

## From third world to first: Singapore's success

By Henri Ghesquiere

Singapore is admired for its spectacular economic success. You touch down at the island's ultra-modern airport—routinely voted the world's most efficient. Soon you navigate through lanes of gleaming new cars in a tropical garden setting. A glimpse of the sea reveals hundreds of ships in front of the world's busiest container port.



The records keep coming: the world's fastest growing economy between 1960 and 2000, registering an average annual rate of growth of almost 8 percent. This vibrant ultra-clean cosmopolitan city now has 5 million people. With state-of-the-art interconnectivity its high-rise glitz is home to over 10,000 multinational corporations.

And Singapore showcases its medals: Over the past four decades, virtually full employment, except in some recession years; a rate of inflation typically under two percent. Wages after inflation rose fairly steadily reflecting increased productivity. Life expectancy and the quality of health care are among the highest in the world. Streets are safe to walk, night and day, for women and men. There is political stability and social harmony.

And then the ultimate trophies: a brand name that exudes reliability, excellence and integrity. Singapore and its leaders command respect around the world. The purchasing power of its GDP per person (at around US\$ 50,000) now exceeds that of the United States. Once among the impoverished, powerless and ignored ex-colonies labeled the Third World Singapore beyond a doubt has become a first-rank prosperous nation.

### Some reservations

But I must temper my exuberance. Singapore is not without problems. It is not paradise on earth: success comes at a price. High performance is expected and Singaporeans lead intense lives. Career demands may conflict with having children. Income disparity has widened: a taxi-driver may silently envy his well-heeled passenger for earning in minutes what he makes in a ten-hour shift.

And Singapore has its detractors. The People's Action Party (PAP) has ruled uninterruptedly since 1959. Voters have returned it to power in 15 consecutive elections that the US State Department has characterized as free and fair. But some democratic liberties are more restricted than in the West. In 2006 renowned financier George Soros opined that Singapore was not an "open society" because the use of libel suits against opposition politicians curbs the freedom of expression.

Others downplay Singapore's achievements. Some point to the city-state's small territory of less than 20 by 40 kilometers. They doubt whether Singapore's recipe for success can be transferred to continent-size countries such as India or Brazil. Conversely, Singapore's success is not unique: a few other economies, such as South Korea, have achieved results that are no less impressive.

## **Learning from other countries**

Nonetheless, Singapore's remarkable economic ascent has inspired many to learn from it. They all want the details: how has Singapore managed to become so wealthy? Has it overcome corruption? Enables more than 90 percent of families to live in a home they own, and offer first-rate public education? What are the mechanics that fuelled this spectacular growth? China is an avid learner. Its momentous decision in 1978 to reverse five centuries of economic isolation was influenced in part by Singapore. China's leader, Deng Xiaoping, visited Singapore that year. He was impressed by how the city-state had benefited from international trade and foreign investment and managed to maintain social order. His dream to "plant a thousand Singapore's in China" has since sparked hundreds of study tours by Chinese officials to the island.

Interestingly, this learning process is a two-way street. Singapore itself systematically studies best practices around the world. It learned from Boston's Logan airport how to minimize overhead noise in a crowded city by channeling the airplane corridor over the sea. Or from Israel how a two-year mandatory military service for all males could contribute to nation-building.

What general principles might Singapore's experience hold for other countries, and yes for advanced nations as well? And how can these principles be adapted to our own country's very specific geographic and social circumstances? A century ago President and ex-professor Woodrow Wilson urged his American compatriots to learn from other countries' successful policies. But he saw no need to imitate them uncritically. From Asia, he said, we added rice to our diet, but we chose not to eat with chopsticks.

I invite you to visit with me Singapore. Together we will distil the salient features of that country's singular success into five main building blocks.

The five building blocks of champions I suggest are:

One: Potential success from initial conditions.

Two: The will to focus on an ambitious goal and run the distance

Three: Discipline

Four: Opportunities open to all candidates

Five: Incentives for victory

## **Initial conditions**

Our first building block is the *potential* success from initial conditions. Logically our analysis starts from the starting line. Was Singapore already in the early 1960s predestined for success? Were its initial conditions at that time as delivered by history and geography favorable or unfavorable for subsequent development?

