

## INTRODUCTION

This article aims to highlight some of the important events in the history of Singapore's economic development. Hence, the details will not be elaborated in great length. It is hoped that after reading this article, readers will be able to have an overview of the economic development of Singapore since 1959.

## HISTORY

Written accounts of early history of Singapore are sketchy. Singapore was featured in various literatures of Java, China, Melaka, Siam (now Thailand) etc. in the 14th century.

In the early 19th century, Britain wanted to establish a trading station in the Far East. Singapore was subsequently identified as a suitable place. As a result, a trading post was set up in 1819. In 1824, Singapore's status as a British possession was formalised.

Self-government of Singapore by local people was attained in 1959. The first government was sworn in that year with Mr Lee Kuan Yew as its first Prime Minister. In 1963, Malaysia was formed consisted of the Federation of Malaya, Singapore, Sarawak and North Borneo (now Sabah). However, Singapore became an independent nation on 9 August 1965 subsequently.

On 28 November, 1990, a new chapter opened in Singapore's modern history. Mr Goh Chok Tong became the second Prime Minister, succeeding Mr Lee Kuan Yew who had held the post for 31 years.

## MODERNISATION

After attaining self-rule in 1959, the government was faced with the problems of widespread poverty, low level of education, rapid increase of its population, inadequate housing, poor health facilities and potentially explosive relationships among the various ethnic groups.

# ECONOMIC DEVELOPMENT OF SINGAPORE

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To tackle these problems, among other things, the government had adopted a two pronged approach for modernisation. They were, urbanisation and industrialisation.

In response to the problem of shortage in housing, a mass public housing programme was launched after the setting up of Housing Development Board (HDB) in 1960. By 1992, almost 87% of the population lived in the government housing. 81% of the population owned these public houses.

As for adopting industrialisation as the solution to tackling the problem of mass unemployment, the government recognised the dynamism of its internal and external environment would have had implications to its strategies. Consequently the government had taken the view that its programmes be continuously monitored and refined according to the changes in its environment. Such changes could be manifested by the different emphases placed upon the economy during the various stages of development. The evolution of Singapore's industrial policy can be divided into the following six stages.

Stage I (1959 - 1965): Labour Intensive Import-Substitution

Despite all the aforesaid difficulties, Singapore had two competitive advantages. They are, hard-working people, and strategic location. The government realised that the dominant economic activity of entrepot trade at that time had very limited scope for expansion. Hence, it

was decided that labour-intensive manufacturing was the answer to tackle the problem of mass unemployment.

The government set up Economic Development Board (EDB) in 1961. Its principal objectives were to identify investment opportunities, to help promote industries by assisting them with the acquisition of land and factory space in fully serviced industrial estates, to obtain long-term financing, etc. It was expected that EDB would facilitate the expansion of the manufacturing sector, create employment, increase industrial output and increase the growth of GDP.

However, the achievement of EDB was only modest. Despite of that, one must recognised the fact that this period saw the laying of foundations for success in the later stages.

Stage II (1966 - 1972): Labor-Intensive Export Orientation

Singapore's difficulties with the Federation of Malaysia was overwhelming, and resulted in "forced" independence on 9 August 1965 unexpectedly. This denied Singapore's right to use the Malaysia domestic market as its hinterland. In 1967, British government announced its plan to withdraw all its military troops from Singapore by 1971. Such announcement further dampened confidence of foreign investors and threatened the already bad unemployment situation. A recession could not be ruled out too. In response to these adversities, export orientation was actively encouraged by the

government, which organised trade missions, trade fairs, seminars and workshops. Export incentives were effaced. The government mapped out attractive strategies to attract Multi-National Corporations (MNCs) which are export oriented.

The government promoted better industrial relations by the enactment of The Employment Act (1968). The Act abolished some discriminatory practices, rationalised pay structures. The Industrial Relations (Amendment) Act of the same year also removed an important source of dispute between workers and management by putting promotion, demotion, transfer, termination, retrenchment, etc as management prerogatives. That is, non-bargainable. These two legislations had fundamentally changed the roles of trade unions henceforth.

In the same year, the government had included six officials of the National Trade Union Congress (NTUC) as parliamentary candidates in the general elections that year. In 1969, the Prime Minister convinced the trade unions to shed its role as "a combat organisation...for class war" and to accept the fact that interests of the nation shall prevail over self-interests. For the sake of higher productivity, greater efficiency and faster economic growth, tripartism involving the government, the employers and the workers was promoted.

Real GDP grew 13% per year from 1966 to 1973. Manufacturing risen from 16% to 22%. Direct export as a percentage of total sales in manufacturing expanded from 43% to 54% in 1973.

Stage III (1973 - 1978): Capital Intensive Export Promotion

With rapid economic expansion, Singapore had achieved full employment in the early 1970s. Labour became scarce. There was

a need to import labour. Singapore was beginning to lose its comparative advantages in producing labour-intensive goods as labour cost started to surge upwards.

Besides, workers' expectation for better pay was on the rise. However, better pay was not possible with low skill jobs in labour intensive industries. Hence, there was a need to refocus the economy from that of low skill, labour intensive to that of a higher skill, capital intensive, export oriented economy.

