

RECLAIMING THE TRUTH FROM FREE-MARKET FAIRY TALES: A CASE STUDY OF SINGAPORE



Economic advice during the height of neo-liberalism warned against high levels of state ownership and state intervention in an economy, arguing that they are inefficient, will crowd out the private sector, and are likely to lead to corruption.

The case of Singapore busts this myth. Singapore has extremely high levels of state ownership and the government has also intervened significantly and strategically in the economy.

This case study will shine a spotlight on four often-downplayed factors underpinning Singapore's success, which demonstrate that it is possible to deliver very impressive economic results using a different mix of policy tools.

SINGAPORE'S EXCEPTIONAL ECONOMIC RECORD

As recently as the 1960s Singapore was regarded as a "poor little market in a dark corner of Asia"¹. Between 1960 and 2010 its per capita GDP (at constant 2005 prices) grew by 5.4% per year, leading its first Prime Minister, Lee Kuan Yew, to comment that Singapore went from third world to first world within one generation.² Singapore now has one of the highest GDPs per capita of any country in the world (See Chart 1, below right, and the contrasting images, below).



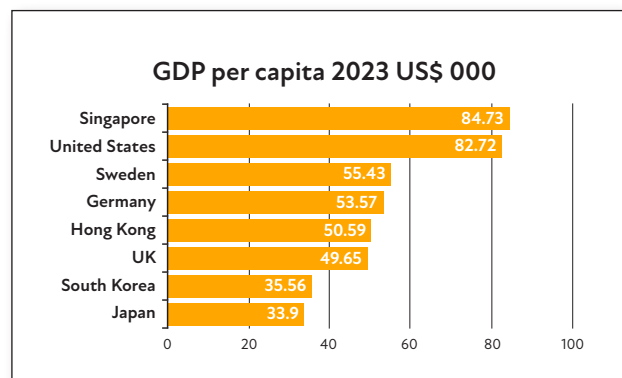
Singapore 1976 (left)
and 2023 (below)



Photos: © Reuters

POLICY QUESTIONS FOR CONSIDERATION

- Are there SOEs in your country? In what sectors? How are they managed? How are they performing? Could they better contribute to delivering the country's economic development strategy?
- Is there a case for greater strategic state intervention in your economy, for example through education policy, support for export industries, or encouragement of domestic savings?
- What are the political, economic and fiscal constraints to increasing the levels of public ownership in your country?
- How can these be overcome? Who do you need to get on board?



¹Turnbull, C.M. (2009). *A History of Modern Singapore, 1819-2005*. NUS Press

²Kuan, M.L. (2015) "Manufacturing Productive Capabilities: Industrial Policy and Structural Transformation in Singapore" University of Cambridge PHD thesis.

THE PARADOX OF SINGAPORE'S DEVELOPMENT

Many factors have contributed to Singapore's remarkable transformation and there are many theories about which was the most decisive - from its geographical location, to the honesty and integrity (and authoritarian nature) of its government, to the immediate post-independence existential pressures the country faced. Most analysis of Singapore's economic success focuses on its openness to trade and investment, particularly foreign direct investment. It is consistently ranked as one of the 'freest' economies in the world, taking the number one spot in the Heritage Foundation's 2024 Index of Economic Freedom and 2nd place in the World Bank's Ease of Doing Business rankings. Singapore's reputation - certainly in much of the media - is as a free trading, low-taxation, low-regulation haven for multinational businesses.

This reputation is part truth, but a big part myth. Although some commentators (grudgingly) acknowledge the 'paradox' of Singapore's mix of free market and state intervention³, there is still little understanding of the significant role that the state, and in particular state-ownership, has played and continues to play, in Singapore's economic success.