The negatives were undeniable: severe housing shortage with a majority relegated to slums with poor sanitation and filthy waterways. Unemployment exceeded 10 percent. Labor strikes were rampant including against the British colonial power. Criminal gangs ruled parts of the city where the police feared to tread. Petty corruption of customs and law enforcement officers was common. The air was tense with ethnic-racial-religious riots

between Chinese and Malay Singaporeans. Neighboring countries were hostile including Malaysia that threatened to cut off the water supply to Singapore. The pending departure of the British colonial administration and navy was a severe setback for the local economy. Singapore had no natural resources. Chances of this backwater becoming a thriving nation were rated very poorly when Singapore gained independence in 1965.

But there were major positives: access to the sea, a natural deep-water port, strategic location at the crossroads of major sea trading routes, English language tradition, experience with the rule of law, some infrastructure and the ancillary services of a historic entrepôt trade. Quite fortunately, Singapore is located outside known typhoon and earthquake zones.

On balance, I have argued that Singapore had strong potential but there certainly were major obstacles. The country, however, made good use of the cards it was dealt. It leveraged its location and other positives and overcame the difficulties, clearing the hurdles so to speak. In fact, the government actually invoked the negatives as powerful motivators to perform with excellence. The lack of natural resources spurred it to assign top priority to broad-based quality education and turning this negative into a key competitive advantage. The country was not pre-ordained to become a global champion. Success was wrested through enlightened and persistent strategy.

### **Will to achieve long-term economic growth**

Building block number two: Once the race was established, there was the will to run the distance and reach an ambitious inspiring goal many years in the future.

Singapore was blessed with exceptionally determined and farsighted leadership. Lee Kuan Yew, a brilliant Cambridge-educated lawyer was elected prime minister in 1959 at age 35. While controversial, he is widely considered one of the world's pre-eminent statesmen alive today. Lee is strong-willed, highly intelligent, courageous and shrewd. In World War II the brutality of the Japanese occupying forces against Singapore's civilian population traumatized the 18-year old Lee. Second-rank status under British colonialism was humiliating to him. Life-and-death political fights with Malay ultra-nationalists and with communists left him deeply convinced of Singapore's existential vulnerability. The extreme Malays considered the Chinese and Indian populations interlopers in their homeland. The communists wanted to turn Singapore into an Asian Cuba. Historic crisis and trauma produced exceptional leadership. This man would not emigrate. He refused to be intimidated. He would stand and use his enormous capabilities to lead his people toward a long-term destiny of shared prosperity and safety. To quote one of his most revealing lines: "I wanted Singapore to be a developed nation in the *shortest time possible*".

Dr. Goh Keng Swee, Lee's trusted right-hand man and architect of Singapore's economic strategy wrote: "We must strive continuously to achieve economic growth. We should not be *distracted* by other goals". Goh was a brilliant mind, nimble, innovative and eclectic. He would rationally examine prevailing political and economic doctrines for their merit. Some were discarded. Others he would pragmatically adopt, adapt, and pursue to their logical consequences in light of Singapore's circumstances and the actual results obtained. His thinking was long-term. Like a systems engineer he would pre-empt unintended consequences. Synergies in various policies would make them coherent and mutually reinforcing.

Those words by those two men “in the *shortest time possible*” and “*single-minded focus*” hold the key to Singapore’s success. Economic and political strategy and institutions over the past five decades were shaped with this singular goal in mind....whatever it would take to succeed. Two examples will clarify this:

To implement its long-term vision the Government needed periodically to be re-elected on its record of having delivered security and improved livelihoods. That required recruiting and developing outstanding government officials and civil servants. Political and economic leaders had to be *strong*: to have the courage of their convictions, motivate and lead, to apply the rule of law consistently and take correct if unpopular decisions, and to actually implement policies designed. They had to be *intelligent* to think in depth and with foresight on what would work best for Singapore and to adapt policies constantly, to engage with ordinary citizens in a sincere dialogue and convincingly explain the overall strategy in non-technical language, and to earn the respect of leaders of big nations. They had to have *integrity* and commitment to treat ordinary people with dignity, earn their trust, share the economic benefits widely, and foster social harmony.

