Forthcoming in Helen E S Nesadurai (ed.), *Globalisation and Economic Security in East Asia: Governance and Institutions*, London: Routledge, 2005, pp.85-106.

5 Institutional capacity and Singapore's developmental state

Managing economic (in)security in the global economy

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Introduction

To date, an overwhelming body of literature has been devoted to 'globalisation' – both as a contested set of discourses and as a transformative force in the global economy. Boyer (2000: 294) argues that the constantly used term 'globalisation' is

> not an innocent one, since it suggests that nation-states, firms and, even more so, individuals are powerless in the face of an implacable determinism, since it comes from somewhere else, outside the control of national politics. This opinion, widely accepted, even by those who are politically opposed to globalization, merits systematic criticism.

As a set of discourses, globalisation encapsulates certain political agenda, in particular neoliberalism, to create its own conditions of existence (Yeung, 1998a, 2000a, 2002a; Kelly, 1999). As a set of material processes, globalisation is constituted by intensified flows – tangible and intangible – across societies on a global scale. It is, however, beyond the scope of this chapter to review this huge body of literature (see Hirst and Thompson, 1996; Mittelman, 1996; Held *et al.*, 1999; Olds *et al.*, 1999; Berger and Huntington, 2002; Dicken, 2003; Peck and Yeung, 2003).

In this chapter, I want to emphasise one critical dimension of globalisation: its transformative nature, which both strengthens state *capacity* under certain historically and geographically specific conditions, and reduces state *control* through the globalisation of economic activities orchestrated by global firms and extra-territorial institutions (see Sassen, 2000; Rieger and Leibfried, 2003). As explained by Wallerstein (1999: 32), the state is indispensable to capitalists, 'for they need the state, the strong state, far more than their official rhetoric has ever admitted. . . . [C]apitalists depend on the intervention of the states in such a multitude of ways that any true weakening of state authority is disastrous'. This is an important point, because it has often been assumed in the ultra-globalist literature that globalisation represents a single and uni-directional socio-spatial logic towards the homogenisation of national economies and state governance.

This view, however, fails to recognise that the very logic of globalisation itself is highly contested in a reflexive manner by multiple actors (e.g. firms, states, civil organisations, international institutions and so on) at different spatial scales (e.g. local, regional, national and global). Thus, globalisation operates as a set of complex and conflicting tendencies, the outcomes of which – for instance, about the power of the state – often cannot be predicted a priori but must be investigated empirically. As argued by Mittelman (2000: 55), 'globalization does not sideline the state but, rather, conduces it to accommodate domestic policies to the pressures generated by transnational capital'. Globalisation may lead to the demise of one state; but it may also contribute to the rise of another. As a set of tendencies, globalisation has no inherent 'goodness' or 'badness' for its players: social groups, labour unions, firms, and state institutions. It depends on the transformative capacity of these players, some of which are clearly better positioned than others to benefit from globalisation tendencies (Kapstein, 2000).

This chapter presents an empirical case study of the complex interactions between a city-state in Southeast Asia – Singapore – and globalisation processes. Singapore's case is significant because many of its characteristics (e.g. small size, economic openness and heavy reliance on foreign investments) make it particularly vulnerable to the detrimental effects of globalisation (e.g. external dependence and economic shocks). Singapore's experience in the past four decades since it became a modern nation-state in 1965, however, has been one of enormous benefit from its participation in globalisation processes. How then do we explain this anomaly in the midst of the globalisation debate and the growing concern with economic security in a global era? I show in this chapter that the relative success of Singapore clearly has something to do with how the state and its domestic institutions are able to adapt and respond to globalisation processes. In managing its participation in the global economy and avoiding the potential pitfalls of economic globalisation, the Singapore state has carved out a unique developmental trajectory premised on the relentless search for global capital, the direct involvement of state institutions in economic activities and the championing of policy credibility and consistency. The state is conceptualised as a set of contested institutional structures and social practices that possess specific power and authority to effect changes and to achieve specific policy goals. To Mitchell (1991: 90), the state should not be taken as 'essentially an actor, with the coherence, agency, and subjectivity this term presumes'. Instead, the state should be viewed as a network of institutional mechanisms that internalises the state–society distinction and maintains the social and political order (see also Jessop, 1990; Weiss, 1998, 2003; Brenner *et al.*, 2003).

In the case of Singapore, I would argue that the policy effectiveness of these institutional mechanisms contributes significantly to the state's capacity in meeting the challenges of globalisation. More specifically, this chapter focuses on two market sectors (labour and finance) that the state in Singapore is capable of governing in order for Singapore to be articulated beneficially into the global economy. My objective here is to demonstrate that the various state institutions involved in labour market and financial market governance are highly adaptive to the dynamic challenges of globalisation. In engaging with global forces, the state in Singapore is being constantly reconstituted through institutional changes. As a caveat, however, this chapter tends to emphasise less the *external* activities of the Singapore state that may contribute to Singapore's enlarging political-economic spaces, such as regional economic strategies and favourable global trade regimes underwritten by the United States. Apart from examining the policy changes occurring within key domestic institutions in their regulation of the labour and financial markets, this chapter also focuses on the developmental outcomes of these institutional changes; that is, minimising economic insecurity in relation to globalisation tendencies. This focus on state capacity does not necessarily imply that the state's performance legitimacy is automatically self-evident and self-sustaining. The now increasingly uncertain global economy looms large over the critical issue of whether state capacity, though having underscored past success, can continue to sustain Singapore's competitive position in the future global economy. I consider some of these future challenges in the concluding section of this chapter.

