SINGAPORE’S APPROACH TO MANAGING ECONOMIC CRISIS
Known to be highly open and dynamic, Singapore’s economy is driven by a state-centric approach to economic governance that emphasises regulatory transparency, effective and timely policy interventions, and a robust economic infrastructure. However, despite sound macroeconomic foundations, Singapore’s openness and complexity also makes it highly vulnerable to the ‘contagion’ effects of global and regional economic crises. This case study provides a brief overview of Singapore’s general approach to economic governance, and discusses the government’s response to three key economic crises—the 1985 Economic Crisis, the 1997 Asian Financial Crisis, and the 2008 Global Financial Crisis.
As the world’s second freest economy and third most competitive economy, Singapore is known for its highly open and dynamic economy. More importantly, Singapore’s economic success is driven by a state-centric approach to economic governance that emphasises regulatory transparency, effective and timely policy interventions, and a robust economic infrastructure.
Yet despite its sound economic policy foundations, the openness and complexity of Singapore’s economy also makes it highly vulnerable to the ‘contagion’ effects of global and regional economic crises. For instance, Singapore slipped into recession during the 2008 global financial crisis due to declining global demand and high exposure to financial risks, although it rebounded on the back of a $20.5 billion stimulus package.\footnote{Sanchita Basu Das, \textit{Road to Recovery: Singapore’s Journey through the Global Crisis} (Singapore: Institute of Southeast Asian Studies, 2010).} This case study provides a brief overview of Singapore’s general approach to economic governance, before delving into Singapore’s response to three economic crises.

\begin{itemize}
\item \textbf{1985 Economic Crisis}
\item \textbf{1997 Asian Financial Crisis}
\item \textbf{2008 Global Financial Crisis}
\end{itemize}
SINGAPORE’S APPROACH TO ECONOMIC GOVERNANCE

As a small city-state lacking in both natural resources and a hinterland, Singapore has from its independence relied on government policy interventions, whether to ensure efficient and functioning markets, grow and develop emerging industries and sectors, or attract major multinational corporations to supplement what was then a relatively weak domestic sector. This led to the characterisation of Singapore’s state-centric approach to economic governance as 'Singapore, Inc'.

This state-centric approach to economic governance informed Singapore’s approach to managing economic crises and in doing so, ensured its continued stability in the face of major economic crises. Indeed, Ngiam noted that Singapore’s economic resilience was rooted in its sound macroeconomic policies and the state’s willingness to take effective and timely policy measures to counter or manage the adverse effects of economic or financial crises.

More importantly, Singapore’s approach to economic governance was driven by two key policy concepts: strategic pragmatism and the developmental state model.
Strategic Pragmatism

The emergence of strategic pragmatism as a key principle of economic governance was closely linked to the formation of the Economic Development Board (EDB), Singapore's chief economic promotion agency. In his study on the cultural history of the EDB, Schein found that Singapore's approach to economic governance involved having both a vision and master strategy for development and the “practical intelligence to pragmatically and innovatively make it happen without at any point compromising the vision”.7

Also described as “strategic in thinking and pragmatic in execution”,8 strategic pragmatism was a governance style that originated from Singapore’s first finance minister, Dr Goh Keng Swee and which was subsequently “institutionalised... in the paradigm of the Singapore governance”.9

Developmental State

A second aspect of Singapore’s approach to economic governance was its adherence to what had come to be known as the East Asian Developmental State Model, or Developmental State Model (DSM) for short. This adherence to the DSM involved an overwhelming policy focus on stimulating or, at least maintaining, economic growth, often through the actions of developmental agencies such as the EDB.10 Like most developmental states, Singapore’s DSM approach to economic governance was ideologically driven by what is known as ‘performance legitimacy’, or the securing of public trust through the state’s ability to deliver strong and consistent growth.11