As a second consequence the Government decided to delay extending the full range of civil liberties. Gaining first-world status in the shortest time possible required a strong government capable of forging a consensus on sound policies. If rapid catch-up with the West required deviating from the ideal of adversarial multi-party liberal democracy, so be it. To Westerners self-determination and expression by freely forming groups within society are deeply cherished values. These values also increasingly influence young Singaporeans today. But perceived vulnerability anchored the belief that stability is an existential issue for Singapore. The country’s demographic mix, small size, history and geopolitical position compelled it to prioritize communitarian over individual values, order over individual expression. The government would not be held hostage to interest groups. By 1970 it had vanquished the communist labor unions. By then the PAP had secured a de facto monopoly of political power. This allowed the party to implement its long-term agenda. Being ensured of re-election the government did not need to resort to electoral populism. It could implement what it considered right for the country in the long run, not what is politically expedient. Yet, it had to stay accountable.

Certainly there were other compelling national goals but their linkages allowed the economic growth narrative to dominate. Defense outlays absorb over 5 percent of GDP each year. But a strong defense was not possible without a strong economy. Multi-racial harmony is a key element in society’s well-being. But it is also an essential prerequisite to attract the foreign investors who would make sustained high economic growth possible.

Independent Singapore would run its own course. The best way to refute post-colonial condescension was to succeed economically and to liberalize politically in a later phase, as is now occurring. The government took a long-term perspective and spurred society to do likewise. It publicly announced and bested ambitious numerical targets, for example reaching the per capita GDP of the Netherlands in fifteen years. High saving and investment, low public and private consumption reflected delayed gratification and a strong work ethic: pain today for huge gain years from now for us or our children.

To summarize: strong-willed and intelligent leadership with a long-term horizon single-mindedly set out to develop the country's initial endowment ambitiously, driven by conviction that emerged out of historic or personal trauma.

### **Discipline**

How did Singapore achieve its long-term ambitious goal? The remaining three interrelated building blocks provide the answer. The government relied on DOI, by which I mean discipline, opportunities and incentives.

Discipline takes several forms in Singapore's development strategy.

First, **budgetary discipline**: *Live within your means*.

Very few governments do. In Singapore the means are fairly small: Total revenue in the Government budget is only 19 percent of GDP. But government expenditure is even lower. Frugality inspires the Government to manage its expenditures rigorously.

Singapore's famous Jurong tropical bird park was created when a finance minister rejected the proposal for a zoo. He persuaded his Cabinet colleagues that feeding birds would be much less expensive than feeding lions. Civil service staffing is lean: the government does not act as employer of first and last resort. Efficiency is paramount: For example, invoicing of services sold by private agents to government entities is all electronic and centralized. Perfect paperless records are available with minimal manpower.

Singapore's budget is not burdened by generalized price subsidies for utilities or energy products.

Public enterprises in Singapore tend to be consistently profitable. Many are listed on the stock exchange and are partly in private hands. They do not draw budgetary support for operating losses. If systematically loss-making they would be liquidated or merged. Singapore Airlines has long been ranked among the most admired companies in the world. At one time, the government threatened to close it down if management and unions failed to cooperate.

Financial sector oversight has been consistently alert. This has prevented the socialization of bank losses that has aggravated fiscal deficits and public debt levels elsewhere. Today Singapore's banks are among the best capitalized in the world.

Accordingly, despite relative low taxation, the government budget registers surpluses, not deficits. Consequently, whereas other countries have a public debt ratio in some cases as high as 140 percent of GDP, Singapore has just the opposite: net public assets possibly of a similar magnitude. Heavily indebted governments face steep interest payments on the expenditure side of their budget that pre-empt development outlays. The Singapore government by contrast earns substantial returns on its net assets, (conservatively estimated at perhaps 5 percent of GDP—analysts crave details but the government is cagey). These resources boost the revenue side of the budget, allowing development expenditure such as for infrastructure and education. The government's accumulated surpluses have been built the old-fashioned way: over decades thanks to annual saving and the power of

compounding. The strong national balance sheet inspires confidence in entrepreneurs and investors.