This chapter is organised into three sections. The next section discusses the role of the Singapore state in managing post-war development in a globalising era. In the second section, I focus on the state's governance of the labour and financial markets that allows Singapore to benefit from globalisation processes. The section takes a historical approach and describes certain strategic policy changes occurring among key domestic institutions involved in governance of both these markets. The concluding section revisits the globalisation debate and draws some implications from this study for understanding economic security in today's global political economy.

Unpacking the developmental state in Singapore: institutional capacity and political legitimacy

To understand the role of the Singapore state in effecting domestic governance, it is important to define in clearer terms its institutional capacity, which allows it to be highly adaptive and strategic in harnessing globalisation tendencies. Here, I simply take Weiss's (1998: 5) definition of state capacity as 'the ability of policy-making authorities to pursue domestic adjustment strategies that, in cooperation with organized economic groups, update or transform the industrial economy'. It is a negotiated product of institutions governing domestic activities. Although this chapter is concerned with state capacity that gives the state certain strategic advantages to respond to and benefit from globalisation processes, it does not ignore the strong pressures imposed by globalisation processes on certain states that are relatively weaker in their institutional capacity. But given the overwhelming attention paid by the ultra-globalist literature to the demise of the state, revisiting the constitution of state capacity and its realisation in specific geographical contexts may illuminate better the complex interdependency and interactions between globalisation processes and states. Before I examine the role of the Singapore state in governing firms through labour and financial market regulation in the next section, it is useful to offer a brief overview of Singapore's articulation into the global economy and the formation of important domestic institutions that condition this articulation.

Singapore's post-war economic development

Singapore has grown from a British colonial entrepôt in the late nineteenth and early twentieth centuries to a modern city-state specialising in high-value-added manufacturing activities and international financial and business services (Régnier, 1991; Huff, 1994; Perry *et al.*, 1997; Low, 1998; Pereira, 2000; Yeung, 2002b). With its independence and changing global economic systems, Singapore was able to attract a huge influx of foreign investment that took advantage of Singapore's explicit policies towards export-oriented industrialisation. This reliance on foreign capital worked very well in the first two decades of Singapore's industrialisation and plugged Singapore into the so-called new international division of labour (Fröbel *et al.*, 1980). This strategy of courting foreign capital was perceived as 'essential in view of the weak domestic technological base and the long lead-time needed to transform domestic entrepôt traders and small-scale entrepreneurs into a dynamic industrial entrepreneurial class able to compete in the global market' (Chia, 1997: 32).

The 1970s and the 1980s witnessed a massive expansion of foreign direct investment (FDI) from the United States, Japan and European countries (Mirza, 1986; Huff, 1994; McKendrick *et al.*, 2000). Net foreign investment commitments in Singapore's manufacturing sector grew tremendously from S$88.6 million in 1963 to S$6.3 billion in 1999, representing a more than seventyfold increase over a period of three and a half decades (Department of Statistics, various years a). Cumulative FDI in Singapore reached S$196 billion in 2000 (http://www.singstat.gov.sg, accessed 15 October 2003). Throughout the 1980s and into the early 1990s, Singapore attracted over 10 per cent of all FDI received by destinations outside the OECD (Perry *et al.*, 1997: 15). In an assessment of the importance of foreign capital in Singapore's economy, Huff (1995: table 6) estimates that foreign investment contributed some 22 per cent and 26 per cent of the gross fixed capital formation (GFCF) during the 1970–1979 and 1980–1992 periods respectively. This ratio of foreign investment to GFCF is certainly one of the highest among the Asian newly industrialising economies (NIEs). In 1997, Singapore played host to some 16,190 foreign transnational corporations (TNCs), over 300 of which were in the manufacturing sector (Department of Statistics, 2000: xi).

Since the 1980s, there has been a qualitative shift in the nature of foreign investment in Singapore as the island economy grew from being an offshore manufacturing base to being a regional control and coordination centre. Perry *et al.* (1997: 15) observe two major influences behind this transformation in FDI activities. First, the emergence of a 'regional focus' in the corporate strategy of many TNCs has resulted in the decentralisation of an extended range of business functions to enable fuller exploitation of the Southeast Asian regional market than had previously been attempted. Second, the regional decentralisation of foreign investment to nearby countries was a response to increasing labour costs, and unavailability of land and other factors of production. Singapore is well positioned as the apex in the emerging regional division of labour by assuming a key role as a distribution, testing, design and administrative centre for production that is spatially dispersed among a new 'periphery' of lower-cost countries (e.g. Indonesia, Malaysia, Thailand and the Philippines). The state-sanctioned 'growth triangle' concept also gained increasingly currency because of its promise to expand significantly Singapore's regional economic space (Grundy-Warr *et al.*, 1999; Dent, 2002).