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8 Tong Dow Ngiam, Dynamics of the Singapore Success Story: Insights by Ngiam Tong Dow, 1st ed. (Singapore: Cengage Learning Asia, 2010), 28.
9 Ian Patrick Austin, Goh Keng Swee And Southeast Asian Governance (Singapore: Marshall Cavendish Academic, 2004), 14.
Exhibit 1: Singapore’s GDP growth, 1980-2017

Source: Department of Statistics, Singapore. GDP at 2010 market prices (SSIC 2015), by industry, annual.
1985 ECONOMIC CRISIS

It has been noted that Singapore was caught unawares by the 1985 crisis, with the official GDP growth estimates initially pegged to 5%, although the onset of the crisis would drive real GDP growth rates to -3.5% by the third quarter. This was largely due to the rapid growth of the construction sector just prior to the crisis, which had masked weaker prospects in other sectors.

While Singapore’s slide into recession in 1985 was largely driven by external headwinds, with a rapid decline in global demand, particularly in the United States, posing threats to trade-dependent Singapore, it is also important to note that a wage correction policy that was implemented in 1979 had given rise to a loss of competitiveness, with wage costs rising twice as fast as productivity. Such high labour costs eroded companies’ competitiveness and gave rise to a need for labour cost reduction measures.

In response to the crisis, Minister for Trade and Industry Tony Tan convened an Economic Committee to assess Singapore’s economic situation and identify avenues for future growth. More importantly, the Committee formulated a set of policy recommendations that would inform the government’s response to the crisis.

First, the government recommended a reduction of employers’ Central Provident Fund (CPF) contribution rates by 15% and enforced a wage restraint for the public sector, with the latter aimed at limiting wage increases across the economy through the example of the public sector.

As the rest of this case study will also show, the government took similar steps to reduce wage costs during other economic crises, with the CPF seen as a fiscal policy tool that could be used to counteract the negative impacts of crises.
More importantly, this made reductions in CPF contribution rates as well as wage freezes a form of implicit subsidies to firms, which were incentivised to maintain their headcounts and business operations.\(^{16}\) Hence, reductions in CPF contribution rates served to both maintain workers’ employability during a downturn, as well as reduce businesses’ labour costs. Aside from such efforts to reduce the wage bill for firms, the government introduced a raft of fiscal policies to stimulate economic activity in the city-state.

These took the form of a reduction in corporate and personal income tax rates, incentives for firms to invest in Singapore, lowering of statutory board charges, and the short-term raising of non-recurrent public development spending\(^{19}\). Specifically, the 1986 Economic Committee recommended tax deductions totaling $1.2 billion, with the corporate tax rate cut from 40% to 30%.\(^{20}\) At the same time, the Committee introduced a 30% across-the-board investment allowance for expenditures on capital equipment and machinery, while existing tax incentives to manufacturing firms were broadened to include services firms as well.\(^{21}\)

While tax reductions and investment incentives could be seen as a direct incentive to firms and businesses, the raising of public development spending represented fiscal expenditures to drive up economic activity. In all instances, there was a significant extent of state intervention, with the government playing a key role in either funding these incentives, or mandating wage reduction moves, such as the reduction of employer’s CPF contribution rates. As a consequence of these interventions, Singapore posted a swift recovery in mid-1986, with GDP growth rising to 3.8% in the third quarter.\(^{22}\)

Importantly, such fiscal interventions also pointed to the Singapore’s adherence to a Keynesian style of managing economic crises as well as stimulating economic growth. Exhibit 2 provides a list of the policy measures that were implemented in response to the crisis.

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\(^{16}\) Chew and Chew, “Macro Objectives of the Central Provident Fund (CPF): A Review.”


\(^{20}\) Economic Committee, “The Singapore Economy: New Directions.”

\(^{21}\) Economic Committee.

