STATE-MARKET PARTNERSHIP IN GOVERNING THE MARKET: SINGAPORE AT THE CROSSROADS

Charles Conteh
Mcmaster University
Department of Political Science
KTH 527
1280 Main Street West
L8S 4M4

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Abstract:
As Singapore continues to move towards its recently articulated goal of becoming a knowledge-based economy and an industrial hub in the Asia Pacific region, certain issues in economic policy formulation and implementation are increasingly emerging. Singapore's corporatist model of state-market partnership with predominantly multinational corporations (MNCs) is experiencing a gradual re-definition to include a greater role for local enterprises. Closely related to this is the fact that as a function of its economic success, the high costs of labor and other production inputs, relative to the country's regional competitors, are necessitating a redefinition of the strategy and goals of state-market partnership, including tripartism, as instruments of pragmatic economic management. These recent phenomena are in turn having some impacts on the state's capacity and legitimacy to continue its interventionist management of the Singapore economy.

Introduction:
This paper seeks to throw light on the institutional properties and policy processes through which Singapore has been able to employ corporatist models of state intervention in collaboration with business and labor in formulating and implementing policies that cater to the creation of a competitive and successful market system across the various phases of the country's economic development. The focus on institutional properties in this paper is a deliberate attempt to shift the discourse on Singapore's economic success away from the emphasis on the key role of the political leadership. While, no doubt, political leadership has certainly been important, the configurations of institutions and policy processes have not been given as much attention as they deserve in explaining Singapore's economic success.

Thus the central focus is to understand the changing institutional and political mechanics that surround the rather complex partnership between the public and private sectors within the framework of pragmatic economic management in Singapore, and the changing character of that partnership. Pragmatism refers to the mix of state economic planning and interventionism characterized by a non-commitment to any particular ideological blueprint and more in tune with the creation, allocation and management of resources as necessitated by the expediencies of changing national development priorities and the imperatives of economic growth.

The paper takes the following form: first, it presents a conceptual framework and brief theoretical review as a basis for the examination of Singapore's experience with economic policy formulation and implementation. Second, an analysis is made of key phases of economic development in Singapore over the past four decades, with the aim of putting in context the institutional and policy dynamics surrounding the government's active involvement or intervention in the country's economic development. Third, an attempt is made to throw light on the changing dynamics of state-business partnership necessitated by the ever-changing imperatives of the domestic and international market, and in turn, the implications that such changing partnership has for the state's present capacity to manage its interventionist model of economic development.

In light of the above, the following propositions about economic policy formulation and implementation in Singapore are examined throughout the rest of the paper: first, the operational capacity of a country's administrative machinery, especially economic development agencies, in strategic partnership with private sector actors, significantly affect the long-term coherence, practical relevance and successful implementation of economic development plans. Second, state intervention geared towards enhancing the capacity of the private sector necessitates a changing model of state-business partnership as dictated by the imperatives of changing economic circumstances.

Conceptual Framework and Theoretical Review

For the purpose of pragmatic economic management, state capacity comprises two dimensions: first, the existence of reasonably efficient administrative institutions responsive to political cues but at the same time *relatively free from- or able to resist-* the pressures and penetration of parochial and short-term special interests. Second, is the *legitimacy* of the state and its administrative machinery in carrying out its interventionist activities within the market.

According to Max Weber, bureaucracy is necessary for state action. The existence of extensive, internally coherent bureaucratic machinery is an indispensable prerequisite for state intervention in pragmatic economic management (1). Moreover, in order for the state to engage in capitalist economic transformation, the workings of the administrative machinery must link up with the workings of the market. It is also important that key officials within the bureaucracy and public agencies share major assumptions and understanding of market variables and their interaction if the internal coherence of the state's intervention is to be maintained.

Furthermore, bureaucratic competence must coexist with some reasonable degree of policy autonomy in order for the developmental state to translate its broad national goals into coherent and effective policy programs. In the absence of bureaucratic autonomy, public-private cooperation easily degenerates into situations in which state goals become directly reducible to private interests (2). In this light, autonomy makes it possible for the state to coordinate the parochial and atomistic interests of private economic actors, and alter the social and economic structure along the lines of its overall strategic development policies.

Although policy autonomy leading to internal organizational coherence and policy consistency is crucial for building and fully exploiting the technical capacity of bureaucratic agencies, nevertheless, this needs to be balanced by the imperatives of the state's external connectedness to the market environment and its main actors and interests if the intervention of the state is to remain relevant to the changing realities of the economy (3). This process could be referred to as market legitimacy, meaning the business community and organized labor's trust in the government's capacity-enhancing activities and programs, a recognition of the authority of agency officials and government bureaucrats to direct the trajectory of market transformation, and a perception among these actors that the state's policies are consistent with their medium to longer-term interests and overall economic development.