By the late 1980s, the Singapore state began to realise the limits of capital accumulation within Singapore and the need to expand its global reach in search of new sites for continuous capital accumulation (Yeung and Olds, 1998; Yeung, 1998b, 1999, 2002b; Pereira, 2003). Singapore faced increasing competition and rivalry with foreign capital because of the availability of more favourable investment locations in nearby countries. In short, global competition for investment had stepped up significantly by the late 1980s and the early 1990s (see Phelps and Raines, 2003). This anticipation of long-term limits to growth was later transformed into an official state policy for building an 'external wing' to Singapore's economy in the early 1990s. Singapore's regionalisation effort was officially launched in early 1993. Through it, both state-owned and private-sector enterprises were encouraged to regionalise their operations and invest in the Asian region and beyond. The state has not only created favourable conditions for this regionalisation effort, but also taken key initiatives to ensure its success. By the end of 2001, Singapore's total stock of foreign equity investment stood at S$257 billion, out of which S$131 billion was direct investment. China was the largest host country, accounting for 13 per cent of Singapore's direct investment abroad (http://www.singstat.gov.sg, accessed 25 August 2003). This relatively recent departure in Singapore's economic development strategies underscores the institutional capacity of the developmental state in steering the Singapore economy and domestic corporate activities.

Singapore's developmental state revisited

How do we explain the capacity of the state in Singapore to steer a pathway to economic development and to implement drastic restructuring policies that orient the city-state towards the global economy? To understand the formation of Singapore's developmental state, one has to unpack the political economy of its post-war development. Johnson (1982) and Wade (1990) have defined a developmental state as a state preoccupied with economic development through the establishment of elite economic bureaucracy to 'guide' the market (see also Woo-Cumings, 1999). A developmental state tends to engage numerous institutions for consultation and coordination with the private sector, and these consultations are an essential part of the process of policy formulation and implementation. While state bureaucrats 'rule', politicians 'reign'. The latter's function is not to make policy, but to create economic and political space for the bureaucracy to manoeuvre. They also act as a 'safety valve' by forcing the bureaucrats to respond to the needs of groups upon which the stability of the system rests; that is, to maintain the relative autonomy of the state while preserving political stability (Evans, 1995). In Singapore, this separation of 'ruling' and 'reigning' is accompanied by a form of 'soft authoritarianism' that maintains the needs of economic development vis-à-vis other claims and enjoys a virtual monopoly of political power in a single political party or institution over a long period of time (Mauzy and Milne, 2002).

To a certain extent, the rise of the developmental state in Singapore is influenced by immediate post-independence experience and subsequent political development. It has coincided with the ascent of the People's Action Party (PAP) to power and its enduring power in politics and government since independence. National economic development has become the primordial goal of the PAP government for the past forty years. The Singapore economy was very dependent on entrepôt trade for basic livelihood and employment under the British administration. Trade alone accounted for up to one-third of GDP at factor cost in 1957 (Rodan, 1989: 48) and 31 per cent of real GDP at 1968 prices in 1960. The development of manufacturing industries became the top priority of the newly elected PAP government in the immediate post-1959 period. Perry *et al.* (1997: 7) note that, as a consequence, 'the state gives much greater priority to transforming economic conditions than it does to changing aspects of the social order'.

The Singapore economy inherited by the PAP from the British administration was, however, weak in industrial bourgeoisie and lacked any significant manufacturing base. Indigenous entrepreneurship was not strong enough financially to shoulder the burden of industrialising Singapore. Moreover, the PAP-ruled state was suspicious of indigenous capitalists for fear of their pro-communist and pro-China attitudes (Régnier, 1993). The resource-deficient city-state subsequently chose to rely on foreign capital to accelerate economic growth in order to legitimise its political domination. In other words, the Singapore state realised the importance of harnessing global processes and orientating itself towards the global economy from the very beginning of its independence (Olds and Yeung, 2004). In his memoirs, the former prime minister Lee Kuan Yew (2000: 75) recalls that '[s]ince our neighbours were out to reduce their ties with us, we had to link up with the developed world – America, Europe and Japan – and attract their manufacturers to produce in Singapore and export their products to the developed countries'. The state has since been building up its institutional capacity to realise its developmental strategies, irrespective of the 'arrival' of globalisation processes. In doing so, the PAP state founded several important developmental institutions that have evolved over time to become an indispensable part of its state capacity.

In 1961, the Economic Development Board (EDB) of Singapore was established as a one-stop investment promotion agency to assist foreign firms in their operations in Singapore. Working closely with the Ministry of Trade and Industry, the EDB has since played a key role in shaping the Singapore economy through its efforts to solve the unemployment problem, promote investment, train manpower and develop the industrial sector (Low *et al.*, 1993; Pereira, 2000; Koh, 2002). The main concern of the EDB was and still is in attracting foreign (preferably global) firms to invest in Singapore. Generous incentive schemes were offered to foreign firms to compensate for the lack of competitive advantage in Singapore during its early phase of industrialisation (e.g. the Pioneer Industries Ordinance in 1959 and the Economic Expansion Incentives Act in 1967). The establishment of the Jurong

Town Corporation (JTC) in 1968 provided another institutional boost to the state's strategy of relying on foreign capital. The JTC was primarily responsible for the construction and management of industrial estates, the first of which was located in the Jurong area. These industrial estates were intended to provide low-cost production sites for foreign manufacturing firms. Since its establishment, the JTC has planned, developed and managed more than 6,000 hectares of industrial land, of which over two-thirds has remained under its ownership (Perry *et al.*, 1997: 158). It is also directly involved in the development of several high-tech clusters and science parks in Singapore (see Phillips and Yeung, 2003). Together, both statutory boards have worked well in attracting large inflows of foreign investment into Singapore throughout the past four decades.

