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FIFTY YEARS OF DEVELOPMENT IN THE SINGAPORE ECONOMY: AN INTRODUCTORY REVIEW

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The papers in this volume provide a retrospective analysis of Singapore's economic development during the past 50 years, from the perspectives of different policy domains. This introductory review highlights common themes among the papers, chiefly the primacy of economic growth in driving social as well as economic policies, the interconnection between different policy arenas, the persistence of a particular development model despite sharp changes in policy direction, and the dominant role of the state. The authors collectively conclude that economic policy was both innovative and effective in the first two to three decades of independence, particularly in simultaneously delivering on both rapid economic growth and improved social welfare. In more recent decades, economic growth and social welfare for a significant minority of residents have begun to diverge. Looking ahead, there appears to be a consensus that slower GDP growth, higher productivity, a relative shift from manufacturing to services and from a global to a regional market orientation, and more vibrant and innovative local private entrepreneurs, are necessary for continued economic development. There is also consensus that public policy must pay greater attention to directly meeting the growing social needs of the population, especially the poor, low-income, elderly and other vulnerable groups.

1. Introduction

Singapore's economic success has for decades attracted attention throughout the developed and developing world, from scholars, policy-makers and business practitioners alike. This Special Issue to commemorate 50 years of Singapore's existence as an independent political and economic entity aims to bring together the analyses of economists who have studied various dimensions of this success, many of us for decades. The goal of this introductory review essay is to holistically explore the linkages between the different papers collected in this issue, with a view to gaining a deeper understanding of the development process Singapore's economy has undergone in the last half century. The essay is organized thematically — beginning with a statement of the economic policies and strategies deployed, turning next to an evaluation of the outcomes, and concluding with current challenges, and prospects for the future.

2. The Policies

Singapore's economy is often erroneously characterized in the popular international media as having developed from nothing — even "a malarial swamp" (Jacobson, 2010) or "a mosquito-infested seaside village" (Cohen, 2015) — at independence. On the contrary, Lee Soo Ann reminds us in his paper on governance and economic change that Singapore well before independence was already an established commercial and financial hub for Southeast Asia and the British Empire, the second richest place in Asia after Japan, and one of the world's busiest seaports. Its policies of free trade, capital and labor flows had all been in place since the modern city's founding by Stamford Raffles in 1819, it had a convertible currency based on the British pound sterling, with a British legal system, modern transport and communications infrastructure and public services including education and healthcare, and English as the common language. Continuation of the colonial-era "openness" aspect of Singapore's economy after independence is explored in Chia Siow Yue's paper on international trade and investment, and Tilak Abeysinghe's paper on lessons from Singapore's experience for other developing economies. Even iconic Singapore social policies like Housing Development Board (HDB) public housing, discussed here by Sock-Yong Phang, and Central Provident Fund (CPF) savings for retirement, analyzed by Ngee-Choon Chia, and its unusual currency board system, reviewed by Peter Wilson, had their origins in colonial-era policies and institutions.

A second common mis-characterization is that Singapore's post-independence rapid growth was the result of "laissez-faire economics". In fact, it was only the laissez-passer policies of the British colonial era that were retained by the successors of Raffles, and these were pursued to their practical and logical extremes when Singapore began to enter into a proliferation of free trade agreements (FTAs) with its major trading partners in the 2000s (S. Y. Chia). By the early 1950s, laissez-faire economics had left the colonial port city with a multi-racial immigrant population growing too rapidly for the city's inadequate housing stock to shelter, and for its stagnant entrepot trade-based economy to absorb — resulting in12% unemployment, and periodic labor and urban unrest, including race riots. As Lee notes, a governance change was required to empower a local government to deal with these problems. Following self-government in 1959, even before merger with Malaysia in 1963, the PAP-led legislative assembly established a statutory board, the HDB, to build high-rise flats in which city slum-dwellers could be relocated (Phang). The government also established the Economic Development Board (EDB) to develop industrial infrastructure and promote investment to create jobs (S. Y. Chia). There were early investments in education and in health, especially family planning to lower fertility and slow population growth, as Yap Mui Teng and Christopher Gee discuss in their paper on demographics and population policy. Intervention in the economy was not, however, limited to the provision of public and merit goods, or to the earlier post-independence years. As Tan Kim Song and Manu Bhaskaran show, the role of government in modern Singapore has been both "more extensive and more intrusive" up to the present day.

