



Forbes Asia

Special Reports

Opinions expressed by Forbes Contributors are their own.

BUSINESS 7/10/2014 @ 6:40AM | 60,136 views

# What Makes An Asian Tiger? Singapore's Unlikely Economic Success Lies In Its History



Forbes Guest , Contributor

**By Vinnie Lauria, [Golden Gate Ventures](#)**

When Dutch economist Dr. Albert Winsemius arrived in Singapore in 1960, tasked by the United Nations with salvaging the struggling island economy, he gloomily remarked upon “this poor little market in a dark corner of Asia.” Over five decades later, Singapore’s market is neither poor nor little—the country sports the world’s [seventh largest](#) GDP per capita and more than [one in six](#) households have \$1 million in cash savings. In the past decade alone, the number of Singaporeans running their own business has doubled, giving the city-state the world’s [second most entrepreneurs-per-capita](#), behind only the U.S.

Yet when I arrived in Singapore in 2010, I didn’t understand how the city-state could be an entrepreneurial hub. My first night on the island, I attended a talk at a local university led by Danny Tan, CEO of [HipVan](#). Danny asked the crowd of business students, “How many of you would like to start your own business?”—and



none raised their hand. One young man said he needed to wait until he had “more experience first.” This was counterintuitive to what I’d experienced in Silicon Valley where everyday countless entrepreneurs (many not even college graduates—like Aaron Levie of [Box.com](#)) pursue their dreams.

In the four years since my first visit, there’s now a thriving entrepreneurial ecosystem in Singapore supported by government financing and grants, community events, and lively coworking spaces, such as [The Hub](#). When I moved here, I wondered: What permitted this island nation to so rapidly become the leading Asian hub for innovation, technology and entrepreneurship? How could my work here change the minds of young business students like those listening to Danny’s talk that evening years ago?

### **From Open Port to Entrepreneurial Hub**

Singapore’s business-friendly government is often credited with the island’s success, but the origins of the country’s economic achievements lie much deeper. The city-state’s history as a port city began in 1819, when the British East India Company turned the strategically located, sparsely inhabited island into a Southeast Asian trading perch.

In 1823, Sir Thomas Stamford Raffles, described as the “Father of Singapore,” officially declared Singapore a free and open port, forever cementing the nation’s status, and, one could argue, its future. In a report to the Bengal government, collected in [his letters](#), he wrote, “First, I have declared that the port of Singapore is a free port, and the trade thereof open to ships and vessels of every nation, free of duty, equally and alike to all.” This concept was novel—to open a port free of duty—and later, in a letter to merchants of Singapore, he further asserted “that Singapore will long and always remain a free Port, and that no taxes on trade or industry will be established to check its future rise and prosperity, I can have no doubt.”

Like all great port cities—London, New York, Shanghai—Singapore linked resource-rich mainlands with global shipping routes. Situated at the narrow southern entrance to the Straits of Malacca and protected by the power and prestige of the Royal Navy, Singapore made its first bid as a global port city amidst the burgeoning trade schedules of Pax Britannica.

## **Before [Block 71](#): Singapore's Earliest Entrepreneurs**

Even as Singapore profited from the Suez development, its business class did not settle for the wealth brought by foreign trade. Rather, Singapore's turn of the 20<sup>th</sup> century entrepreneurs took advantage of the island's proximity to resource-rich Malayan hinterlands, investing in the lucrative production of rubber and petroleum. This rare combination of proximity to valuable natural resources and global shipping lanes not only made Singapore rich, but also laid the foundations for its *sui generis* political system.

Because Singapore's trading class pioneered hinterland production, the island suffered little conflict between an agricultural class committed to protectionist trade policy and a free-trading industrial class. Instead, Singapore's business leaders were united in their commitment to free trade and to government action, maximizing business opportunity. The *raison d'être* of the state was economic growth; in Singapore's unusual geography lies the first hints of the aggressive '[developmental state](#)' that would later become its trademark.

The economic success Singapore enjoyed as a global port city with an industrial backyard was halted only by Japanese invasion in 1942. Japanese rule was brutal—replete with severe food shortages, hyperinflation, slave labor, and mass executions. When the British returned in 1945, it was to a war-ravaged, resource-depleted island. Intent on re-establishing influence in an uncertain Asia, the British set about building upon Singapore's pre-war economic development. With British investment, Singapore gradually ascended to a regional focal point for airlines, telecommunications, and mail distribution, in a bid to regain its renown as a pivotal port between Europe and Asia.

