or later than the PRC in the early 1980s, its ability to attract foreign investment would have been seriously in doubt. As it is by the 1980s, industrialization was well on its way in the newly industrializing economies. Singapore had been able to capitalize on the momentum and keeps transforming its economy in pace with the speed of globalization of capitalism. (Figure 1) By the beginning of the 21st century, the major export sectors of the economy are: petrochemicals, pharmaceuticals, electronics, transport and logistics and financial services. Singapore has also become a capital exporting economy. Its public and private sectors invest globally, with an increasingly complex portfolio of equities, properties and industries.

The Primacy of Employment

In addition to adopting a trial and tested model of industrialization at the right time, undoubtedly, political leadership had a significant role to Singapore's economic success. The leadership and the political system it built were most significant in the management of domestic conditions that favors capitalist investments and economic growth: pacification of domestic politics, job creation and expansion of standard of living and improved material life for the population. One of the obstacles to economic development in the 1950s was a restive labor movement, in part fanned by the PAP itself, in its fight for decolonization. Upon assuming legislative power in 1959, when Singapore was granted domestic self-government, Lee Kuan Yew and his English-educated colleagues began to marginalize the Party's left-wing members, culminating in the political detention without trial of several of the latter who were union leaders in 1963.² The left-wing of the Party was eventually purged.

The government set up its own pliant unions under the umbrella of the National Trades Union Congress (NTUC) in 1964. Since then, the Secretary General of the NTUC has always been concurrently a PAP member of parliament; beginning in the 1980s, the Secretary General was also made a cabinet minister. The close relations between the NTUC and the PAP are dubbed as a binding 'symbiotic' relation of mutual benefits; any elected leader of an NTUC affiliated union who joins another political party is deemed to have 'violated' this relation and is compelled to resign from the elected post. That the 'symbiotic' relations is an unequal one is without doubt: According to Lee Kuan Yew, 'Political leaders must triumph (over unions), if necessary, by changing the ground rules

² In February, a raid code named Operation Cold Store detained more than 100 radicals (Clutterback 1984: 158).

to thwart the challenge (by unions), using legislative and administrative powers, and, when necessary, backed by the mandate of the electorate' (quoted in Wong, 1983:265).

In 1968, labor legislations were amended to prohibit strikes and lock-outs, while compulsory conciliation and arbitration were instituted. The collective bargaining role of unions was reduced, in 1972, with the establishment of a tripartite –government, employer and labor- National Wage Council which recommends annual wage increase guidelines which are largely followed by employers and unions. In 1982, legislation further emphasized co-operative industrial relations by defining union activities as promoting 'good' industrial relations, improving work conditions and helping to increase productivity. In 1984, legislation gave the employer greater discretion in scheduling of work, and in hiring and firing. With these strings of legislations that direct industrial relations away from labor-employer confrontation to one of 'mutual trust and cooperation' (Wong, 1983:267). An industrial 'peace' was established; there has not be a strike since the end of the 1960s. Foreign capital flowed in, generating and sustaining employment for labor. In the early phase of industrialization, the largely low-wage, low skill employment quickly mopped up the unemployed. Unemployment rate declined steadily from 8.3% in 1966 to 3.9% in mid-1970s and 3.5% in 1980 (Table 1) and to 2.7% in 1984 (Krause, Koh and Lee-Tsao 1987:190). The GNP grew from US\$643 million in 1959, the first year the PAP government took office, to US\$5,773 million in 1975 (Goh 1976:77). (Figure 2)

By the early 1980s, it became obvious that with the shortage of labor, Singapore could not possibly compete in the low wage low skill economic sector, with other developing countries with much larger populations. The government then actively transformed the hitherto labor intensive economy to one that is capital and skills intensive by radically increasing wages for three successive years, from 1979 to 1981. At the end of which wages went up by more than 40%. Low-end manufacturing industries, such as consumer electronics and textile, dependent on low-wage foreign workers had to either moved out into the neighboring countries or invested in higher technology, reducing labor input. The capital/labor ratio improved from 2.8 for the decade of 1970-1980, before the wage increased, to 3.7 in the following decade, and the value added per worker in manufacturing improved from 4% to 4.7% per annum, respectively. (Table 2)

