

THE POLITICAL ECONOMY OF SINGAPORE'S INDUSTRIALIZATION

NATIONAL STATE AND
INTERNATIONAL CAPITAL

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The Political Economy of Singapore's Industrialization: National State and International Capital

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Dedicated to my parents,
Betty and Ken

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Abbreviations

ABC	American Business Council
<i>AWSJ</i>	<i>Asian Wall Street Journal</i>
BS	Barisan Sosialis
CAS	Capital Assistance Scheme
CCC	Citizens' Consultative Committee
COP	Committee on Productivity
CPF	Central Provident Fund
DBS	Development Bank of Singapore
EDB	Economic Development Board
EOI	export-oriented industrialisation
<i>FEER</i>	<i>Far Eastern Economic Review</i>
GDP	gross domestic product
GSP	Generalised System of Preferences
HDB	Housing Development Board
INTRACO	International Trading Company
ISA	Internal Security Act
ISC	Internal Security Council
ISI	import-substitution industrialisation
JETRO	Japan External Trade Organisation
JTC	Jurong Town Corporation
MAS	Monetary Authority of Singapore
MCA	Malaysian Chinese Association
MCP	Malayan Communist Party
NICs	newly-industrialising countries
NIDL	new international division of labour
NPB	National Productivity Board
NPC	National Productivity Council
NTB	Non-tariff barrier
NTS	non-traditional source
NTUC	National Trades Union Congress
NWC	National Wages Council
PAP	People's Action Party
PF	People's Front
POSB	Post Office Savings Bank
SATU	Singapore Association of Trade Unions
SBWU	Singapore Bus Workers' Union
SCMSSU	Singapore Chinese Middle School Students' Union

SDF	Skills Development Fund
SDP	Singapore Democratic Party
SFSWU	Singapore Factory and Shop Workers' Union
SFTU	Singapore Federation of Trade Unions
SICC	Singapore International Chamber of Commerce
SILO	Singapore Industrial Labour Organisation
SJP	Singapore Justice Party
SMA	Singapore Manufacturers' Association
SMNO	Singapore Malay National Organisation
STUC	Singapore Trade Union Congress
UMNO	United Malay National Organisation
UNF	United National Front
USSU	University of Singapore Students' Union
WP	Workers' Party

Prefatory Notes

Unless otherwise indicated, all dollars are in Singapore currency and all references to per centage increases in gross domestic product are calculated on current prices. Foreign investment figures refer to gross fixed assets in S\$.

Wherever possible sexist terminology has been avoided in this book. However, in cases where official titles are referred to, the original form has been retained.

Preface

The motivation for this study was threefold. First, the author felt that the prevailing accounts of Singapore's industrialisation were theoretically inadequate. Left largely to neo-classical economists and rational choice theorists, the study of Singapore seemed in need of a comprehensive analysis of the relationships between political and economic processes in the city-state's development. Second, by virtue of achieving the status of a newly-industrialising country (NIC), Singapore assumes a general significance for development theory and policy and offers an opportunity to critically examine some popular claims about the NICs in general. On the one hand, for instance, dependency theorists have been largely dismissive of the rapid industrialisation of the NICs which have adopted export-oriented industrialisation (EOI) programmes. They have portrayed this industrialisation as externally-imposed and qualitatively inferior to that experienced by the advanced capitalist countries in their earlier stages of development. On the other hand, neo-classical economists have submitted Singapore and the other Asian NICs of South Korea, Taiwan and Hong Kong as proof not only of genuine industrialisation in the Third World, but of the superiority of free market policies in generating rapid industrialisation. Rational choice theorists further argue that the NICs represent a triumph for economic rationality over political interference and show what can be achieved when domestic policies are conducted on a sound basis. Yet another view of the NICs maintains that, far from epitomising *laissez-faire* development, their industrialisation is the product of explicit state-directed initiatives. In view of such divergent claims, it seemed that close empirical and theoretical examination of Singapore was urgently required. Third, in 1979 the Singapore government embarked on the so-called 'Second Industrial Revolution'. This strategy comprised a host of policies intended to affect an accelerated transition to a more sophisticated technological base. Having been incorporated under the aegis of international capital into a new international division of labour (NIDL) in manufacturing production as an exporter of low value-added goods, the aim of this strategy was to elevate Singapore's position in the NIDL hierarchy. Singapore was to become primarily a high value-added production site. The 'Second Industrial Revolution' represented the boldest attempt by any NIC government to influence

the pattern of international capital investment in manufacturing production. This provided further reason for focusing on the Singapore case in depth.