Giving priority to the development of social infrastructure before attracting private investment was a hallmark of independent Singapore's early public policies, reflecting both the city's very obvious social needs at the time, and the PAP's own social democratic ideology, influenced by post-war Labor parties in the U.K. and western Europe. Where Singapore innovated was in how it funded social services and infrastructure construction.

This was done through expansion of the British-era CPF involving mandatory contributions by both employers and employees toward a retirement portfolio for employees (N. C. Chia). Singapore also innovated in allowing citizens to use their CPF retirement savings to purchase housing — initially just the "public housing" units built and managed by HDB, later extended to include private housing. The HDB is an unusual public-private hybrid model, with residents enabled to buy their flats, using their CPF savings to partially pay for mortgages. To ensure national security, which Abeysinghe considers one of the important noneconomic factors underlying Singapore's economic success, compulsory military service was introduced for males. Founding Prime Minister Lee Kuan Yew believed that national servicemen needed to have an ownership stake in their society, to motivate them to fight for the nation, hence the policy of encouraging near universal home-ownership.

Fiscal and monetary policies, the bedrock of most governments' economic policies, are also unusual, if not unique to Singapore. Mukul Asher, Azad Singh Bali and Chang Yee Kwan argue that the raison d'etre of public financial management is to serve Singapore's "location-based growth strategy" essentially through a low tax regime. The public sector has a much larger role in the economy than reflected in the budget, with extensive use of unconventional nontax revenues to fund off-budget economic activities, even while national spending on healthcare and pensions makes very limited use of social risk pooling. Persistently large budget surpluses over many decades, as well as high domestic savings due to the CPF and other factors, have resulted in large balance of payments surpluses, which have been continuously added to the foreign exchange reserves. As Wilson explains, Singapore's monetary policy since 1981 does not employ conventional interest rate management, given the extreme openness of the economy. Instead, it is aimed at managing the exchange rate against an undisclosed basket of currencies, with the primary aim of controlling inflation. Over time, this has resulted in currency appreciation, in both nominal and real terms. A portion of the income earned on the reserves, managed by the Government of Singapore Investment Corporation (GIC), is returned to the budget for public expenditure. Tan and Bhaskaran further argue that the accumulation of public surpluses has been a goal of government policy, and not merely a means to developmental ends.

Pang Eng Fong and Linda Lim's paper on labor and productivity characterizes Singapore's development model as "state-driven, multinational-led, export-oriented and manufacturing-focused". Lacking a domestic market or natural resources, foreign companies have been attracted here after independence by investment incentives (S. Y. Chia), and by the liberal import of low-, middle- and high-skilled foreign labor. Where multinationals were hesitant to enter, the investment gaps have been filled by the state itself, which gave rise to the government-linked companies (GLCs) that have not only survived to the present day, but flourished. Tan and Bhaskaran further characterize the post-2000 phase of Singapore's economic growth as "foreign talent driven", in contrast to the earlier "foreign investment driven" phase.

Taken together, all these elements of public policy in Singapore are geared first, to facilitate economic growth through subsidies and a compliant workforce for foreign corporations (Tan and Bhaskaran; Pang and Lim), and second, to ensure social welfare in a manner consistent with an overarching philosophy of self-reliance for individuals and households, as argued by Irene Ng in her paper on social welfare policy, both under the aegis of a highly interventionist state.

Several common themes link the papers in this volume. First, nearly all the papers note the primacy of economic growth in government policy, not just in the early years of high unemployment, but throughout the republic's fifty-year history, with high growth rates targeted well beyond the income threshold at which GDP growth tends to slow down in developed countries. Besides industrial policy, social policy was also harnessed to this end. Thus, housing and industrial estates were well integrated as a matter of policy, the object being to ensure that affordable housing kept factory wages low (Lee; Pang and Lim), while employers' CPF contributions and rentals on state-owned industrial estates were reduced in economic recessions to lower business costs (N. C. Chia; S. Y. Chia; Pang and Lim; Tan and Bhaskaran). Concurrently, a liberal foreign worker policy lowered labor costs directly and increased employer flexibility (Pang and Lim), and acted as a buffer against local unemployment in downturns. Public finances were oriented toward providing incentives and subsidies to investors (Asher, Bali and Kwan; Tan and Bhaskaran), while also catalyzing the "efficiency infrastructure" and "development welfare" (Abeysinghe) so essential to long-term growth. "Productivist" social welfare policies focused on human capital development for economic growth (Ng), while the energy and environmental policies which Chang Youngho discusses were also motivated by growth — directly through investments in petroleum refineries and energy efficiency measures to improve competitiveness, and indirectly through creating a livable urban environment to attract foreign investment and talent.