Singapore's Economic Development in Perspective:

Over the past four decades, Singapore has been transformed from having an economy based on staples export to one characterized by well-developed industrial and financial activities with close integration into the global economy. The economy grew rapidly through two key stages between 1960 and mid 1990, and a third stage is presently unfolding (4). From staples export, the economy diversified into labor-intensive manufacturing with the government's successful diversification of the economy towards financial and business services. As the economy matures and labor became scarce, the government further made a strategic switch to capital-intensive production around the turn of the 1980s. Singapore has enjoyed consistent exceptional growth rate averaging over 7% GDP growth per annum in the last forty years, doubling its GDP about elevenfold (5). After the recession of the mid 1980s, the economy was set for yet another major restructuring that would direct Singapore towards its new vision of becoming a knowledge-based economy, and an industrial hub in the Asia-Pacific region.

Unlike certain accounts that have merely stated that Singapore was well positioned at independence to benefit from global capitalism (6), it is necessary to explain how and why the state was able to redirect its society along this capitalist trajectory and take advantage of existing international economic opportunities. However, given that economic policy is a rather broad subject, the analytical scope of this paper is focused on industrial development policy with a particular emphasis on the institutional and administrative implications for the most recent industrial restructuring over the past decade.

Seeking to understand the role of the state in the process of economic development requires an explanation of the nature of the state, its power, autonomy and legitimacy vis-à-vis private societal actors, and how that affect the process of policy formulation and implementation. The significant question is not whether Singapore followed rational economic policy but why and how. Rather, it is about the processes that ensure that such "rational" policies are made and effectively implemented. The policies themselves are only reflections of institutionalized power relations among various actors (7). These institutions are in turn configured to deal with the imperatives of changing economic circumstances. Thus, the aim is geared towards an understanding of changing processes and power relations conditioned by wider socio-economic variables, and their impact on the selection and effectiveness of economic policies.

Since Singapore attained self-government on June 3, 1959, the government conceptualized national development in terms of their ability to respond to the material needs of their people and structurally transform their societies along the path of the newly adopted capitalist trajectory. Caught at the frontlines of communist-capitalist confrontation at the height of the cold war, Singapore's ruling People's Action Party (PAP) envisaged the country's socio-economic destiny through a capitalist trajectory, thereby categorically rejecting communism in principle, and perceiving economic development not merely as a goal but also a question of national survival and identity. The domestic political and institutional processes through which the Singapore government was able to delegitimize and exclude non-capitalist interests, and directed the economy towards partnership with international capital (mostly multinational corporations or MNCs) will set the context for understanding the country's specific model of economic policy management. Moreover, it sets the context in explaining why the Singapore government chose to partner with MNCs as the key model for the country's economic development. It also put in perspective how the state was able to maintain the "acquiescence" of the local private sector (entrepreneur and labor alike) in their own marginalization as significant participants in economic development.

The PAP was able to use strategic international concerns over the prevalent communist menace in the early years of self-government to assert and consolidate its hold on power. Linking up with moderate labor unions within an alliance that seeks to strike a middle course (between the extremes of leftist radicalism and rightwing conservatism), the PAP perceived that it had a sufficiently legitimate basis to embark on a systematic "liquidation" of any serious political opposition to its hold on power. Under the same "cloud" of the communist menace (both imagined and real), and armed with the overwhelming legitimacy provided by its alliance with moderate labor unions, the government was able to exclude and delegitimize more radical labor unions that were not inclined to follow the PAP's path towards a pro-Western capitalist trajectory. It was the extension of this same logic of pro-Western capitalist trajectory that easily justified the PAP's exclusion of local entrepreneurs who were showing sympathies for anti-Western sentiments.

Thus the PAP created an artificial political stability and "social quiescence" as crucial foundations for building a socio-economic infrastructure characterized by instrumental rationality and elitist policy making in long-term strategic partnership with foreign investors (8). But the real "engineering" of the political context that shaped the atmosphere of economic policy formulation and implementation in Singapore was consolidated when certain institutions were created to give more concrete expression to the "middle-road" of what could be referred to as strategic pragmatism of capitalist development. The Economic Development Board (EDB), established in 1961 to plan and promote economic development in the manufacturing sector, became the central agency responsible for market coordination and provision of incentive structures (9). Along with other agencies like the Jurong Town Corporation and the Urban Redevelopment Authority, the EDB maintained a long-term vision of market-capacity enhancement by seeking to attract and build close partnerships with large multinational corporations (MNCs).

A significant element of Singapore's economic development strategy, therefore, is the strategic partnership between competent and autonomous agencies, led by the EDB, the multiple linkages between these agencies, and their close embeddedness within the market through consolidated networks with private economic actors (10). EDB's partnership with MNCs, with its implicit exclusion of local enterprises, formed the overarching industrial development model that guided Singapore through the various phases of its economic development- at least until a decade ago when serious economic and institutional reconfigurations started taking shape.