### Exhibit 2: Policy Measures for 1985 Economic Crisis

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Policy Goal</th>
<th>Type of Intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in employers’ CPF contribution rates</td>
<td>Maintain employment rate; reduce business costs</td>
<td>Implicit subsidy</td>
</tr>
<tr>
<td>Wage freeze in public sector</td>
<td>Maintain employment rate; signal to private sector</td>
<td>Policy signal</td>
</tr>
<tr>
<td>Reductions in corporate and personal income tax rates</td>
<td>Reduce tax burden on firms and individuals</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td>Investment incentives for firms</td>
<td>Encourage investments and business activity</td>
<td>Incentive</td>
</tr>
<tr>
<td>Lowering of statutory board charges</td>
<td>Reduce costs for businesses</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td>Short-term increase in public spending</td>
<td>Expand economic activity</td>
<td>Fiscal expansion</td>
</tr>
</tbody>
</table>
The 1997 Asian Financial Crisis, thus named because its origins and subsequent impacts were centred on Asia, began as a currency crisis, with intense speculation over the Thai Baht leading to the Thai government’s decision to float the currency, which in turn caused a sharp decline in the Baht’s value.23 A loss of competitiveness against the Baht would affect Indonesia, South Korea, Malaysia and the Philippines, giving rise to sharp declines in the currency value of these countries.24

Despite its highly open economy, Singapore did not bear the full brunt of the crisis. Nevertheless, Singapore was still affected by the crisis, even as its fundamental economic policies remained sound.25 Specifically, the contagion effects of the Asian Financial Crisis adversely affected Singapore’s currency and asset markets, banking and corporate sectors, and overall prospects for economic growth, due to eroding investor confidence, declining regional demand, and sectoral exposure to the other affected Asian economies.26

Despite substantial differences between the causes of the Asian Financial Crisis and the 1985 Crisis,27 the Singapore government’s response to the 1997 crisis was remarkably similar to those that were promulgated in 1985. While then-Deputy Prime Minister and Monetary Authority of Singapore Chairman Lee Hsien Loong reiterated the government’s commitment to currency stability and short-term capital mobility,28 Singapore’s response to the 1997 Crisis relied heavily on fiscal measures.

Specifically, the government unveiled a $2 billion off-budget package in June 1998 that emphasized three broad objectives:29

- Reducing business costs
- Strengthening economic infrastructure
- Stabilising the property market

24 Stephen Haggard, The Political Economy of the Asian Financial Crisis (Peterson Institute, 2000).
26 Yue, 300–305.
27 The Asian Financial Crisis being fundamentally a currency crisis while the 1985 crisis was more of a global economic decline.
29 Ngiam, “Coping with the Asian Financial Crisis: The Singapore Experience,” 16.
In order to reduce business costs, the government introduced property and corporate tax rebates as well as reductions in fees and charges by government agencies.\textsuperscript{30} Initiatives to strengthen the economic infrastructure included speeding up development projects and providing more funds for skills training and local enterprise development.\textsuperscript{31} The latter included the formation of a “Tripartite Panel for Retrenched Workers” that comprised representatives from the Ministry of Manpower, National Trades Union Congress, Singapore National Employers’ Federation, EDB, and Singapore Productivity and Standards Board. The Panel aimed to provide unemployed workers with advice on skills training opportunities and incentives, as well as increased government funding for the trade union movement’s Skills Redevelopment Programme, which subsidised 80% of workers’ training costs, as well as their 70% of their wages during the training period.\textsuperscript{32}

Lastly, the government sought to stabilise Singapore’s property market by suspending government land sales, deferring taxes and duties on uncompleted property development projects, providing households with rebates on Housing and Development Board (HDB) charges and rentals, and helping households with mortgage rescheduling.\textsuperscript{33} However, the June 1998 off-budget package did not sufficiently arrest Singapore’s declining quarterly GDP growth rates and rising unemployment rates, prompting the government to introduce a $10.5 billion cost-reduction package in November 1998 that aimed to reduce business costs by 15%.\textsuperscript{34}