A second and related theme is the interconnection between different policy arenas which increased the effectiveness of individual policies. The best known of these is the mobilization of individuals' CPF savings to finance their publicly-constructed housing, thus quickly solving a major housing problem while avoiding budget deficits, besides creating a home-ownership society, and motivating national service (N. C. Chia; Phang). The use of racial quotas in public housing estates also helped to create community among different races and religions, fostering national unity and preventing the formation of ethnic ghettoes and voting blocs. HDB, CPF and labor policy also served industrial policy conducted largely by the EDB. Housing, education and health policy — discrimination in the allocation of flats and school places, and pricing of healthcare — were used to promote family planning during the anti-natalist years of the 1960s and 1970s, while budget measures such as tax reliefs and child payments were employed during the pro-natalist decades that followed (Yap and Gee).

Third, as might be expected during a period as long as fifty years, there were sharp changes in policy direction, but within the same development model and institutional infrastructure. HDB's goals moved from dealing with a chronic housing shortage and providing affordable basic housing in the 1960s through the 1980s, to upgrading, market deregulation and asset enhancement after 1990, with some return to a focus on affordability in very recent years, especially for young couples and the elderly. CPF moved quickly from retirement savings to mortgage financing, later adding nonhousing investments, healthcare and education financing to its allowable expenditures. Investment incentives and industrial policy moved progressively up the technological ladder from labor- to capital- and skill-intensive, while foreign labor policy swung back and forth between heavy dependence and tightening. Perhaps most dramatically, population policy that was emphatically anti-natalist in the 1960s and 1970s was totally reversed in the 1980s to encourage higher fertility. There was also a switch from public provision to partial privatization of public and social services, reflecting an ideological shift from state to individual responsibility for social welfare that has recently begun to shift back.

Fourth, through all of Singapore's developmental stages, the dominant role of the state in the economy was maintained and even expanded, contrary to the standard economic policy prescription that validates state intervention only for developing countries and in the case of market failure such as externalities. Rather than the state retreating with the development of markets and institutions and rising incomes, state and state-linked entities have reached into ever more areas of public and even private life, including marriage and procreation, and the provision of commercial goods and services, including commercial property development, transportation, supermarkets, insurance, and financial market activities, which in other developed market economies would be the purview of private enterprise. From a governance perspective, it is likely that strong central executive control, an undivided legislature, and what Abeysinghe calls "politicians with high opportunity cost" facilitated swift decision-making and policy implementation by not just the civil service, but also statutory boards, GLCs, the National Trades Union Congress (NTUC) and other state-linked units and their numerous private sector subcontractors. Tan and Bhaskaran emphasize the importance of a pervasive multi-faceted state apparatus, under long-lasting single-party political control, in enabling the rapid mass mobilization of resources for economic growth during different developmental phases.

3. Policy Outcomes

There is no question that well-designed policies, and the governance system that underlay them, succeeded in bringing about very quick results in almost every policy domain, and in so doing took Singapore into the league of developed economies. First, the overriding goal of high GDP growth, to which all policies were harnessed, was achieved for a sustained period, with full employment and low inflation delivering rising real incomes; in the earlier phase of development, there is also evidence that the distribution of income improved (Ng). This together with the provision of welfare-enhancing public infrastructure and social services constituted the success of the implicit "social contract" that the government had with voters (Tan and Bhaskaran).