The first oil crises in 1973, followed by the world recession in 1974 - 1976 had hampered Singapore's attempt to refocus the economy. However, despite all these, its real GDP grew at 7.4% a year between 1974 and 1979. The inflow of foreign investment continued to grow especially during the latter part of the said period. This period also saw the increasing contribution for growth from the sectors of construction and financial services.

*Stage IV (1979 - 1984): Export Oriented, Capital-Intensive, High- Technology & High Value Added Industries*

In Singapore government's Economic Development Plan for the Eighties, as stated in the appendix to the 1980 Budget Speech, emphases were on diversification of: (a) its economic activities, into new information-based services, for example, computer, medical, consultancy & warehousing service, and (b) its markets, so as to reduce the threat of protectionism and expand its exports to other developing countries.

To phase out low-technology, labour-intensive industries, the government implemented "corrective" and "high" wage increases between 1980 and 1983, followed by market-determined wage increases. One casualty of such course of action was the closing down of car assembly plants of Ford and Mercedes-Benz

in Singapore. At the same time, EDB heightened its investment promotion efforts in the U.S., Japan and Europe relating to certain targeted industries. These industries involved were machine tools & machineries, specialty chemicals & pharmaceutical, electronic instrumentation, advance electronic components, hydraulic & pneumatic control systems, automotive components, computers, computer peripheral equipment & software development, medical & surgical apparatus & instruments, optical instruments & equipment (including photocopying machines), and precision engineering products.

The result achieved from these efforts was commendable. Between 1980 and 1984, net investment committed averaged S\$1.7 billion per annum. This was especially so in the high value-added industries such as printing and pharmaceuticals, electronics, machinery and computers. Real GDP grew at 8.5% per annum during the same period.

*Stage V (1985 - 1990): Retrenchment & Further Diversification*

Singapore real GDP growth rate was negative 1.6% in 1985 when it experienced a serious recession. Main reason identified was the structural problems for some industries, especially the oil - and marine - related industries, created by changed global demand. The other reason was the high business operating costs. Namely, high labour costs, high fees charged by government agencies, for example, electricity and the strong Singapore Dollar.

The changes in global demand was an external factor to Singapore and hence uncontrollable to a very large extent. The Singapore government recognising such a fact, had chosen to tackle the high costs of labour and fees charged by government agencies, but maintained the strong

exchange rate policy. Labour cost, among other things, was reduced by two years of wage restraint and cut in Central Provident Fund contributions. Fees charged by government departments and statutory boards were also reduced, eg. corporate tax, etc.

Diversification of the economy refers to diversifying the economic sectors, types of firms, investment locations and export markets. The government encouraged local small and medium-sized enterprises (SMEs) by giving assistance and incentives in the areas of finance, marketing and technology. Subsequently, such assistance and incentives were also extended to the services industries and the financial sector. In late 1980s, the government implemented the "growth triangle". Local SMEs and MNCs were encouraged to invest in Southern Malaysia and the Riau islands of Indonesia.

All these efforts bear fruits in 1986 when real GDP grew by 1.8%. Subsequently, between 1987 and 1990, near 10% growth rates were achieved yearly.

*Stage VI (1991 - Present): Internationalisation*

Growth thus far has been chiefly dependent on the inflow of foreign investment. However, due to the constraints of Singapore's small size, there is limited scope for further expansion despite of all the sound policies implemented and successes attained. With the government's vision of becoming a developed nation before the year 2000 and to be on par with Western Europe and the United States of America by the year 2020, there is a need to create an external wing for the economy. Hence, internationalisation is necessary. The government had taken the lead by participating in investment in Northern America, Europe, various regions of Asia, Australia, New Zealand, etc. in addition to those countries already invested in. The emphasis has been

countries around Singapore, namely, Vietnam, Thailand, Myanmar, Indonesia and India. The reasons for so much emphases being put on regionalisation are: physical proximity of these countries to Singapore, Singapore's familiarity with them, they are rapidly de-regulating their economies, they are now experiencing high growth rates, good match between their needs and Singapore's strengths, Singapore's good track record and reputation for integrity, good relations with all countries in the region.

Currently the government is using a general approach in encouraging internationalisation. There is no specific sectors where it is targeting. However, it can be seen that efforts seems to be put in areas where Singapore has competitive advantage, namely, designing, building and operating metropolises. A good example is the Suzhou Industrial Park in China.

## CONCLUSION

Organisation for Economic Cooperation & Development (OECD) has recently announced that it will classify Singapore a "developed nation" in 1996. This announcement was met with mixed responses. On one hand, Singaporeans can proudly admit that the country has "arrived" at the premier league with great pride and satisfaction. On the other hand, it means that Singapore will lose some of its privileges which have helped Singapore achieve what it has attained thus far. For example, the General System of Preference (GSP) accorded by the developed nations. But whatever it is, in order to maintain status quo and to prosper further, Singaporeans must continuously upgrade themselves, be alert of changes in both internal/external environment and capitalise on any opportunities that may arise ■