Another key attribute of Singapore's developmental state is the close alliance of the PAP and the state bureaucracy (see also Haggard, 1999; Hamilton-Hart, 2000; Low, 2001). In a 1998 survey of PAP ministers, all 24 ministers and ministers of state had served the civil service and/or statutory boards except Lee Kuan Yew himself (former prime minister and senior minister and now minister mentor) and five others (*The Straits Times*, 26 April 1998). Since the first general election for a fully elected legislative assembly in 1959, the PAP has not lost to any single opposition party, thus ensuring a continuous domination of party ideology and preoccupation with economic development. There is a virtual monopoly of political power by the PAP in Singapore since its independence, and this has created a stable (albeit repressive) political environment and a significant space for a closer party–state alliance (Hill and Lian, 1995). To a certain extent, the PAP has become the state and has a significant role in 'guiding' developmental policies. The state bureaucracy, on the other hand, serves the general interests of Singapore exceptionally well by formulating development policies that enable the proliferation of foreign firms and state-owned enterprises. In particular, these development policies are situated in the context of labour market and financial market governance through which the institutional capacity of the Singapore state becomes most apparent.

Harnessing the global economy: the institutional regulation of labour and financial markets in Singapore

Other than creating appropriate institutions for promoting economic development (e.g. the EDB and JTC), the state employed other institutional measures to enhance Singapore's attractiveness to global capital. It did so in consultation with major TNCs. According to representatives of major TNCs interviewed by Dent (2003: 260), the transnational business community enjoys a 'symbiotic and consultative relationship' with the Singapore state. While these major TNCs 'do not directly shape the government's economic policies', they do offer feedback and comments that can be 'forthright, honest and brutal but non-political'. In this way, global executives are often invited by the state to 'sit around the strategic table to supplement the government's own thinking'. If these institutional measures and policy strategies make sense in the prevailing global economic conditions (and they often do), these executives will offer fine-tuning advice and ultimately endorsement. For example, Dent (2003) has examined how the EDB's International Advisory Council (IAC), first established in January 1995 and composed of fourteen top TNC executives, does not exert any discernible independent leverage over Singapore's economic policymakers, but rather offers minor suggestions on the state's pre-designed policy blueprints and strategies. In this sense, the state enjoys a significant degree of 'embedded autonomy' from domestic and international economic actors that allows the state to act decisively in accordance with changing global competitive dynamics. I now examine two key arenas in which the state harnesses the potential benefits of globalisation.

Labour market governance in an era of spatial flexibility

To begin, the rapid influx of foreign capital in the immediate post-independence era is largely explained by local labour market regulation in which labour movements were consciously suppressed and labour disciplined (Rodan, 1989; Huff, 1995, 1999; Yeung, 1999; Coe and Kelly, 2002; Sung, 2004). In a first move towards this goal, three labour organisations were brought together in late 1965 to ratify a 'Charter for Industrial Progress'. They were the National Trade Union Congress, the Singapore Manufacturers' Association and the Singapore Employers' Federation. Under this charter, 'all partners in the industrialization program, worker, employer, government, must pool their efforts and strive for a continuing increase in productivity and output in all enterprises' (quoted in Rodan, 1989: 91). The appeal of the charter was consistent with the ideological notions of self-sacrifice for the collective good and of economic problems being above class interests, both promulgated by Lee Kuan Yew's PAP. Through its political influence in the tripartite National Trade Union Congress (NTUC), which comprised representatives from the PAP government, labour and capital, the state was able to deny labour unions their traditional role as legitimate interest groups and to corporatise labour into the management needs of the state.[1]

The state further regulated the labour market by disciplining the labour force with the Trade Union (Amendment) Bill in 1966 and the Employment Act in 1968 and the Industrial Relations (Amendment) Act. These constitutional measures greatly weakened the scope for industrial action and marked the arrival of corporatism in Singapore. Rodan (1989: 93) observes that 'one thing was abundantly clear: militant trade unionism was finished in Singapore. Labor was now part of the corporate structure of the Singapore state'. These labour market regulations managed to achieve corporatist and non-militant labour relations, and resulted in the creation of a highly disciplined and depoliticised labour force in Singapore. They were deemed necessary because of Singapore's highly exposed economy and its lack of any natural resources (cf. other small states in Katzenstein, 1985).

Towards the mid-1970s, the low-cost export-oriented industrialisation strategy in Singapore faced increasing pressures from global competition because of contradictions in the labour market, where labour remained low in skill and productivity.

Their relative low wages also made it difficult to sustain Singapore's export-led industrialisation because of insufficient mass consumption. The state intervened in the labour market through the National Wage Council (NWC), which is a state-related institution established to determine collective wages at the national level through its annual wage recommendations. The function of the NWC in the early phase of Singapore's industrialisation was to keep wage rises in check. This function was no longer appropriate by the mid-1970s, when Singapore faced increasing pressure for industrial restructuring in order to meet low-cost competition from regional economies. In 1979, a 'corrective' wage policy – alternatively known as the 'Second Industrial Revolution' in Singapore – was recommended by the NWC on the basis of the belief that artificially low labour costs in previous years had distorted the real market value of Singapore's scarce labour and contributed to high dependence of the economy on labour-intensive production established by foreign firms. The NWC recommended considerable increases in wages. A Skills Development Fund was proposed to aid the upgrading of labour skills and financed by a levy imposed on employers. This dramatic departure from a low-cost industrialisation strategy towards aiming to become a higher-value-added manufacturing and business centre demonstrates the pragmatic ideology of the NWC and the state in charting Singapore's economic development towards a more knowledge- and skill-intensive economy.