Second, each policy achieved its multifaceted goals. Most strikingly, during the Lee Kuan Yew era (1959–1990), housing policy succeeded not only in increasing the quantity and quality of the national housing stock, but also lifted the savings rate and home-ownership, while fostering racial integration, and distributing resources to lower income groups (Phang). "Efficiency infrastructure", "development welfare" (Abeysinghe), and tax incentives and subsidies for investors (S. Y. Chia) were funded without budget deficits, thanks to extensive nontax revenue earned by state agencies delivering such infrastructure and services (Asher, Bali and Kwan). Investments in education increased human capital which contributed to both rising incomes and industrial restructuring through skills and technology upgrading, while energy policy facilitated both Singapore's industrialization and its later transition to a more services-oriented economy (Chang). The anti-natalist policies of the 1960s and 1970s contributed to dramatically reduced fertility (Yap and Gee) while facilitating GDP growth and industrialization through increased female labor force participation and higher savings from reduced dependency ratios (Pang and Lim).

The admirable achievements in these policy arenas were greatly enabled and enhanced by a favorable global market environment for export manufacturing (including multilateral trade liberalization and the spread of information, communication and transportation technologies). Other developing economies also embarked on the same path, particularly the other "Asian NICs" (newly-industrialized countries) or "Asian Tigers" of South Korea, Taiwan and Hong Kong in the 1960s, followed by the so-called "Little Tigers" of Malaysia, Thailand and the Philippines in the 1970s, China in the 1980s, and Vietnam in the 1990s. Although these countries' export competitiveness derived primarily from factor-based comparative advantage in relatively labor-intensive industries, many also followed the same policies that Singapore did of openness to trade and foreign investment, fixed or tightly managed exchange rates, domestic market liberalization, infrastructure development and statist industrial policy, though most did so only selectively (for example, through segregated export processing, free trade or special economic zones). All grew GDP and incomes at rapid rates until progress was stalled by the Asian financial crisis of 1997–1998.

Due to its extremely small size and limited resources, Singapore's comparative advantage changed much more quickly than that of other countries, swinging from excess supply to excess demand for labor in just seven years, after which policy sought to shape comparative and competitive advantage in a much more dirigiste mode, going beyond openness and "tax holidays" to targeted sector-specific (fiscal, financial, human and infrastructural) capital subsidies. These were complemented by an increasingly liberal policy of importing foreign labor and talent to prolong extensive growth through factor accumulation, which resulted in low and even negative productivity growth from the second decade of independence onward (Pang and Lim; Tan and Bhaskaran). The depression of both capital and labor costs preserved international competitiveness and Singapore's attractiveness to foreign investors, thus extending high GDP growth rates well beyond what very high per capita income combined with very low productivity growth would otherwise allow.

This trajectory ultimately proved to be economically unsustainable, given diminishing returns especially the extreme scarcity of land and its importance as an input into housing and transportation. As both public and private housing prices rose due to heightened scarcity values intensified by foreign demand (the result of open capital and labor markets) rather than generalized inflation (held low by very effective if unorthodox monetary policy), Singaporeans saved more of their income to spend on housing, with a corresponding fall in the share of income spent on consumption of other goods and services to a very low level by local historical and comparative international standards (Asher, Bali and Kwan; Tan and Bhaskaran). Becoming "asset-rich and cash-poor" (N. C. Chia; Phang) in a rapidly-ageing society (Yap and Gee), where most retirement savings lodged at the CPF (periodically diminished by cuts in employer contributions in downturns) have been devoted to housing (HDB), poses serious problems for retirement income adequacy. The integration of CPF savings with HDB housing policy, so perfect for a much younger, lower income, higher fertility society in a much lower cost, faster growth era, now presents difficult policy challenges in a much older, higher income, lower fertility society in a much higher cost, lower growth era. Higher land and property costs have also directly (e.g., through commercial rents) and indirectly (e.g., through higher wages required to compensate local and foreign workers for higher housing costs) reduced international competitiveness and hence the capacity for growth through foreign investment. An atypical failure to provide adequate housing, transportation and healthcare amenities for the large foreign labor and talent influx imported to propel economic growth in the 2000s ultimately proved to be the unraveling of the input-driven development model. Heightened social and political discontentment, coupled with declining welfare of the lower income resident population, finally forced a belated change in economic strategy.