Another crucial institutional expression of Singapore's economic pragmatism was the country's corporatist 'tripartite structure' of industrial relations management and market governance through the framework of the National Wage Council consisting of state representatives, entrepreneurs and labour unions (11). Over ninety percent of organized, unionized labor in Singapore has direct institutional affiliation with the PAP-led National Trades Union Congress (NTUC). The head of the NTUC is a government minister. The most characteristic feature of the tripartite structure is that it provides a framework of labor management through which dialogue between labor and capital is fostered, bargains are struck, and systemic long-term synergies are cultivated for economic development.

State Capacity in Interventionist Economic Management:

One of the observations that have been made about Singapore is that the country inherited a strong administration and effective government from the British who governed Singapore until the country's independence. This is not accurate because, in fact, the PAP government inherited an administration with significant structural weaknesses when it assumed power in June 1959. Fundamentally, the civil service did not have an orientation towards pursuing national development. Moreover, corruption was endemic in the Singapore public sector. The British generally neglected administrative reform. The PAP had to embark on a systematic and comprehensive reform and reorientation of Singapore's Civil Service (SCS) into a dynamic machinery of development administration.

However, a more notable feature of public administration in Singapore is the depolicitization of politics within the broader framework of policy formulation as a whole. Added to this was the strong belief of the ruling PAP in technocratic economic management free from the uncertainties of interest politics (12). Through its subtle exclusion of local enterprise within the government's EDB-MNC model of economic development, a potential political force was delegitimized from having any serious influence on the direction of economic development. Moreover, by effectively co-opting organized labor through the government's NWC framework, a considerable constellation of labor interests as a political factor was "internalized" within the government's calculus of opaque policy negotiation and "consensus" governance. This provides the government the dual advantage of "legitimizing" its active management of the economy, and also reinforcing its operational autonomy from particularist interest articulation.

The operational autonomy of economic development agencies- and the civil service as a whole- extended not only to society at large but even its own partners within the market. In its dealing with MNCs, for instance, the EDB maintains a close relational fusion with its MNCs partners but manage to keep a clear operational autonomy from their particularist interests. The success of this strategy was seen in the fact that powerful economic interests could not deviate the state from its strategic thrusts along a certain direction. While the state remains sensitive to their needs and demands, the former was able to restructure the economy at will across critical junctures of its industrialization. It is no surprise then that Singapore has been rated repeatedly as having one of the most efficient and competitive public management systems in the world.

Changing Dynamics in State-Business Partnership:

The focus of this section is to understand the policy, institutional and administrative implications involved in the recent strategic thrust over the last ten years toward a knowledge-based economy with a focus on making Singapore an industrial hub in the Asia-Pacific region. A key part of this new thrust is an increasing realization that the old model of exclusive state partnership with MNCs will not sustain the country's long-term development within the region[1]. As regional competition increases and international capital becomes more fluid (13), it is important that Singapore revisits its state-business partnership model. A result if this revisitation has been the increased importance of more systematic inclusion of local enterprises into the state-business partnership.

This is not to say that local enterprise development is a new phenomenon, but that it is taking on more prominent place in the country's economic management strategy. Mechanisms such as market network linkages are being examined to cultivate closer cooperation between MNCs and small and medium-size enterprises (SMEs). There are numerous schemes to nurture local enterprises into Singapore-made MNCs with the capacity to engage more aggressively in the regional and even global economy (14). Some of the most popular SME schemes include the following: the Local Enterprise Finance Scheme (LEFS); the Local Enterprise Technical Assistance Scheme (LETAS); the Skills Development Fund (SDF); Corporate Advisers Programme (CAP); Micro Loan Programme; Technology for Enterprise Capability Upgrading (TEC-UP); and Loan Insurance Schemes (LIS), among others. In general, Singapore has over sixty schemes to support SMEs.

There have also been increasing calls for the government to retreat from some of its productive activities in the market to make entrepreneurial room for more local businesses. In other words, the urgency of local enterprise is taking such a policy hold that local entrepreneurs, policy Think Tanks (like the Institute for Policy Studies) and academics alike are becoming bolder in their call for the withdrawal of the once revered government-linked companies (GLCs) from their "crowding out" activities in the market.

The implication of these recent developments is that institutional and policy coherence and continuity as understood in Singapore could be witnessing increasing strains. Even more significant is that within the arena of policy implementation, the institutional framework for economic management is undergoing radical reconfiguration that is witnessing a fast redirection away from Singapore's signature strategy of one-stop service through the EDB for business development to multiple stops through a host of agencies not only under the Ministry of Trade and Industry but also other government ministries whose mandate may include something related to economic development.