Second, Singapore welcomed **the discipline of competition**

Competition in the economic realm is unpopular. Yet the discipline of market competition spurs productivity. Singapore is thoroughly integrated in the global economy. The Heritage Foundation routinely ranks the city-state as the second freest economy in the world after Hong Kong for its overall efficient pro-business climate. Already in the 1960s Singapore abandoned the doctrine of import substitution. Local producers of consumer durables such as automobile assembly were exposed to the full force of international market competition and had to close. Consumers benefited from lower priced imports and –remarkably– workers found employment in newly created export-oriented industries.

The discipline of competition is reflected also in the principle of meritocracy. Recruitment, remuneration and promotion in the civil service are as closely as possible based on results achieved through actual policy execution and on potential capability, not on seniority or personal or group connections. Quite remarkably, this principle extends upward to include political leaders such as parliamentarians and ministers. Each election the PAP forces one third of its parliamentarians not to seek re-election—a painful measure. Last month, Lee Kuan Yew voluntarily left the cabinet to make room for younger ministers. Meritocracy also reigns all the way down. Teachers need to have finished in the top third of their class. Headmasters are promoted or demoted in part based on the results of their schools.

A third manifestation of discipline lies in **public order and the rule of law.**

Law and order is conducive to stability and development. In the 1970s Singapore adopted a tougher stance to repress crime. A balance had to be struck between the right to life and liberty and the right to order and a safe society. Many outsiders see Singapore as harshly punitive. Michael Fay, an 18-year old American was sentenced in 1994 to 6 strokes of the cane for going on a rampage and spray-painting some 20 cars. The American media and government protested vigorously. Singapore believes in the deterrent of mandatory death penalty for severe crimes such as homicide or drug trafficking. Outsiders bemoan Singapore's stringent law enforcement and many doubt that punishment deters. But the World Economic Forum ranks Singapore as the country that enjoys the highest confidence that their person and property are protected.

Singapore emphasizes that the law applies to all. Steadfast and impartial application of the rule of law ensures protection of property rights against opportunistic predation by the more powerful. Business disputes are settled speedily and efficiently on the basis of law by an independent and well-remunerated judiciary, giving confidence to investors.

In short, discipline has been a third unmistakable building block for economic development. Discipline is inherent in a strong work ethic. It is evident in delayed gratification of postponing private and public consumption and in high saving and investing for a long-term goal. Discipline is also found in exposure to market competition, meritocracy in schooling and civil service, and in public order and the rule of law. By constraining behavior, discipline

lowers the risk and raises the reward of market exchange and thereby fosters economic growth.

### **Give-and-take opportunities to participate in economic growth**

After discipline the *fourth* building block I like to highlight is opportunities. The elite in Singapore aimed for high economic growth over many years. But they were committed to sharing the opportunity to participate in that growth widely among the population. The stick of discipline, competition and austerity was balanced by the carrot of widespread opportunities for reward.

Gainful employment is the fastest way out of poverty. Prolonged unemployment has major economic, social and psychological costs. Unemployment was a massive problem in 1959. Twelve years later Singapore had full employment and labor scarcities started to emerge. Voters rewarded the ruling party at election time.

Quality education prepares tomorrow's workers. Education for all is heavily subsidized by the state. Singapore students consistently score among the highest in international comparison in particular in science and mathematics. The Singapore math textbooks are now widely used in the United States. Quality vocational schools prepare less academically inclined students to careers in numerous services such as hairdressing or culinary specialties. Skills training and re-training of older workers is heavily emphasized and subsidized. In this way they can continue to contribute in a rapidly evolving economy.

Equal opportunity is given to everyone to learn, to acquire skills and to perform, regardless of whether one is a Malay, Chinese or Indian Singaporean. The discipline inherent in a merit-based system is combined with open access and a level playing field according to one's talent. This has contributed to social cohesion in Singapore's multi-ethnic society.

The city-state has impressive examples of upward social mobility as bright poor children received scholarships that allowed them to realize their full potential. This contrasts with feudal societies where the elite would hold back education from youngsters on their land holdings, lest power be eroded.

Equal opportunity does not mean equal outcomes. Different outcomes are accepted based on different capabilities. Still Singapore's Ministry of Education helps the poor, disadvantaged, bottom 0.1 percent of pupils who are unable to pass the basic primary school leaving examination. Intensive support includes hands-on vocational training, life-skills and counseling to those with emotional difficulties. Substantial resources are spent to prevent a permanent underclass from building. The idea is to help the weaker runners improve rather than instruct the fast ones to slow down.