While individual policies interacted to enhance their collective effectiveness, successful policy in one domain also had negative impacts on other policy domains. For example, during the labor-intensive era of development, low skilled manufacturing jobs were plentiful for lowly educated residents, for whom employment and wages rose rapidly, reducing poverty and inequality (as also happened in other East Asian countries) and increasing ability to pay for affordable public housing out of CPF savings (unique to Singapore). But as Singapore's comparative advantage shifted, returns to internationally mobile capital and skills increased while those to low skilled domestic labor decreased, as in other developed countries subject to the same forces of intensified global competition and skill-biased technological change, resulting in increased income inequality. In Singapore, however, this process was intensified by the massive import of low-skilled labor in the continued pursuit of high growth, which depressed wages at the lower end of the scale, as well as productivity growth by removing the incentive for firms to automate and innovate (e.g., Pang and Lim). At the same time, the policy to attract global talent, especially into the financial services sector, pushed salaries up dramatically at the high end of the labor force (e.g., Tan and Bhaskaran). Not surprisingly, earned income inequality in Singapore is now greater than in most other developed countries, and overall inequality is even greater if wealth inequality were also taken into account. Combined with the rising cost of living, this has introduced challenges of poverty and retirement adequacy for significant proportions of the population (Ng; N. C. Chia), unlike the situation in the earlier post-independence years.

While openness has always made Singapore vulnerable to external shocks from booms and busts in global markets, successful industrial upgrading through more recent statist policies has increased economic volatility (e.g., four recessions in the 2000s) given concentration in a few volatile and capital-intensive industries (Pang and Lim; Tan and Bhaskaran). Volatility not only reduces growth and productivity, it also makes macroeconomic stabilization more challenging, reducing the degrees of freedom which monetary (Wilson) and fiscal (Asher, Bali and Kwan) policy previously had to pursue other goals, more so for fiscal policy. Worse, increased volatility has arguably reduced welfare for the working class and forced them to shoulder higher risks, in the absence of an effective social safety net, at the same time as industrial upgrading increased the skill wage premium, worsening income inequality. The priority given to economic growth, in particular to heavily capital-intensive industries like petroleum refining and chemicals, may also conflict with environmental goals of reducing energy use and pollution, e.g., Singapore's per capita energy consumption rose to internationally high levels even as other policies increased energy efficiency and reduced carbon emissions (Chang). Growth based on large imports of foreign labor and talent has resulted in not just increased physical congestion, especially with respect to transportation, but has also increased the risk of social divisions between indigenous citizens and "new residents", exacerbated by ethnic and housing clustering.

One area in which policy has notably failed on its own terms is population policy (Yap and Gee). While other developed countries and especially their high income dense urban cities have also experienced sharp falls in fertility, Singapore's fertility rate is one of the world's lowest, despite three decades of policy attempts to raise it. Since Singapore also has much greater government intervention in citizens' lives than other developed countries, as many of these papers detail, one might speculate on the ways in which the whole gamut of economic growth, education, housing, labor market, retirement, healthcare and other policies taken together could have influenced marital and fertility decisions, of which housing affordability has been the most obvious and much commented on. In addition, rapid population ageing, itself partly the consequence of past population policies, makes it difficult for an entire generation of now elderly Singaporeans with few children to simultaneously monetize the housing assets in which their retirement savings have been concentrated, without depressing asset values.

4. Challenges and Future Prospects

Collectively, the papers in this volume broadly concur that economic policy in Singapore was both innovative and effective in the first two to three decades of independence, particularly in simultaneously delivering on both rapid economic growth and improved social welfare. The city state benefited from favorable initial conditions, including strategic location, institutions, infrastructure, an experienced entrepreneurial and skill base in commercial services (though not in manufacturing), and established business relationships with Southeast Asia and even the world. Like other Asian NICs, Singapore also benefited from technological and institutional developments that facilitated the globalization of multinational manufacturing supply chains and developed country markets that were open to exports from developing countries; and like them, it employed statist industrial policy to accelerate industrialization and technological upgrading in targeted sectors. The early developmental outcomes in terms of high growth, expanded employment, increased incomes and, for a time, improved income distribution, were also similar to those in the other Asian NICs, as are some of the current problems of slowing growth, increasing inequality, low fertility and, for some, a certain degree of de-industrialization.