In the early 1990s, the development of service sector, including international financial industries, was added to the mix. This was followed by the promotion of information-base, high technology industries by the mid 2000s, especially in bio-sciences and pharmaceuticals. (Table 3) In this successive series of explicit governmental interventions in selecting, aiding and abetting new industries, the economy kept expanding, with a brief recession in the mid 1980s, until the 1997 Asian Financial Crisis. For our purpose at hand, it is not necessary to deal in detail with the impact of the Crisis, only a brief summary of the consequences will suffice. The effects have been summarized in the following points:

"First, Singapore's exports to the crisis-hit economies were badly affected as a result of severely diminished regional demand, due in part to the collapse of their currencies".³ Although there were no speculative attacks on the Singapore dollar, nevertheless, it fell 18% against the US dollar from July 1997 to January 1998. However, it appreciated against the currencies of the other ASEAN countries which had fallen even more

³ Ngiam Kee Jin, 'Coping with the Asian Financial Crisis: the Singapore experience'. Singapore: Institute of Southeast Asia, Visiting Researchers Series No. 8 (2000).

precipitously. “As a result, Singapore’s nominal and real effective exchange rates were relatively stable both before and during the crisis”.⁴ (Figure 3)

“Second, Singapore’s export became less competitive against these economies in third-country markets”.⁵ In response, the government immediately adjusted the currency exchange rate to prevent erosion of competitiveness.

“Third, Singapore’s banks were weakened by their sizeable lending exposure to these countries. Fourth, the large outflow of Singapore’s investment to the region in the early 1990s, in response to the government-led regionalization drive, suffered a severe setback”.⁶

In addition, the stock market fell more than 60% in a fourteen month period from January 1997, and property market fell by 40% from first quarter of 1997 to fourth quarter 1998. Finally, the GDP fell from 8.9% in 1997 to 0.3% for 1998, which nevertheless remained ‘among the highest in Asia’ then.⁷

By mid 1998, the Singapore government moved to reduce business costs with tax rebates on property, rental and utilities by government agencies; speed up development projects, stabilize the property market by suspending land sales and deferring stamp duty on uncompleted properties, which “helped prevent more bankruptcies and an increase in non-performing loans”.⁸ Further cost cutting measures were undertaken at the end of 1998: wages were cut radically; in addition to a real wage cut of 5 to 8%, 10% cut on the employer’s monthly contribution to employee’s compulsory social security savings (see CPF below). Finally, a 10% rebate on corporate tax was provided for 1999. All these cost cuttings measures improved Singapore’s competitiveness, “unit business cost of the manufacturing sector [fell] sharply in the first nine months of 1999”.⁹

At the household level, rebates on conservancy charges and rentals were given to the 90% of the population who lived in public housing flats. For households whose income earners had become unemployed as a consequence of the Crisis, mortgage rescheduling, including suspension of payment if necessary. However, consistent with its long standing policy of not assisting income declines of individuals and families, only a minimum of targeted assistance distributed through voluntary welfare organizations were added to the general housing assistance. Fortunately for those who lost their employment, the Crisis was short lived. The economy recovered by second quarter of 1999 with more than 6% growth, reaching 7.1% in the fourth quarter; growth for the whole of 1999 was 5.4%. Unemployment rate hit a high of 4.5% in December 1998 dropped to 2.9% in December 1999.¹⁰

The PAP government never wavers from the determination in job creation. In the words of the first finance minister, Goh Keng Swee, the aim from the start was ‘to achieve a society where all citizens could have a decent living’, ‘to provide jobs for everybody who was willing and able to work’ and, ‘to give workers rising incomes and improved

⁴ Ngiam, p. 6.

⁵ Ngiam, p. 5.

⁶ Ngiam, p. 5.

⁷ Ngiam, p. 8.

⁸ Ngiam, p. 17.

⁹ Ngiam, p. 17.

¹⁰ Ngiam, p. 17.

standard of living over the years', through continuous and rapid economic growth (Goh 1976:81). As a consequence labor shortage that was first experienced in the mid 1970s has become a perennial condition.

In 2006, more than one in four of the population of 4.5 million people is a foreigner, of which, three quarters are temporary work permit holders on short-term, two-year renewable contracts in low end occupations, including female domestic services. In 2007, a record number of jobs were created; 172,400 by the third quarter and expected to reach 200,000, and more than 30,000 low-end service jobs remained unfilled by year end.¹¹ The unemployment rate stood at 1.5%, practically full employment.