This 'Second Industrial Revolution' in Singapore aimed at shaking out inefficient users of labour by raising wages to induce rationalisation of production, which could take several forms. Some labour-intensive foreign manufacturers subsequently relocated their production facilities to other low-cost countries (Rodan, 1989; Ho, 1993, 1994; Chiu *et al.*, 1997). Others moved up the technological ladder by upgrading their value-added activities and automating their operations in Singapore. During this restructuring process, workers were allowed to operate a third shift (i.e. twenty-four-hour manufacturing operations were instituted) to offset the high fixed costs that resulted from capitalisation. These round-the-clock manufacturing operations also implied that there was a need to maintain flexible production arrangements.

Another dimension of labour-market restructuring during the 1980s was the increasing participation of foreign workers in Singapore's labour force. Firms were more willing to employ foreign labour because such labourers were perceived to have more positive work attitudes (including willingness to work extra hours and night shifts), higher education levels and relative youth. Between 1975 and 1979, foreign labour constituted one-third of the growth in the workforce. Between 1980 and 1984, foreign workers accounted for more than half the workforce increase in Singapore.[2] The original position of the state in the late 1970s and early 1980s was to view foreign workers as a temporary measure. But by the late 1980s, this view was replaced by one that allowed for a carefully controlled intake. The state has thereafter developed foreign-worker policies that are more indirect, using the foreign-worker levy and quotas to constrain the growth in the number of foreign workers. The size of the levy and quotas not only differ for skilled and unskilled workers, but also vary between different industries. These foreign-worker policies, however, generally favour high-tech and high-value-added foreign firms in Singapore (Hui, 1997; Coe and Kelly, 2000, 2002; Yeoh and Chang, 2001), as indicated in their relative ease in getting foreign-worker approval and quotas.

The rapid and flexible responses of the Singapore state and its domestic institutions (e.g. the NWC and the NTUC) to the 1997–1998 Asian economic crisis through politically unfriendly labour market regulation further underscore its still strong institutional capacity and political legitimacy. Singapore's political elite tried to deconstruct the Asian 'miracle' by distancing themselves from other Asian economies in which strong state intervention was turned into massive corruption and cronyism. They were also quick to point out that because of the PAP government's good governance, Singapore was relatively less troubled by the economic downturn. By naturalising globalisation processes and their negative impact on those Asian economies with weak and corrupt states, the political elite in Singapore were able to rally support from both labour and capital (Yeung, 2000b, 2000c; Kelly, 2001; Lai and Yeung, 2003). This support is crucial to maintain the political legitimacy of the corporatist state and is evident in the virtually uncontested implementation of the S$10 billion cost-cutting packages announced in late 1998. The National Wage Council recommended that the wages of Singapore's workforce be reduced by 5–8 per cent and the employers' contributions to the Central Provident Fund (CPF) be reduced from 20 per cent of gross salaries to 10 per cent (*The Straits Times*, 12 November 1998). Other non-wage measures included lower government taxes and charges to reduce business costs and to stimulate consumer demand.[3]

This significant wage cut was arrived at through state-coordinated deliberations by the NWC and political rallies to convince various labour unions and interest groups of its necessity. Speaking at the tripartite NTUC Ordinary Delegates Conference, Prime Minister Goh Chok Tong told union leaders that

> [i]nvestors are watching carefully how Asian countries respond to the crisis. They will watch whether government responses are rational, business-friendly and address the problems at hand. They will also see whether the people support necessary measures that are tough, painful and unpopular. Between 8 and 10 per cent, I recommend we bite the bullet and take a 10 per cent cut [in CPF]. This will give a strong and decisive signal to investors that Singaporeans are prepared to adopt tough measures to make their businesses competitive.
>
> (quoted in *The Straits Times*, 30 October 1998)[4]

Delegates at the NTUC Conference finally adopted a resolution to endorse the state's move to revive the economy through wage and CPF cuts. They pledged that the NTUC would give its 'full support to the Government in adopting whatever measures necessary to counteract the effects of the sharp economic downturn' (quoted in *The Straits Times*, 4 November 1998). Although this tripartite consensus among the state, capital and labour may be peculiar to Singapore's developmental state, it certainly shows the strength of the whole constituted by the credibility of individual constituents. The strong tripartite relationship contributes to the institutional capacity of the state to implement specific policy instruments (e.g. wage reduction and/or cuts in provident fund contributions) to counter the competitive pressures from globalisation. These packages have clearly contributed to rapid post-crisis economic recovery whereby growth rates increased from 0.5 per cent in 1998 to 5 per cent in 1999 and 10.1 per cent in 2000. They are likely to be a key set of policy instruments in addressing Singapore's 'competitiveness problem' – a lingering issue exacerbated by the recent war in Iraq and the SARS outbreak in the first half of 2003.