But Singapore also differed from the other Asian NICs in a number of important ways. Most obviously, its much higher starting income level, lack of an agricultural sector, very small size, extreme economic openness, and elected government (which South Korea and Taiwan lacked before the late 1980s, and Hong Kong still lacks today) distinctively shaped many specific policy choices. The first and most notable feature of Singapore's unique political economy was the government's pro-activist social policy — particularly HDB and CPF, but also policies on health, education and family planning — as an integrated part of the overall development strategy and complement to industrial policy. But social services were not just provided as consumption goods which served to win votes for the PAP government from an electorate desperately in need of housing and jobs. They also contributed to cost competitiveness and the attraction of foreign investment. The need to fund such services led to the development of many off-budget funding sources for government development expenditures, including through statutory boards and GLCs, thus eschewing the need for deficit budget financing (Asher, Bali and Kwan; Tan and Bhaskaran).

Second, small size and extreme openness together led to the evolution of Singapore's unique and immensely successful exchange rate management-based monetary policy, whose chief goal was to mitigate imported inflation and preserve the purchasing power of Singapore households' savings. This, and the policy of attracting multinationals to set up production bases, required a stable (or, as it transpired, gradually appreciating) currency, given the high dependence of both consumption and production on imported inputs, and the need to minimize the uncertainty associated with currency fluctuations. Persistent budget and savings surpluses were reflected in large current account surpluses, and transformed into massive external reserves — both to ensure currency stability, and very likely, to give the vulnerable small, new and open nation a measure of national security, given the government's "siege mentality" at its birth (Tan and Bhaskaran). The strength of the currency in turn boosted the development of financial services, including foreign exchange trading and the wealth management business which has taken off since 2000 (Wilson).

A third distinctive difference between Singapore's development model and that of the other Asian NICs, which has been extensively written about, is the heavy reliance of the industrialization process on foreign investment (S. Y. Chia), as opposed to the nurturing of domestic industrial entrepreneurs which South Korea and Taiwan favored. Several contingent factors may explain this policy choice, which has proven to be very consequential and sheds light on the shrinking share of manufacturing in GDP in recent years. Lack of an industrial entrepreneurial class and Singapore's miniscule domestic market at the time of independence, made it difficult if not impractical to cultivate or protect national enterprises. While the other Asian NICs also mostly lacked experienced domestic industrial entrepreneurs (Hong Kong's transplanted-from-the-mainland garments industry excepted), Singapore's local entrepreneurial class of Chinese immigrants were traditionally oriented to trading and services, and lacked the technological know-how and global networks necessary to export manufactures to developed country markets. Once multinationals had established themselves, and as the state sector itself expanded, given Singapore's small size, local entrepreneurs might have been crowded out in factor markets (for land, labor and skills) or found it more lucrative and less risky to supply and service the state and multinational sectors, rather than compete with the latter. For its part, the government may have preferred a high foreign economic presence as a safeguard of sorts against the risk of regional aggression. Whatever the reasons, prolonged dependence on foreign enterprises has left the economy lacking the "inherent production capacity" and "core of strong vibrant local enterprise" necessary to propel its development into the future (Tan and Bhaskaran). At the same time, "an investment approach…putting bets on many new industries with the expectation that some would pay off handsomely even if others fail — limited the likelihood of developing sufficient depth and globally competitive scale in any of these industries, since all would be competing for already extremely scarce resources."[1]

Looking ahead to the nation's next 50 years, Singapore confronts two major economic challenges. The first is sustaining economic growth and continuously improving living standards, and the second, ensuring social security and basic needs are met for its population.

With respect to economic growth, a consensus has emerged among economists, policymakers and local business leaders that the Singapore development model of the past 50 years is no longer viable, or adequate to deliver improved living standards for the citizen population. Most of this reasoning has centered on domestic supply-side (i.e., resource) constraints, particularly land and labor, which have resulted in high costs and deteriorating competitiveness. But there are also external demand side constraints arising from demographic, macroeconomic, structural, technological and institutional changes in the world economy (Lim, 2015). As Finance Minister Tharman Shanmugaratnam noted in his Budget 2015 speech: "The current global environment is not…just a temporary challenge. We may see prolonged sluggish growth in the advanced world, as well as continued consolidation in China's growth as it reforms and rebalances its economy. We should not count on significantly stronger global demand over the medium term."