NEGLECTED FACTORS IN SINGAPORE'S ECONOMIC SUCCESS















Singapore has one of the largest SOE sectors in the world

Having been considered essential economic policy tools in the immediate post-Second World War era, from the 1970's onwards SOEs fell out of favour with the economics profession. There was a growing assumption that they are inefficient, a burden on the state and vehicles of patronage. In response, and following advice of the multilateral donors, the 1980s saw waves of closures and privatisations.⁴

Singapore bucks this trend. It is one of the most advanced economies in the world, yet its rapid growth was based significantly on its SOEs, and they continue to play an important role in the country's economy today. Singapore's SOE sector is primarily made up of Government-Linked Companies (GLC's) which are entities in which the wholly government-owned Temasek Holdings has a controlling share. Historically Singapore's SOE sector has been larger than other countries. A 1995 World Bank report found that the weighted average share of the SOE sector in GDP in the 40 developing countries it studied was 10.7% between 1978-1991. The Singapore Department of Statistics estimated that GLC's accounted for 12.9% of GDP in 1998, with the non-GLC public sector accounting for another 8.9%, giving a total public sector/GLC share of 21.8%.⁵ As of 2024, Temasek's Singapore-headquartered portfolio had a net value of US\$ 152 billion⁶ equivalent to 30.5% of GDP, while in 2019 Temasek had directly or indirectly, significant stakes in 25 Singaporean listed companies which comprised approximately 30% of the total Singaporean stock market capitalization.⁷

Temasek's stake in Singapore companies

| | Company name | Sector | % Temasek shareholding as of 31 March 2024 |
|--|--|--|--|
|  | Singapore Power Ltd | Electricity and gas | 100% |
|  | PSA International | Ports | 100% |
|  | SMRT | Rail, bus & taxi services | 100% |
|  | Mandai Park Holdings Pte Ltd | Wildlife reserve | 100% |
|  | CapitaLand | Real Estate | 100% |
|  | Singapore Technologies Telemedia Pte Ltd | Telecommunications, media & technology | 100% |
|  | Singapore Airlines | Transport | 53% |
|  | Olam Group Ltd | Agri-food | 52% |
|  | Singapore Telecommunications Ltd | Telecommunications | 51% |
|  | Singapore Technologies Engineering Ltd | Industrial | 51% |
|  | Seatrium Ltd | Marine engineering | 36% |
|  | DBS Group Holdings Ltd | Financial Services | 29% |

SOURCE: Temasek website

SOEs were a deliberate part of Singapore's economic development strategy and that continues to this day. There are various reasons for this, including their usefulness as a tool for a developmental state focused on creating jobs and developing a range of hard and soft infrastructure and capabilities, as well as the counterweight they provided to the foreign multinationals that the government was keen to attract. Even now when there are GLC privatisations, these tend to signify a shift within the portfolio - for example the state may take control in a higher technology industry within the same sector - rather than a change in the overall economic mix.

Why this matters

- The size and longevity of Singapore's SOE sector demonstrates that such enterprises can be efficient and highly profitable.
- The diversity of sectors in which Singapore's SOEs are successful - including not just the 'usual suspects' of energy and infrastructure, but also services such as banking as well as agrifood and manufacturing - shows there are many ways SOEs can play a useful role in economic development beyond natural monopolies and market failures.
- The continued economic role of Singapore's SOEs demonstrates that - contrary to popular opinion which suggests that SOEs are only relevant to countries who are 'catching up' - there can be an important role for SOEs in even the most advanced economies.⁸

³In his *Inaugural lecture at the Singapore Institute of Southeast Asian Studies* in 1980, free-market economist Milton Friedman said "Singapore has promoted a free market. That free market has enabled Singapore to thrive, despite extensive interventions of government".

⁴Paiva-Silva, J (2022) "Understanding the Singaporean approach to state ownership: 'commercially viable strategic alignment' in historical perspective" in *Structural Change and Economic Dynamics*

⁵Chang, H. (2007) "State-Owned Enterprise Reform" United Nations Department for Economic and Social Affairs

⁶According to Temasek website 53% of Temasek's S\$389 billion portfolio is Headquartered in Singapore

⁷Lam, F. (2019) "Temasek's SGX-listed trusts averaged 42.2% return in 3 years; DBS is portfolio's top performer" *The Business Times*

⁸See for example OECD (2015) *State-Owned Enterprises in the Development Process*