Motivated by the above concerns, this study challenges the dominant understanding of Singapore as a case where 'correct' policies have made rapid industrialisation possible and raises questions about the possibility and appropriateness of its emulation. Rejection of the dominant perspective on Singapore is made possible by the particular framework of this study which affords primary and thematic focus on the relationship between international capital and the Singapore state. It is this relationship which is both defined by, and at the same time helps to define, the emergence of a NIDL. Emphasis is also given to the social and political context of this relationship and the specific historical circumstances surrounding it. Within this framework, the successful implementation of the economic policies isolated by neo-classical economists and rational choice theorists as the fundamental cause of rapid industrialisation is seen to be tied to various social and political conditions. These conditions make it possible to adopt policies which exploit the historically-unprecedented tendency of international capital to invest off-shore for the purpose of export manufacturing production. Within this framework it also becomes possible, indeed obligatory, to reject the popular idea of the Singapore state as a minimalist one. In fact, it is argued here that far from Singapore's experience reflecting the undistorted operation of market forces realising the city-state's comparative advantage, the state has played an important role in helping to define that comparative advantage.

In the following analysis the Singapore state's role in the industrialisation process is indeed depicted as a pervasive one. In the economic sphere the state has not only engaged in selective but significant direct investment, it has intervened to help shape the cost, supply and quality of labour and infrastructure. It has also provided fiscal incentives and subsidies in discriminatory fashion to promote particular forms of industrial activity. In the extra-economic sphere, however, the state's intervention has probably been even more profound, creating a social and political environment conducive to particular forms of industrial activity. Such intervention reached its zenith with the adoption of the 'Second Industrial Revolution'.

To argue that the state has played a role in NIC, and in this case Singapore's, industrialisation is not novel. However, where neo-classical economists have acknowledged state intervention in the

economic sphere they have tended to portray the state as facilitating market forces. This misrepresents the relationship between market and state. The relationship is presented in this analysis as a dialectical one, the boundary between state and market being blurred. It is a relationship which also encompasses social and political, and not just economic, factors.

Whilst the analysis in this book challenges the partial and inadequate treatment of the state by writers informed by neo-classical economics, and rejects the voluntarism of rational choice theory, it also poses questions about radical approaches. Apart from examining the various ways in which the state influences the pattern of industrialisation, especially the pattern of investment by international capital, it examines the reasons for the state's behaviour. It is here that we see the state's facilitation of international capital is contingent. Domestic class structures have combined with fortuitous tendencies in international capital accumulation to allow a substantial degree of manoeuvre by Singapore's policy-makers. On the one hand, the domestic industrial bourgeoisie was, at the point of incorporation into the NIDL, immature and politically weak. This meant, first, that state initiation and co-ordination of industrial activity was required and, second, that there was a desire to find alternative sources of capital and little domestic political cost to the ruling People's Action Party (PAP) in throwing in its hand with international capital. On the other hand, although the PAP had come to power on the back of Singapore's left-wing unions, it wasted no time in undermining the position of independent, organised labour and ensuring right wing control over the PAP executive. By the late 1960s the PAP had established a new social base, but it had done so in large part by convincing much of the electorate of the virtues of a government which was not dominated by interest groups. In short, a relatively autonomous political state had emerged with sufficient need and will to facilitate Singapore's incorporation into the emerging NIDL.

Such an interpretation has clear implications for dependency theory which tends to portray the 'peripheral' state's incorporation into the NIDL as primarily an externally-determined result. However, Singapore's incorporation cannot be explained in terms of the state's subservience to international capital. High unemployment levels combined with rapid population growth and separation from the federation of Malaysia provided Singapore's policy-makers with their own good reasons for seeking international investment. Moreover, international capital cannot locate at will to carry out export

production – it requires various social, political and economic prerequisites at any prospective site. Domestic circumstances enabled the Singapore state to provide just those prerequisites. These circumstances included the fact that, for its own political reasons, the PAP had already taken decisive steps to weaken the labour movement. This study, therefore, cautions against the determinism of dependency theory. Few economies in the world are more completely integrated into the structure of the NIDL and dominated by international capital than Singapore's. Yet this state of affairs cannot be understood without recourse to the complex and dynamic domestic class structures which condition the state's response to the overtures of international capital.