While Singapore made marked progress in the first decade after the Second World War, new political developments threatened its ascent. When Britain granted independence in 1959, foreign investors fled the island, unsure whether the newly elected People's Action Party (PAP)—led by a thirty-five year old Lee Kuan Yew—could maintain the stability essential to prosperity under British rule. It was this uncertainty into which Dr. Winsemius walked in 1960, when labor strikes, capital flight, and

political conflict led him to declare the once prosperous port city as merely the “poor little market in a dark corner of Asia.”

Less visible in Singapore’s moment of crisis was the insatiable drive of PAP to restore the stability that permitted prosperity under British rule. Because Singapore never developed a culture of political rights under British imperialism, the newly elected PAP sought to legitimize itself not by protecting rights—the basis for the state in western thought—but rather by overseeing robust economic growth. As economic historian W.G. Huff writes in *[The Economic Growth of Singapore](#)*, the PAP coordinated with Dr. Winsemius’ U.N. Technical Assistance team to embrace an aggressive development strategy, pairing a hands-off approach to regulation with a hands-on approach to recruiting foreign corporations. “The Singaporean model,” Huff writes, “carries the lesson that an extensive role for the government can be combined with free trade.”

Rather than shun foreign capital, Singapore welcomed it with tax concessions and temporary import tariffs. The plan was simple: foreign firms would bring capital, technology and skills, and Singaporeans would learn. Eventually, they would be able to replicate the business practices brought to Singapore by foreign companies.

### **Patience... and Profit**

It’s this patient strategy, crafted in the uncertainty of newfound independence, to which Singapore’s current entrepreneurial environment can be traced. In wooing tech firms and inspiring the entrepreneurs tasked with turning Singapore into an Asian innovation hub, the government has relied on strategies similar to those that brought the first foreign corporations to the newly independent city-state in the 1960s.

As its baseline, the PAP ensured Singapore remains an ideal place to conduct business by adopting a no-red-tape attitude when it comes to business incorporation, tax forms, and visa acquisition. The government’s commitment to a corruption-free, clean business environment has earned it the top rank on the World Bank’s [Ease of Doing Business](#) rankings for eleven consecutive years.

But the Singaporean government does not merely step aside when it reduces superfluous regulation. In the period 2011-2015, the

government [pledged to invest \\$16.1 billion SGD in research, investment, and enterprise](#). The outcome of such investments, such as the [NUS Entrepreneurship Center](#), are often in conjunction with top research universities such as the publicly funded National University of Singapore, frequently ranked as the [first](#) or [second](#) best university in Asia. In 2012, the Singaporean state spent [\\$4 billion](#) on its four autonomous universities and five polytechnic colleges.

Ironically for westerners who think an active government is antagonistic to business, Singapore's recent burst of entrepreneurship is the work of carefully crafted government policy. In late 2001, Prime Minister Goh Chok Tong commissioned an Economic Review Committee tasked with emphasizing how the PAP could encourage entrepreneurship. Recognizing Singapore's future prosperity lies in talent and information—rather than the natural resources and geography that first made it rich—the Committee's [comprehensive report](#) laid out a framework for political, economic, and cultural changes needed to make Singapore “a hub of talent, enterprise and innovation.” The report called for a Ministry of Entrepreneurship, liberalization of the financial sector to increase cash-flow to riskier start-ups, and government facilitation of a national private equity exchange. Many of today's entrepreneurs [credit](#) these policies with spurring the innovation of the past decade.

Most importantly, the report said, these political and economic changes would have to be met by the evolution of “new social values which celebrate entrepreneurship and risk-taking by promoting a culture that accepts diversity and failure, and embraces a broad notion of success.” Singaporeans would have to “forgive those who try and fail, and not humiliate them or dampen their ability to start afresh.”

Singaporeans have accepted the challenge. Only a decade after the Committee's report, 21.4% of Singaporeans [report](#) intentions to start a business within the next three years, nearly double the figure in 2006, and second in the world only to Taiwan. Moreover, Singapore's rising entrepreneurial class has achieved the PAP's vision for global outreach, with nearly half of early-stage businesses relying on foreign customer bases.

Perhaps most excitingly, the culture of entrepreneurship is seizing the imagination of a rising generation. Nearly [a quarter](#) of Singaporeans between 35 and 44 say they have plans to start their own business, and one in six already has. As these young people achieve success, and a generation of Singaporean Mark Zuckerbergs and Larry Pages inspire the public imagination, Singapore's burgeoning culture of entrepreneurship—augmented by geographical advantage, and decades of careful government planning in the making—will only continue to surpass expectations.

I have to think those young students in Danny's lecture have since reassessed their answer.

*With contribution from Ho Chi Tim and Sam Sussman of [Hippo Reads](#).*

## **RECOMMENDED BY FORBES**

[2017 30 Under 30: The Standouts](#)

[The Real Reasons Rodrigo Duterte Flip-Flopped On South China Sea Disputes ...](#)