Just to give a picture, in addition to the EDB and JTC, other agencies now responsible for assisting coordinating business development in Singapore include NCB, TDB, IDA (revamped), SPRING, EPC, A*STAR, STB, and STIF. Without dwelling on the meanings of all the acronyms of the above agencies and their functions, it is worth illustrating the complexity of the new institutional environment.

Agencies such as the National Computer Board (NCB) and the Trade Development Board (TDB), among others, were created (or older agencies have their mandates expanded) to cover the various sectors and sub sectors in managing the complex needs of a highly heterogeneous and specialized market. For instance, although the Trade and Development Board (TDB) had been formed as early as 1983, it was a rather passive organization since local enterprises were not a strategic part of Singapore's industrial policy. But after 1985, as the new economy takes shape and new policies emerge giving greater attention to local enterprise development, the TDB was revamped into a proactive agency providing support to SMEs. Another example is the creation of

[1] From an interview with a senior official at the Economic Development Board (EDB), Singapore.

SPRING, a relatively new agency that has been working with SMEs to develop intersectoral collaboration among local enterprises- what the agency calls “business fusion groups”.

A significant implication of this strategic switch to multiagency approach is the challenge to institutional coherence and capacity that is being created by the multiplicity of agencies running various schemes in a complex and mature economy that is bent on going more regional. Part of this could be a function of the fact that as the jurisdiction and mandate of these various agencies develop and even duplicate each other, tensions and strains around cooperation are beginning to emerge. The clear leadership that the EDB was showing under the “old-order” economy is being eroded as other agencies (like SPRING) see their primary mandate taking on more policy prominence within the new economy.

Local enterprises are already complaining that there is immense confusion over which agency does what. For instance, SPRING, as maintained above, has been working with SMEs to develop business fusion groups. One problem, however, is that while SPRING assumes greater and greater responsibility for the fostering of SMEs and even sees itself as a de-facto “EDB” or central ‘nerve’ for SME, its mission statement and the ranking of its priorities gives the confusing impression that SME development is not the main function of SPRING. Instead it has this vague statement claiming that SPRING seeks to “raise productivity” so as to enhance Singapore’s competitiveness and economic growth for a better quality of life for Singaporeans. Just what this means in practical, operational terms remain unclear. Moreover, SPRING’s relationship with the other agencies, including EDB remains vague.

Another implication of this multiagency approach is the gradual erosion of state autonomy from societal penetration that state agencies once enjoy. Within their multiple and often duplicating functions, and the pressures of jurisdictional turf among agencies, the tendency towards increased porosity to the parochial demands of specific private sector interests cannot be overstated[2]. It becomes less unlikely for these multiple agencies to loose sight of the overarching strategic goals and get focused on their specific mandates with attendant sympathies for, and proximity to, their immediate clientele relative to the broader and more abstract national goals.

Furthermore, as part of the institutional shift, Singapore’s chambers of commerce and industry as well as trade and industry associations (as representatives of local enterprises) have been incorporated into the policy arena of collaborative network partnership in governing the market. The implication here is that the character of market legitimacy of the state would require some reconfiguration under the new market arrangements. First, SMEs, unlike MNCs, have a much wider representation, very heterogeneous interests, thus requiring a more complex type of state-business partnership. This complexity is already being reflected in the move from the single agency to multiagency approach to business development.

Moreover, MNCs were essentially owned and run by foreigners in Singapore. Their approach to participation in policy formulation and implementation has the measured modesty and caution of “outsiders” within the political arena. Local entrepreneurs, on the other hand, do feel a greater sense of ownership of the policy arena. The implication here is that the serenity and instrumental rationality of policy negotiation

[2] From an interview with a staff at the Singapore Civil Service College

and implementation is beginning to witness a more convoluted process of widely heterogeneous demands and largely politically enfranchised interests with higher expectations or demands on government agencies.

Conclusion

In a nutshell, this paper has looked at the changing institutional properties and policy processes that characterize Singapore's corporatist model of state-market partnership. Using instruments of pragmatic economic management, the Singapore state has fostered strategic partnership with MNCs over the past forty years with very successful economic outcomes. However this model of exclusive partnership with MNCs is under strain as the imperatives of industrial restructuring towards a knowledge-based economy necessitate a more systematic inclusion of local enterprises into the policy and administrative arena. Therefore, the institutional configuration towards increasing multiagency management of the economy as dictated by the new direction of industrial development is having some bearing on the state's capacity and legitimacy to effectively spearhead the pace and trajectory of economic development.

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15 Footnote 1, From an interview with a senior official at the Economic Development Board (EDB), Singapore, at the EDB office on November 28, 2005.

16 Footnote 2, From an interview with a staff at the Singapore Civil Service College (CSC), at the CSC office on November 20, 2005.