The World Bank ranks Singapore number one in the world for ease of doing business. Access to employment, education, and also to credit creates opportunities for people to start new businesses and participate in economic growth.

Singapore also gives opportunities to **potential partners in a win-win mentality**.

The country's rulers needed allies to accomplish their ambitious strategy. The government emphasized cooperative solutions based on mutual trust. Export-led growth was the key to creating jobs for all. Singapore invited selected multinationals to invest in the country

already in the 1960s. At that time the dependency theory of post-colonial economic development led other nations to shun them. The core of Singapore's success is the ability to attract multinational corporations by facilitating high profitability and low risk.

Singapore considered this a win-win situation: Everything the multinational corporation could reasonably ask for the government committed to deliver. Favorable tax treatment is often thought of first but is only one item among a long list. Producing *profitably* for the global market was made easier thanks to: first-rate infrastructure, reliable utilities and communication facilities, a disciplined and well-trained labor force, permission to bring in skilled and unskilled labor from abroad, absence of import duties and local sourcing requirements, efficient and time-effective administration that avoids bureaucratic hassles, one-stop office for foreign direct investment. Companies appreciated the *low risk* due to: rule of law that guarantees fair treatment in case of disputes, absence of corruption, predictability of policies, and no risk of expropriation, labor strikes or disruption of vital public services. A stable exchange rate allowed unrestricted profit repatriation. Safety and security for person and belongings are key competitive advantages for Singapore.

In turn, the government insists that multinationals bring state-of-the art technology, produce in Singapore and use their extensive global marketing networks for exports. They must employ Singaporeans and upgrade their skills so that workers stay employable in a rapidly evolving global economy and move to higher-value jobs.

This win-win co-operative attitude also extends to worker-employer relations. In Singapore, the primacy of economic growth requires social harmony and partnership. The head of the labor unions organization proudly declares to be very pro-business and very pro-worker. He sees no contradiction in this statement.

A cooperative tri-partite arrangement brought labor unions, the government and employers together to balance group interests with the overall welfare of society.

The three parties face difficulties jointly and find practical solutions in a rational and constructive approach based on mutual trust.

Singapore's labor market is highly flexible: companies can legally hire and fire and cut wages easily. There is no minimum wage. The global recession in 2009 hit Singapore very hard. But the flexible-wage system and the cooperative approach played a pivotal role in saving jobs. Labor unions and the government urged companies to retrench workers only as a very last resort. Thus, workers endured salary cuts, enforced leave without pay and reduced bonuses. Unions supported these solutions to help enterprises cut the wage bill.

Avoiding mass retrenchments helped enterprises in Singapore raise production very quickly once the deep but short-lived recession was followed by a powerful recovery. Employers then were urged to share the good times with workers in the form of higher wages to compensate for past sacrifices. The Government had grasped the opportunity to turn the global crisis into a trust-building exercise.

This win-win situation over the past decades has resulted in virtually full employment and rising wages after inflation. Reasoned discourse and sharing mutual gains is one of Singapore's most enduring competitive advantages.



Opportunities shared with immigrants. Singapore's development has benefited from many thousands of capable and ambitious immigrants. Originating countries have often spent substantial public resources in training these professionals.

### **Third, create or take advantage of new opportunities.**

Grappling with ongoing change is ingrained in Singapore. There is an urge to constantly re-invent oneself and grasp new opportunities, to innovate, to learn in a rapidly changing world. The government tinkers, almost obsessively, with its development strategy to cope with new challenges to its competitive position as soon as they emerge on the distant horizon. The rise of China and India looms large. The leadership is paranoid about avoiding complacency. It cites the Darwinian dictum that "even the strong will perish unless they adapt". History, Singapore's elders remind us, teaches the harsh lesson that small city-states often fade and become irrelevant when they fail to rise to challenges. Standing still is moving backwards. Singapore can only remain secure and stable, if it is outstanding.