Financial market governance in an era of global finance

If Singapore's labour market can be effectively governed by strong state capacity in an era of globalisation (cf. larger states explained in Peck, 2000; Tickell and Peck, 2003), does the same observation hold for its financial markets, which are presumably much more volatile and globalised? Despite Singapore's role as a major international financial centre, the state has certain institutional capacity to manage and effect changes in its financial markets. The relationship between financial institutions, regulatory authorities and the state in Singapore is best characterised as 'interlocking networks of financial power and regulation' (Mitchell, 1991: 90). In fact, Hamilton-Hart (2000, 2002) argues that Singapore's state bureaucracy has little autonomy outside the financial sector, and the political leadership is entwined with leading members of the financial community. For example, several former and current ministers and top civil servants have links with local banks in various capacities as former chairmen and directors (e.g. the deputy prime minister, Tony Tan, with Overseas Chinese Banking Corporation; former cabinet minister S. Dhanabalan with the Development Bank of Singapore; and EDB chairman Philip Yeo with United Overseas Bank). Unlike the substantial autonomy enjoyed by central banks in many OECD countries, the senior management of Singapore's central bank, the Monetary Authority of Singapore (MAS), is appointed by the president of Singapore. The current chairman, Mr Goh Chok Tong, is also senior minister of Singapore (and a former prime minister). Given the relatively small pool of top leaders in Singapore, this close relationship between cabinet ministers, top civil servants and local banks contributes significantly to the institutional embeddedness of the Singapore state bureaucracy in its financial sector.

As will become evident, this institutional embeddedness has allowed for the emergence of major domestic banking institutions under the protectionist policies of the state, which is ironic given Singapore's continuous effort to be a global financial centre and a major player in financial globalisation. But this relatively stable relationship between domestic financial institutions and the state did not last for much longer. Primarily because of the intensification of global competition and the state's recognition of the need to develop Singapore as a leading international financial centre, financial market liberalisation was initiated through formal state policies before and in the aftermath of the Asian economic crisis. What makes the Singapore case different from that of other crisis-ridden economies in Asia is that this financial market liberalisation has proceeded gradually under the close supervision of such state institutions as the Ministry of Finance and the MAS.

When the Thai baht collapsed in July 1997, Singapore's financial sector was not completely liberalised to global competition. The MAS still held firm control of the sector and practised rather conservative financial-sector supervision, particularly after the Barings Bank debacle in 1995 (see Tickell, 1996). Indeed, under the chairmanship of the then deputy prime minister, Lee Hsien Loong (now prime minister), who preferred a more competitive financial sector, the MAS initiated major financial liberalisation programmes only in the aftermath of the 1997–1998 Asian crisis to take advantage of the impending influx of global capital. The state has therefore taken the opportunity offered by the crisis to liberalise further its financial markets, underscoring its institutional capacity in managing domestic economic affairs. As the former prime minister Lee Kuan Yew describes, '[w]hat we did was out of our own convictions, but it coincided with the IMF and US Treasury prescription on how to develop a financial free market' (Lee, 2000: 552–553).

Before we examine this process of financial market liberalisation, it is useful to review the nature of Singapore's financial market. As a major international financial centre today (Wu and Duk, 1995; Wu, 1997), Singapore has relatively high ratios of banks per 1,000 population (see Table 5.1). These banks, ranging from full-licence banks and deposit-taking banks to offshore banks, provide critical financial resources for the city-state to thrive in the global economy. In Singapore's early phase of industrialisation, state-owned enterprises participated directly in the capital accumulation process through the provision of credit and loans, subsidisation of labour costs, and expansion of land supply. The Singapore state established the Development Bank of Singapore (DBS) in 1968 as an industrial bank to provide long-term financing for the nascent domestic industrial sector. This had a tremendous 'demonstration effect' on Singapore's banking sector. A report by the director of DBS in 1969 observed that

> some banks are now beginning to grant term loans of, say, up to five years to industries. This step may have been taken as a result of the establishment of the Development Bank of Singapore. The provision of term loans may lead to opportunities for the more lucrative short-term financing. Unless banks want to lose business to Development Bank of Singapore, which also provides short-term loans, it may be to their interest to consider giving term loans to manufacturers.
>
> (quoted in Chiu *et al.*, 1997: 47–48)

Compared to other, similar financial centres (e.g. Hong Kong), a very important difference in Singapore's financial system is the role of the CPF. The establishment of the CPF Board in Singapore was intended to provide long-term security to its members and to initiate a compulsory national saving scheme to finance national development plans. These plans range from major infrastructural developments to public housing programmes. Excessive funds in the CPF are also invested in equities and other financial instruments through the Government Investment Corporation

Table 5.1 Financial markets and institutions in Singapore, 1960–1999 (S$million)

	Growth rate (%)				*Annual figures*				
	1962–70	*1970–80*	*1980–90*	*1990–99*	*1962*	*1970*	*1980*	*1990*	*1999*
Number of banks	—	—	4.1	0.9	—	—	97.0	141.0	154.0
Per 1,000 population	—	—	—	—	—	—	4.0	4.7	4.0
Total bank loans (S$)	21.8	75.7	16.9	15.5	731.1	2,167.7	20,206.9	57,696.4	147,178.0
Manufacturing (%)	—	—	—	—	12.8	34.1	21.6	13.0	7.9
General Commerce	—	—	—	—	51.6	31.3	39.3	23.7	13.5
Financial industries	—	—	—	—	6.7	3.6	10.4	17.2	14.3
Transport & Comm.	—	—	—	—	2.7	1.5	6.4	3.0	2.5
Construction	—	—	—	—	2.6	8.4	9.3	22.3	39.8
Individuals	—	—	—	—	—	13.1	7.0	13.4	14.7
Prime rates (%)	—	—	—	—	—	8.0	13.6	7.73	5.8 (1988)
Stock market turnover	—	85.9	51.9	11.4	—	746.9	7,806.1	36,756.0	74,479.4
Ratio to GDP at current prices (%)	—	—	—	—	—	12.9	31.3	55.3	52.7
Contributions to central provident fund (S$)	45.7	124.4	19.3	13.7	30.6	156.4	2,296.0	7,174.2	16,000.4
Ratio to GCF at current prices (%)	—	—	—	—	9.6	7.0	19.7	29.5	33.9

Source: Monetary Authority of Singapore (various years).