If the very success of Singapore's EOI strategy makes it worthy of examination, so too does the fact that this success has brought with it a number of pressures. Indeed, so rapid was Singapore's industrialisation through low value-added, labour-intensive production that towards the end of the 1970s growth was being held back for lack of labour and the development of lower value-added production had begun to frustrate the shift into more sophisticated production. Moreover, the resort to guest labour to sustain economic growth was now assuming such proportions and originating from so far afield as to constitute a perceived threat to political stability. The PAP's response was the 'Second Industrial Revolution' but, as chapter 5 attempts to show, this strategy was not without its own political problems. The heavy cost of the strategy led the state to redefine its social welfare responsibilities and usher in significant changes to industrial relations. PAP attempts to justify these changes ideologically did not meet with the sort of instant success to which the Lee Government is accustomed. The 'Second Industrial Revolution' has also encountered serious economic problems. Some achievement notwithstanding, the response of international capital has not matched the expectations of the PAP – either in nature or quantity of investment. Consequently, beginning in 1986 the PAP subjected the strategy to a major review and concluded that key aspects of the 'Second Industrial Revolution' strategy had to be revised and, in the case of wages policy, reversed.

The Singapore experience under the aggressive PAP policies to accelerate the Republic's climb up the technological hierarchy of the NIDL raises a number of general questions about the future of both the NICs and the NIDL itself. Is it harder to sustain rapid industrialisation after graduating from low-skilled, labour-intensive

production? How much space is there for exports of higher value-added manufactures through the NIDL? What are the limits to state-induced upward mobility within the structure of the NIDL? Of course this particular study cannot provide definitive answers to such questions but it does throw up enough evidence to indicate that continued rapid industrial expansion through the NIDL is problematic. The Singapore case affords an opportunity then to study a particular incorporation into the NIDL which enables an appreciation of the very complexity of such a process, yet at the same time to pursue questions germane to the NICs in general and their validity as development models for other countries.

Garry Rodan

Contents

<i>Acknowledgements</i>	viii
<i>Abbreviations</i>	ix
<i>List of Tables</i>	xi
<i>Prefatory Notes</i>	xii
<i>Preface</i>	xiii
1 Theoretical Introduction	1
2 Pre-Industrial Singapore: General Structural Developments up until 1959	31
3 The Political Pre-Conditions	50
4 Export-Oriented Manufacturing	85
5 Second Industrial Revolution	142
6 Singapore's Future as a NIC	189
7 Conclusions: Singapore and the New International Division of Labour	207
<i>Notes</i>	216
<i>Bibliography</i>	244
<i>Index</i>	258

List of Tables

2.1	Employment by industry, 1947 and 1957 censuses	46
3.1	Development expenditure, 1961–63	76
3.2	Public investments in manufacturing, 1963	77
4.1	Manufacturing sector highlights, 1965–69	99
4.2	Foreign investment in manufacturing, 1965–69	100
4.3	Manufacturing sector highlights, 1970–74	113
4.4	Foreign investment in manufacturing, 1970–75	118
4.5	Foreign investment in manufacturing by country of origin, 1970–75	122
4.6	Net investment commitments in manufacturing, 1974–78	125
4.7	Manufacturing sector highlights, 1976–78	131
4.8	Selected ratios of contribution of direct foreign investment in manufacturing industry by major sources of capital, 1978	135
5.1	Trends in government expenditure, financial years 1979–83	155
5.2	Selected economic indicators, 1979–86	175
5.3	Cumulative foreign investment by industry, 1979–85	175
5.4	Selected ratios of contribution of direct foreign investment in manufacturing industry by major sources of capital, 1983	181
6.1	Comparison of average wage increases and productivity of Asian NICs, 1979–84	193