The country therefore pushes for constant transformation to create new economic space to grow and prosper. The government is wary of being trapped on a medium-level plateau with the industries of the past. Singapore deliberately embraces the creation of new higher value-added activities and destruction of older industries. Light manufacturing gave way over time to electronics, then pharmaceutical industry, and later biotechnology. Now the government brings thousands of tourists to the island to watch a nighttime formula 1 auto race or to gamble in one of the newly created casinos called integrated resorts. A young electronics industry worker might have assembled semiconductors for Texas Instruments in the 1960s, manufactured hard disks for Seagate in the 1980s, and ended his career in wafer fabrication of microchips, each time building on existing capabilities.

### **Use incentives realistically**

After discipline and opportunities, allow me to highlight "incentives", the *fifth* and final building block.

One of Singapore's abiding principles is to realize that *self-interest* is among the forces that motivate people. Development policies are designed with this in mind. Pragmatism implies an emphasis on what works in practice rather than in abstract or idealized theory. Inspired by Singapore, Deng Xiao Ping educated his compatriots thus: "It does not matter if the cat is white or black, as long as he catches mice".

Attention to incentives is central to Singapore's Social security policies. The People's Action Party started as a socialist party. It aimed for economic growth with equity. Yet, during their student days in England, the PAP leaders had witnessed the unintended consequences of Western welfare systems. They feared that generous welfare provision by the Government would create a dependency attitude among low-income groups and an entitlement mentality among the middle class. They foresaw that this could threaten fiscal viability or cause enterprises to relocate to more tax-friendly environments.

Accordingly, the government developed a mandatory personal saving scheme that compels Singaporeans to set aside part of their salaries each month. These defined-contribution

savings continue to be owned by the individual contributor. The funds can be withdrawn in limited amounts for oneself or one's family to pay for home mortgage payment, health care, tertiary education, or retirement. In this way the Government emphasizes core social values: personal responsibility and solidarity within the family. Only as a last resort does the state provide a means-tested safety net for the needy. There is no unemployment insurance but the government now tops up the salaries of older low-income employees but only provided they work.

The tax code and transportation and health care policies are also heavily geared toward price incentives. A low corporate profit tax rate attracts companies and encourages them to create jobs. A progressive personal income tax redistributes income but the highest marginal bracket is limited to 20 percent to incentivize and award people to work in Singapore. The tax system encourages people to save. Congestion taxes discourage automobile owners from driving in the city center during rush hour. Medical insurance policy is structured to discourage overconsumption.

To recapture our earlier question: How did Singapore achieve first-world status? It used the initial conditions, long-term will, discipline, wide-open opportunity, and incentives to accomplish its ambitious goal.

### **Low levels of corruption**

The same five building blocks kept government clean and incorruptible. According to Transparency International Singapore is perceived as one of the least corrupt countries in the world. Initial conditions were not favorable. The government saw integrity as essential to achieving its goal of becoming an advanced nation in the shortest time possible.

Discipline was evident in stringent anti-corruption legislation and consistent prosecution of transgressors starting at the top. Every effort was made to reduce opportunities for bribery. There were strong incentives not to lose very attractive public service remuneration by using public office for private gain.

I do not pretend that Singapore excelled in all these areas early on. Combating corruption and creating first-rate institutions took time. The city-state has pursued economic progress over the past decades with complete dedication and has met with now impressive success.

Success, it has been said, is doing ordinary things extraordinarily well. Nation, athlete, professional, we all aspire to reach that first-world beacon of added security, prosperity, appreciation, and a degree of control over our lives. Singapore used the initial conditions, long-term will, and I DO: incentives, discipline and wide-open opportunity to accomplish its ambitious goal. These same building blocks can create first-world prosperity.

*\*This paper is adapted from a speech given by Dr Henri Ghesquiere to the ICAC 29th Caribbean Conference of Accountants, held in Kingston, Jamaica June 24, 2011. Dr Ghesquiere was Director of the IMF-Singapore Regional Training Institute (2004-2005) and served the IMF during 1978-2005. At the IMF, he was closely involved with macroeconomic lending programs and growth-oriented stabilization policies in Latin America, Africa, Eastern Europe, and Asia. He holds degrees in humanities and economics from the University of Leuven, Belgium and earned his Ph.D. in economics from Yale University. Among his publications is "Singapore's Success: Engineering Economic Growth", and a book on economic development in Southeast Asia.*