(GIC), which manages diverse financial portfolios for the Singapore government. The availability of these relatively cheap funds via the CPF (low-interest-rate savings) has enabled the state to engage in long-term development plans without relying on the foreign borrowing and foreign financing that have crippled some Southeast Asian economies during the recent economic crisis. From an initial rate of contribution at 5 per cent of gross monthly salaries in 1955, the CPF rates rose steadily over time to 25 per cent just before the 1985 recession and subsequently decreased to about 15–20 per cent. Measured in terms of their ratio to gross capital formation at current prices, contributions to the CPF increased significantly from 7 per cent in 1970 to 34 per cent in 1999 (see Table 5.1). In other words, some one-third of total national capital formation in Singapore today comes from compulsory individual savings scheme. The effect of this state-enforced savings scheme is manifested in the channelling of a large share of potential investment capital from private capital markets to the CPF board and other state-owned sectors.

In the immediate aftermath of the Asian economic crisis, Singapore moved swiftly to liberalise further its financial sector in order to become more competitive in the regional and global financial markets. The then deputy prime minister and former chairman of MAS, Lee Hsien Loong, said that

> [i]t's very difficult to decide to change policies when they are working. But we got feedback from bankers and others that if you want to take the next stage up, then really you have to shift gears and allow more free play.
>
> (quoted in *The Straits Times*, 2 December 1998)

The state subsequently announced in May 1999 the most comprehensive liberalisation programme ever for the banking sector. The programme effectively forced local banks to take on global competition on their home turf, and this led to subsequent mergers and acquisitions among local banks (see Yeung, 2000c, 2004). The state argued that Singapore's small domestic banking market should allow for only two local banks, one of which had been designated to be the government-controlled DBS. Lee expected that '[t]here is room for consolidation, but we hope that there will be at least two Singapore institutions. . . . If we succeed in building up two such strong local banks, our financial system will have two pillars of strength and stability' (*The Straits Times*, 17 May 1999: 38; 18 May 1999: 49). Such responses came in 2001–2002 when the family-controlled Overseas-Chinese Banking Corporation (OCBC) bought into Keppel-TatLee Bank (previously owned by the government-linked Keppel Group), while another family-controlled bank, United Overseas Bank (UOB), initiated a friendly takeover of Overseas Union Bank (OUB) to become the largest local bank in Singapore. These two family-controlled banks, OCBC and UOB, were also aggressively expanding abroad by opening new branches and/or through acquisition.

In fact, the financial liberalisation programme had already begun in 1990 when the MAS raised foreign shareholdings of Singapore banks from 20 per cent to 40 per cent. Foreign banks could compete freely with local banks in wholesale domestic banking, offshore banking, and treasury and capital market activities. They accounted for more than one-third of resident deposits, 45 per cent of loans to resident borrowers and about 90 per cent of business with non-residents (*The Straits Times*, 17 May 1999: 38). On 17 May 1999, the Singapore government announced its further financial liberalisation programme: by 2001, six Qualifying Full Banks (QFB) licences will be issued to foreign banks. These banks will also be allowed to set up additional branches and off-premise automated teller machines (ATMs) and share an ATM network among themselves – practices previously disallowed (*The Straits Times*, 18 May 1999: 51). The MAS will increase the number of restricted banks from thirteen to eighteen by 2001 to cater to offshore banks, and give offshore banks greater flexibility in the Singapore dollar wholesale business.

This recent liberalisation of Singapore's banking sector has had a significant impact on local banks, which have experienced a larger squeeze on their interest margins with stiffer competition from twenty-two full-licence, thirteen restricted and ninety-eight offshore foreign banks in Singapore. These local banks had been well protected by the MAS for a long period: no new licences for full and restricted banks had been granted since 1970 and 1983 respectively. Then Deputy Prime Minister Lee again noted that

> [g]overnment protection and strict MAS supervision have enabled local banks to grow into sound, well-capitalised institutions. . . . The present situation is not sustainable. Even if the Government does not liberalise the banking industry, local banks will be unable to maintain the status quo. Globalisation and electronic delivery channels have altered fundamentally the competitive landscape. Further rapid developments in Internet banking will enable foreign banks to reach out extensively to domestic consumers, reducing and eventually neutralising the advantages of an extensive branch network and Government protection.
>
> (*The Straits Times*, 18 May 1999: 48)

Conclusion

This chapter shows that the state is often very much involved in managing the benefits and risks associated with globalisation processes. The success of this management, however, depends on its institutional capacity and political legitimacy. In the case of Singapore, its entrepôt status and the state's pursuit of an export-oriented industrialisation strategy have inevitably articulated the city-state into the global economy (see also Olds and Yeung, 2004). Right from its very beginning, modern Singapore has experienced economic openness and global forces. What surprises most neoliberal observers is that the Singaporean state, through its strategic manipulation of political legitimacy and building up of institutional capacity, has been able to harness these global forces to its own advantage. This conclusion does not, of course, imply that the Singapore state is not subject to the pressures and perils of globalisation. In fact, the slowdown of economic growth during the 2001–2003 period has led to a partial erosion of the performance legitimacy accumulated over three decades by the state. The implicit domestic social contract established between the PAP state and Singaporeans (both citizens and residents) has apparently witnessed some limits to its sustainability. The wave of wage cuts in 1999 and 2003 led to a series of questions about the complicated trade-off between continuous social protection and attracting global capital – both critical developmental goals of the PAP state. In short, there seems to be serious questioning of the continual viability of state capacity in managing growing economic insecurity in the twenty-first century global economy.