There are two corollaries to the emphasis on job creation. First, the primary focus of government development strategies may be said to be wealth creation through employment. It consistently emphasizes the importance of human capital investment in engendering a productive and competitive labor force. The conventional strategy of investment in education is clearly stressed; primary and secondary education is practically free, tertiary education – polytechnics and universities – is heavily subsidized of up to three quarters of the operational costs of tertiary institutions. The education system is constantly repositioned “to the ‘needs’ of the economy, as education is perceived to be the key form of contribution to the developing of individuals’ productivity rates, which in return improves the country’s economic growth” (Chua 2006:217). Singapore’s use of education policy as human capital investment is not exceptional, except perhaps its economic single-mindedness.

Second, the series of strategic restructuring of the national economy over the years, coupled with the globalization of capitalism, have inevitably led to displacement and dislocations of the less-educated workers. In the face of this, the government, with the assistance of the NTUC, redoubles its effort to encourage, with generous monetary incentives, skills retraining for the lowly educated individuals/workers at risk of being left behind in low-wage employment or worse, unemployed by the migration of low-skilled jobs to other low-age economies. The displaced industrial workers are being retrained for the expanding service sector in which personalized services are needed, such as in retail and hospitality trades.

The drive to retraining is symptomatic of the Singapore government’s overall view that employment is the best means for alleviation of poverty persisted is constantly reinforced and. the government is equally tenacious in its anti-social welfare stance, specifically cash provisions for the needy. However, no amount of job retraining will erase unemployment of the older and lowly educated. Poverty remains an unavoidably product of capitalist economic development. Consequently, the PAP government has been, by force of circumstance, developing different poverty alleviation welfare program without apparently giving up its anti-welfarist ideology.

Anti-Welfarism

The PAP began as a social democratic party; the political leaders who inherited the Party after the purging of the left were mostly British university educated in the immediate post-war years and had been heavily influenced by the politics of the then British Labor Party. The leadership had strenuously defended its democratic socialist stance as late as 1976, when the Party faced being expelled from the Socialist

¹¹ Zuraidah Ibrahim, ‘Politics in numbers’, *Straits Times* 29 December 2007.

International.¹² Of the belief in economic socialism, Lee Kuan Yew remains categorical, ‘We believed in socialism, in fair shares for all’ (2000: 116). The ideal typical definition of social democratic welfare regime is where ‘all citizens are entitled to a wide range of universal and decommodifying benefits and services...granted as right and free people from the necessity to participate in the labor market by offering high levels of compensation in relation to market earnings’, with the aim of ‘to achieve a high degree of equality of both incomes and opportunities’ (Timonen 2003: 2).¹³ In spite of their declared belief in socialism, the redistributive implications of social democracy have been radically reformulated by the PAP government by the Party in subsequent years.

In the 1960s, Lee Kuan Yew visited Hong Kong regularly, ‘to study and to understand why Hong Kong people work with so much drive and vigor than the people of Singapore, and to learn something from them’:

Through Hong Kong watching, I concluded that state welfare and subsidies blunted the individual’s drive to succeed. I watched with amazement the ease with which Hong Kong workers adjusted their salaries upwards in boom times and downwards in recessions. I resolved to reverse course on the welfare policies which my Party had inherited or copied from British Labor Party policies. I scaled back on subsidies except where they made the person more productive through better education, better health and better housing’ (1997:6-7).

As he sees it, “The Singapore worker is not psychologically geared to be as independent-minded and resilient as the Hong Kong worker [who expected nothing from the colonial government]. Singapore worker votes for his Government and then expect his Ministers to take care of his livelihood and his children’s future”. He speculates, “Had there been party politics in Hong Kong competing for the right to form the government, economic and social interest groupings and trade unions would have emerged. Then pressures for redistribution of wealth and subsidies for welfare would have been irresistible” (1997:7).

The decision to scale back subsidies and redistribution was further reinforced by the economic and moral ‘crisis of the welfare state’ in Britain and Western Europe during the 1970s and 1980s. According to Lee Kuan Yew, ‘Watching the ever increasing costs of the welfare state in Britain and Sweden, we [the PAP government] decided to avoid this debilitating system. We noted by the 1970s that when governments undertook primary responsibility for the basic duties of the head of a family, the drive in people

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