Fortunately, there is also an emerging consensus on what can and should be done going forward, and government policy is slowly moving in that direction. First, as announced by Prime Minister Lee Hsien Loong in January 2015, is a reduction in the targeted and expected annual GDP growth rate to 2% to 3%, much more typical of and achievable by an already high-income developed economy, than the 3% to 5% proclaimed by the Economic Strategies Committee in 2010. Second is the continued and reinforced push to increase productivity (Pang and Lim; Wilson), the only means of ensuring rising living standards: this involves greater selectivity, though still an absolute increase, in foreign labor imports, as well as subsidies for business investment and skills training as domestic factor prices/resource costs realign themselves to market forces. Third, as part of this economic restructuring, heavily subsidized manufacturing's share of GDP is likely to shrink further, as its share of employment already has, while that of services, which are more aligned to Singapore's

[1] Tan and Bhaskaran, in this volume, noting that in 2003 "The Economic Review Committee…identified bioscience, global banking and finance, wealth management, lifestyle industries, arts and culture, media and design, education and healthcare, among others" as examples of "creative and innovative" industries to be promoted. Added to this list would be the ongoing massive investments in petroleum refining and chemicals that they and Chang describe.

long-term comparative and competitive advantage, will continue to increase (Pang and Lim; Tan and Bhaskaran). Given Singapore's path dependence on large MNCs, and in stark contrast to Korea, Taiwan or even Germany, it is inconceivable that a small and medium-sized manufacturing sector supplying them will survive in its current state once these MNCs relocate to cheaper and spatially superior locations with larger markets. Fourth, and related to the previous point, recognition that a vibrant private entrepreneurial sector is necessary for innovation at the technology and income frontier is bringing renewed policy focus on local entrepreneurs and SMEs, though to date heavy state promotion of innovation has been noticeably inefficient (Tan and Bhaskaran). Fifth, as noted by UOB chief economist Jimmy Koh, "There's one thing that's become absolutely clear — we have become expensive, as a nation. We either increase scale, or increase productivity — and for the former, we have to get out of Singapore." (Ang, 2015) This too will bring Singapore closer to other developed countries, which have a much more balanced mix between inward and outward FDI (on which, for Singapore, see S. Y. Chia). Government policy here includes grants to encourage local SMEs to invest outside of Singapore, and there is increased recognition that the country's economic future lies less in continuing as a "global city" and more in closer linkages with Southeast Asia, its regional "hinterland" (Tan and Bhaskaran).

There is also growing consensus in the social policy arena on the need to rethink provision for social security and basic needs for a rapidly ageing population, given real wage stagnation or decline especially in lower wage occupations, income inequality (a Gini around 0.47 for labor income only) and relative poverty rates (20% to 22% of the population) which are high relative to other East Asian (and developed western) countries. Singapore's welfare policies have lagged the developed world, if not the Asian NICs, even as declining social mobility through the educational system (Ng), and a high (nearly 50%) rate of inadequate retirement savings (N.C. Chia) present new challenges. The government has responded vigorously in recent Budgets by increasing social transfers, particularly to the working poor (Workfare), the elderly (Pioneer Generation healthcare subsidies), the elderly poor (Silver Support scheme), and lower income HDB homeowners (with various schemes to help them "age in place") (Ng; N.C. Chia; Phang). But it appears to be still fundamentally averse to social risk pooling, universal entitlements and income redistribution in social policy, despite a long held willingness to provide ever-increasing performance-based subsidies to corporations under the state's industrial policy (Tan and Bhaskaran). Thus, recent CPF reforms of increasing the wage ceiling, contribution rates, interest rate and payment periods are still based on self-reliance and individual responsibility for retirement adequacy, while the new MediShield Life health insurance scheme remains largely based on commercial principles.

Asher, Bali and Kwan suggest that "the continued reluctance to introduce social insurance principles in pension and healthcare financing arrangements" reflect policy makers' "mindset…wedded to the requirements of the location-based strategy" — a low tax regime with industrial policy subsidies, free capital repatriation and high foreign ownership. But they detect the beginnings of a "mindset shift" and note that large budget and off-budget surpluses indicate that policy reforms "will not be constrained by a shortage of fiscal resources, or by institutional and organizational capacities." As an example, the pension cost of the means-tested, noncontributory income support system targeted to needy elderly proposed by N.C. Chia will cost less than 1% of GDP even as the population ages and growth slows.