Yet it is important to point out that the Singapore state is not 'retreating' in the face of globalisation; it continues to strengthen its institutional capacity and political legitimacy, even in the aftermath of the 1997–1998 Asian economic crisis and the Iraq war and SARS outbreak in 2003. A stronger, not weaker, developmental state might indeed be a better cure for the 'globalisation syndrome' identified by Mittelman (2000). While this chapter does not intend to engage in the futile debate about the future of Singapore, it is important to note that Singapore's unique historical-geographical formation bestows on its stakeholders some natural advantages that are hard to replicate elsewhere. Insofar as the PAP state continues to engage actively the dynamic changes in the global economy, it is conceivable that the management of economic insecurity associated with globalisation can be both driven by the state *and* benefiting the state. The recent strategies of the state in enhancing job protection through wage cuts and reforming the CPF, enabling a smooth leadership transition towards a second-generation political elite and reconfiguring the state's involvement in economic activities through privatisation and corporatisation of government-linked corporations (GLCs) and statutory boards, must be seen as constituting such efforts to maintain its political legitimacy and economic stability. There is thus neither a single pathway nor a standard model to succeed in today's highly uncertain and insecure global economy. What matters most is the continual adjustments and adaptation of such economies as Singapore that are coordinated through state capacity and institutions. While neoliberalism and neoliberalisation seem to be at their heyday elsewhere now (see Tickell and Peck, 2003), this does not obliterate the significant developmental trajectory charted by the state. Quite the contrary: neoliberalism is indeed itself a product of conscious state effort to redirect the strategic orientation of economic development via the market mechanism.

More specifically, what emerges clearly from this chapter is that the developmental state in Singapore has always been placed its *political credibility* and *policy consistency* as top priority in its engagement with global capital and in managing economic security associated with globalisation. This institutional capacity is best observed in its labour and financial market governance. In both markets, the state has consistently managed flexibility and domestic interests to attract global capital. While globalisation has enabled capital to become increasingly mobile and 'placeless' – a phenomenon just too prematurely celebrated by the ultra-globalists (cf. Yeung 1998a, 2002a), some nodes in global networks are better able to pin down these global processes and benefit from capital's mobility. As shown in the Singapore example, this ability is predicated on the character and legitimacy of domestic institutions, not on the alleged external pressures created by globalisation. While the state and its myriad associated institutions cannot possibly guarantee the future success of Singapore's economic development, its accumulated capacity to effect changes and transformations can be crucial to the continuous remaking of the Singapore political economy into something that might just be more resilient and versatile in the face of apparently growing global competition and economic insecurity.

Notes

For their helpful comments on this chapter, I would like to thank Helen Nesadurai, Amitav Acharya, K. C. Ho, Gillian Koh, Linda Low, Bae Gyoon Park, James Sidaway and Evelyn Wong.

1 Notice the very similar call to put national interest above individual well-being in recent state discourses on the pending reduction in employer's contribution to the Central Provident Fund (CPF), effectively a form of wage cut, in order to reduce labour costs in Singapore. See Prime Minister Goh's 2003 National Day Rally Speech at http://www.straitstimes.com.sg (accessed 26 August 2003). Former Deputy Prime Minister Lee Hsien Loong has further noted that 'We don't like it but we have to do it. I think that sums up the attitude for many of us, including in government. . . . [The changes] are vital adjustments to make ourselves more competitive, and to prepare Singapore for the long term. If we don't do it, we will be in trouble. If we do this, it will be another part of getting Singapore competitive again' (*The Straits Times*, 25 August 2003).

2 Such a high ratio of foreign workers in job growth has become a key focus of heated debates. The Ministry of Manpower has reported that between 1992 and 1997, total employment increased by 470,000. Foreigners accounted for 60 per cent of this increase. Between 1997 and 2002, foreigners made up only 10 per cent of the 102,000 new jobs created (http://www.mom.gov.sg, accessed 26 August 2003).

3 A similar lack of contestation is expected to the latest state proposal to cut employer's contribution to the CPF.

4 Compare this quotation to Prime Minister Goh's 2003 National Day Rally Speech:

> I am aware that the CPF changes we are thinking of may be hard to swallow. For some of you, a cut in the CPF rate may be the difference between meeting and failing on your mortgage payments. . . . Our choices are: adjust, or lose more jobs. . . . I am convinced that we have to adjust and reform our CPF system. And the sooner we do it, the better. Otherwise, we will lose our competitiveness and many jobs, especially jobs held by older and lower skilled Singaporeans. We will also store up problems for the future. Singaporeans will retire and find that they do not have enough savings for their old age. But if we make these tough choices now, we will put right a major weakness in our CPF system. We also signal to investors that we are realistic and long-term in our thinking . . . show that we are willing to bring down our costs. . . . This will help us attract more investments and more jobs.
> (http://www.straitstimes.com.sg, accessed 26 August 2003)

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