Similar to the 1985 crisis, the November 1998 package involved a reduction of employers’ CPF contribution rates, with contribution rates for workers aged 55 years and below cut by 10%, a wage cut that was recommended by the National Wages Council, and a 10% corporate tax rebate for 1999, as well as further cuts in government rates and fees.\textsuperscript{35} The November 1998 package was followed by a more expansionary fiscal policy in its FY1999 budget, albeit with a longer-term focus on education and infrastructure.\textsuperscript{36} These interventions contributed to Singapore’s recovery from the crisis, with the economy returning to positive growth in early 1999 and overall GDP growth for 1999 reaching 6.1%.\textsuperscript{37}

\begin{center}
\begin{tikzpicture}
\node[anchor=south west,inner sep=0] at (0,0) {\includegraphics[width=\textwidth]{chart.png}};
\node[below=0.5cm]{\textbf{GDP growth for 1999 reached 6.1\%}};
\end{tikzpicture}
\end{center}

\begin{itemize}
\item $10.5 billion cost-reduction package in November 1998 that aimed to reduce business costs by 15%.
\end{itemize}
In sum, Singapore’s response to the 1997 Asian Financial Crisis relied overwhelmingly on fiscal measures.

### Exhibit 3: Policy Measures for 1997 Asian Financial Crisis

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Policy Goal</th>
<th>Type of Intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in employers’ CPF contribution rates</td>
<td>Maintain employment rate; reduce business costs</td>
<td>Implicit subsidy</td>
</tr>
<tr>
<td>Wage cuts</td>
<td>Maintain employment rate; reduce business costs</td>
<td>Implicit subsidy</td>
</tr>
<tr>
<td>Property and corporate tax rebates</td>
<td>Reduce tax burden on firms and individuals</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td>Reductions in government fees and charges</td>
<td>Reduce business costs</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td>Speeding up development projects</td>
<td>Expand economic activity</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td>Funding skills training and enterprise development</td>
<td>Reduce structural unemployment; stimulate business and economic activity</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td>Suspending government land sales</td>
<td>Stabilise property market</td>
<td>Discretionary fiscal policy</td>
</tr>
<tr>
<td>Deferring taxes and duties on uncompleted property development projects</td>
<td>Stabilise property market</td>
<td>Discretionary fiscal policy</td>
</tr>
<tr>
<td>Rebates on HDB charges and rentals</td>
<td>Stabilise property market; reduce costs for households</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td>Strategic government spending on education and infrastructure</td>
<td>Long-term capacity-building; expand economic activity</td>
<td>Fiscal expansion</td>
</tr>
</tbody>
</table>
2008 GLOBAL FINANCIAL CRISIS

Ground zero of the 2008 Global Financial Crisis could be traced to the American sub-prime home mortgages sector, with rising mortgage default or delinquency rates resulting in a rapid devaluation of mortgage-related financial instruments such as mortgage-based securities and credit default swaps. This ultimately resulted in massive government bailouts of major banks and financial institutions that were highly exposed to the sub-prime mortgage crisis. Given the systemic importance of many of these ‘too-big-to-fail’ banks, ‘contagion’ effects from the Global Financial Crisis promulgated across the global economy.

Like the previous two crises, Singapore’s highly open economy rendered it vulnerable to contagion effects. In particular, Singapore experienced a recession, with a decline in GDP growth rates across two consecutive quarters driven by a global credit crunch as well as an overall decline in global demand. Indeed, Singapore was the first country in East Asia to experience a recession due to the American sub-prime mortgage crisis. In response, the government pledged $2.9 billion in November 2008 to help businesses and workers cope with the recession, as well as a $20.5 billion Resilience Package in January 2009.

The Resilience Package consisted of five components. First, the government committed $5 billion to the maintaining citizen employment. Second, $5.8 billion was earmarked to stimulate bank lending. Third, $2.6 billion was committed to supporting business cash-flow and strengthening Singapore’s competitiveness. Fourth, $2.6 billion was set aside to provide support for families and communities. Fifth, the government committed $4.4 billion on infrastructural spending. The impacts of the Resilience Package were palpable, with Singapore rebounding from the crisis in late-2009 and posting a GDP growth rate of 15% in 2010.