2

State ownership of most of the land has enabled the Singapore government to invest in infrastructure, including housing, transport and industrial zones at low costs

Given the scarcity of land in Singapore (the total land area is just 734 square kilometres, one third of the size of Tokyo), land ownership has been critical to economic and social progress. The 1967 Land Acquisition Act provided the government with the legal framework to compulsorily purchase land at market prices. In the late 1960s 44% percent of Singapore's land was government-owned, today that figure is 90%. This has enabled government to make land available cheaply so that the various public agencies could develop industrial zones, build transport infrastructure and provide affordable housing for citizens. Today just under 80% of Singapore's residents live in state-designed and maintained Housing Development Board flats which they lease from the government⁹ and thanks to government investment in transport infrastructure coupled with subsidises which amount to around 30 per cent of public costs, Singapore has the second most affordable public transport of comparable global cities.¹⁰

Why this matters

Singapore's strategic use of its limited and valuable land resource to serve wider societal and national economic objectives, has been an important factor in its success.¹¹ The ability to use state-owned land to plan industrial zones has contributed to Singapore's economic growth and diversification. The provision of affordable housing and public transport has contributed to social peace as well as the wealth of Singapore's citizens compared to other countries where these every day necessities eat significantly into wages. For example, a recent study found that a low-income worker in South Africa can spend as much as 57% of their net wage on transport, compared to just 10% for a low-income worker in Vietnam. Provision of safe and affordable housing is a huge challenge in all countries around the world. In prioritising state ownership of land, Singapore has effectively managed this stress point, while also providing labourers with a supply of affordable housing which has helped to support industrialisation efforts.

3

The state intervenes a lot in Singapore's economy

Contrary to common perceptions of Singapore as a country that has created a successful, advanced economy through the free market alone, the state has been very important in Singapore's development. As well as the GLCs and public land ownership/housing provision, a wide range of policy levers have been used at different times, in order to deliver the government's objectives.

- The state achieved high levels of private savings by mandating compulsory contributions to the Central Provident Fund (CPF). Between 1974 and 1984, the CPF's share of total private savings rose from 27% to 46%. By 1984, Singapore's savings rate, at 42% of GDP, was the highest in the world.¹² This enabled the government to finance large-scale public investments.

⁹Singapore Housing and Development Board

¹⁰Budget Direct Insurance (2019) "Public Transport Singapore" and Li, M. & Reza, S. "International Benchmarking Study of Public Transport Fares" Nanyang Business School

¹¹Mazzucato, M. and Farha, L. (2023) "The right to housing A mission-oriented and human rights-based approach" Council on Urban Initiatives

¹²Kuan, M. L. (2015) "Manufacturing Productive Capabilities: Industrial Policy and Structural Transformation in Singapore" University of Cambridge PHD thesis.

¹³Kuan, M.L. (2015) "Manufacturing Productive Capabilities: Industrial Policy and Structural Transformation in Singapore" University of Cambridge PHD thesis, plus World Bank

¹⁴DBS and Temasek websites 2025

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Singapore continues to strengthen its advanced manufacturing sector. Despite Singapore's limited land area, manufacturing plays a substantial role in the economy, contributing nearly 20 per cent to gross domestic product (GDP) and employing over 12 per cent of the workforce in 2023

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Singapore Economic Development Board 2024

SINGAPORE'S COMMITMENT TO MANUFACTURING

Evidence of the importance of manufacturing to Singapore can be found on the S\$10,000 bank note – the highest value bank note in the world. It features on its reverse side images of a silicon wafer, a microprocessor and partial sequences of two proteins.