Budget 2015's increase in the top marginal income tax rate from 20% to 22% (still well below the 28% rate prevailing till 2002 when it was lowered to attract foreign talent), explicitly to provide funds for increased government social expenditures, may signal a gradual "mindset shift" in social policy. Finance Minister Shanmugaratnam confirmed that fiscal sustainability continues to be ensured by budgetary prudence, the constitutional requirement to balance budgets within each (average 5-year) term of government, and by the allowed use of 50% of "net investment returns" (NIR) on reserves managed by the Monetary Authority of Singapore (MAS) and the sovereign wealth funds GIC and Temasek Holdings.

Ng argues that dealing with poverty, inequality and social mobility requires more than a "mindset shift" in favor of more income transfers and social subsidies, necessary (and still inadequate) as these are. Publicly-funded housing (HDB), pension (CPF), healthcare, education and skills training policies are also important. So is "wage correction" which she notes may have to advance ahead of productivity growth, given the large gap that has developed over decades of wage suppression at the lower end of the labor market. This will mitigate poverty and inequality, but in the short to medium term will have an adverse impact on international competitiveness, particularly of SMEs, and hence economic growth. However, rising wages will also incentivize work and productivity, while adding to the currently low (40%) wage and consumption shares of GDP, helping the economy rebalance toward higher consumption of domestic services, and thus a less volatile and less unequal GDP.

Another policy domain where a "mindset shift" is required is the ultra-low fertility rate which, insofar as it may derive from the local economic environment, is likely to characterize new immigrants as well as native citizens. Policies to increase marriage and fertility have been in existence for three decades now and rely heavily on financial incentives, including cash bonuses, to encourage births, but have had a notable lack of success. Ho (2015) notes that other high income, low fertility developed countries in Europe have succeeded in reversing low birth rates, some to replacement level, through public policies which "promote work-life integration and gender equality within the family". However the Singapore government, though aware of these policies, seems unwilling to try them, either for ideological reasons (e.g., unwillingness to let go of patriarchal cultural norms, and fear that "welfare makes people lazy") or because long parental leaves (the essence of the European policies) will raise costs to employers and further jeopardize economic growth.

5. Conclusion

The prospect for the future, then, is that Singapore will make a delayed transition from the high growth but low productivity middle-income manufacturing-based economy led by multinationals serving the global market that it was from 40 years ago, to a low growth but higher productivity high income services-based economy led by local enterprises serving a domestic and regional (as well as global) market. To a large extent, this reflects a return to the city state's pre-independence role as a regional services hub for Southeast Asia (Lee). How this market-determined (comparative and competitive advantage-based) transition will actually take place is still uncertain. For example, S. Y. Chia believes that state industrial policy can have a role to play in nurturing domestic entrepreneurs and encouraging them to venture overseas, which will preserve a large state apparatus; whereas Tan and Bhaskaran, and Pang and Lim, prefer to rely on market forces and a downsized state. In social policy, there is more consensus on the need for a more activist state role utilizing multiple policy levers — except, curiously, on the part of the state itself which continues to promote individual self-reliance and now "collective responsibility" and philanthropy (Budget, 2015) to mitigate poverty and inequality.

Finance Minister Tharman Shanmugaratnam's Budget 2015 speech summarized the government's current philosophy as follows: "This Budget is focused on building Singapore's future. We must reach our next frontier as an economy, with firms driven by innovation, and higher incomes coming from deep skills and expertise in every job. We must ensure a society that is fair and just, where everyone has a chance to move up and do well regardless of where they start. And we must complement a culture of personal effort and responsibility with stronger collective responsibility, especially for our elderly." This statement clearly re-prioritizes social needs as a social (and hence governmental) responsibility. But the Budget policies on which it is predicated continue to focus on state-driven resource allocation, including the nurturing of private enterprise (not usually the competence or role of states in market economies), and a differentiated education and skills training model (which implies some degree of continued state targeting of specific skills, and which Ng notes could entrench existing inequalities). The boundaries between state and market, public and private, global and local, financial and social forces in Singapore's economy remain to be negotiated, if not contested, in the next 50 years.

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