- Singapore issues debt strategically to support specific long-term objectives, including to finance nationally significant infrastructure. It has one of the highest gross debt to GDP ratios of any country in the world. According to IMF figures, Singapore's gross debt is 175.8% of GDP, third only to Japan (248.7%) and Sudan (237.1%) and much higher than the US (124.1%), France (115.3%), Ghana (79.5%) or Argentina (78.5%).
- Singapore's well-known success in attracting Foreign Direct Investment (FDI as a share of GDP increased from 6.4% in the 1970s to 16.9% in the 2000s to 34.9% in 2023.¹³) has been made possible, not only by tax breaks and light regulation, but also by significant government investment in targeted education programmes and the public provision of cheap and efficient infrastructure.
- Singapore's early development and industrialisation efforts were financed by the Development Bank of Singapore (DBS). Although its role has expanded in recent years to include a wider portfolio of banking and financial services, DBS was originally established in 1968 (with advice from Germany's KfW) to finance Singapore's industrialisation and urban development projects. DBS Bank is now the largest bank in Southeast Asia with assets of \$540 billion and Temasek retains a 29% shareholding.¹⁴

Why this matters

This demonstrates an important and often over-looked paradox – that state ownership is not intrinsically inward-looking or inefficient but can (and in Singapore's case has) play an important role in delivering open, export-oriented, FDI-friendly and highly successful economies.

4

Singapore has a strong manufacturing base

Despite its roots as an 'entrepot' (transshipment port) and its current image as a 'post-industrial' economy largely based on services, manufacturing has been, and continues to be, a primary contributor to Singapore's economic success. From a peak of around 32% in the early 1970's, manufacturing has consistently contributed on average 24-26% of Singapore's GDP over the last two decades and employment in the manufacturing sector has continued to grow (albeit at a slower pace than employment in the services sector).¹⁵ Singapore is currently the 14th largest exporter of goods by value in the world with an average annual growth in exports between 2019 and 2023 of seven per cent.¹⁶

This has been a result of a deliberate government strategy. Following independence Singapore was keen to develop a solid manufacturing base. Early industries were supported on the basis of their job creation potential and included producing matchsticks, plastic toothbrushes, zips and chewing gum. By the end of 1969, when unemployment had fallen to 6.5%, the focus shifted from basic consumer goods towards higher value-added production, supported by the interest and technology of a growing number of foreign investors. Government supported this process through providing specialised advanced training centres, developing a 10-point programme to develop advanced manufacturing and providing tax holidays for firms according to the share of technical personnel in the company's workforce.¹⁷ Today Singapore is the fourth largest global exporter of high-technology products, including integrated circuits, smart phones, semi-conductors and chemicals and its unemployment rate is under two per cent.¹⁸

Why this matters

Many small economies, particularly low-income small island states and land-locked economies have been advised not to pursue manufacturing, but rather to concentrate on developing their service sectors. The experience of Singapore demonstrates that even very small states without a large internal market, can develop highly sophisticated manufacturing capabilities that contribute to diversification and mitigate the risks associated with a small economy's concentrated production and export structure, while also delivering skilled jobs, contributing to foreign exchange earnings and creating important linkages to other parts of the economy.²⁰

FURTHER READING

Chang, H. (2007) "[State-Owned Enterprise Reform](#)"
United Nations Department for Economic and Social Affairs

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Council on Urban Initiatives

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ABOUT SOAS DEVELOPMENT LEADERSHIP DIALOGUE (DLD)

Economic and social development requires many actors: however, typically these have operated in separate spheres, not understanding each other well and even seeing each other as adversaries. In a world characterised by profound changes and heightened uncertainties, overcoming this 'silo-ization' and the lack of mutual understanding it leads to is ever more important.

DLD brings people and disciplines together to generate more creative and strategic solutions to difficult development challenges.

DLD is generously supported by Hyundai Motor Group UK Ltd. And Kia UK Ltd.

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¹⁵ Asgair, B. & Majumdar, S. (2024) "[Efficiency analysis of manufacturing industries in Singapore using the DEA-Malmquist productivity index](#)" *Journal of Infrastructure Policy and Development*

¹⁶ ITC Trade Map data 2023

¹⁷ OECD (2015) "[State-Owned Enterprises in the Development Process](#)"

¹⁸ World Bank and ITC Trade Map data

¹⁹ EDB Website

²⁰ Kuan, M.L. (2015) "Manufacturing Productive Capabilities: Industrial Policy and Structural Transformation in Singapore" University of Cambridge PHD thesis