Exhibit 4 provides an overview of the Resilience Package, along with the specific initiatives that made up the Package.

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39 Das, Road to Recovery.
41 National Library Board Singapore.
### Exhibit 4: Policy Measures of the Resilience Package

<table>
<thead>
<tr>
<th>Component</th>
<th>Policy Measure</th>
<th>Policy Goal</th>
<th>Type of Intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs for Singaporeans</td>
<td>Jobs Credit Scheme</td>
<td>Maintain employment rates; reduce business costs</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td></td>
<td>Skills Programme for Upgrading and Resilience (SPUR)</td>
<td>Promote skills training; reduce structural unemployment and retrenchments</td>
<td>Fiscal expansion; implicit subsidy</td>
</tr>
<tr>
<td></td>
<td>Workfare Income Supplement</td>
<td>Support lower-income workers</td>
<td>Subsidy</td>
</tr>
<tr>
<td></td>
<td>Expanding public sector recruitment</td>
<td>Raise employment rates</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td>Stimulating Bank Lending</td>
<td>Special risk-sharing initiative • Bridging programme loan • Risk sharing schemes for trade finance</td>
<td>Ensure viability of banks and financial institutions</td>
<td>Guarantee; discretionary fiscal policy</td>
</tr>
<tr>
<td></td>
<td>Enhancing existing bank lending schemes</td>
<td>Ensure viability of banks and financial institutions</td>
<td>Discretionary fiscal policy; subsidy</td>
</tr>
<tr>
<td>Enhancing Business Cash-Flow and Competitiveness</td>
<td>Tax concessions for businesses</td>
<td>Reduce business costs</td>
<td>Subsidy</td>
</tr>
<tr>
<td></td>
<td>Enhancing cash-flow and competitiveness • Property tax rebate for industrial and commercial properties • Rental rebates by JTC, HDB, and Singapore Land Authority • Enhancements to loss carry-back scheme • Tax exemption on remittance of foreign-sourced income • Transport rebates and concessions • Defer property tax for approved commercial developers • Defer increase in assessment rate for hotels</td>
<td>Reduce business costs; ensure economic competitiveness</td>
<td>Incentives, subsidies, and rebates</td>
</tr>
<tr>
<td>Supporting Families</td>
<td>Direct assistance for Singaporean households</td>
<td>Provide households with support and assistance</td>
<td>Fiscal expansion; social policy</td>
</tr>
<tr>
<td></td>
<td>Increased targeted help for vulnerable groups</td>
<td>Provide vulnerable groups with support and assistance</td>
<td>Fiscal expansion; social policy</td>
</tr>
<tr>
<td></td>
<td>Additional support for charitable giving and the community</td>
<td>Provide special groups and communities with support and assistance</td>
<td>Fiscal expansion; social policy</td>
</tr>
<tr>
<td>Building a Home for the Future</td>
<td>Bringing forward infrastructural projects</td>
<td>Expanding infrastructural development and economic activities</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td></td>
<td>Rejuvenating public housing estates</td>
<td>Expanding economic activity</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td></td>
<td>Enhancing sustainable development programmes</td>
<td>Expanding economic activity</td>
<td>Fiscal expansion</td>
</tr>
<tr>
<td></td>
<td>Upgrading education and healthcare infrastructure</td>
<td>Strategic long-term investments; expanding economic activity</td>
<td>Fiscal expansion</td>
</tr>
</tbody>
</table>

Adapted from Singapore Budget 2009
DISCUSSION

This case study has sought to provide a broad overview of Singapore’s responses to economic crises, with a strong focus on three major economic crises, the 1985 Economic Crisis, 1997 Asian Financial Crisis, and 2008 Global Financial Crisis. It is important to note that in all three instances, Singapore’s highly open economy rendered it vulnerable to contagion effects and hence susceptible to recession, despite its sound macroeconomic foundations. In all three cases, the crises affected Singapore through declining regional and global demand as well as sectoral exposure to risks and contagion.

As a consequence, there is much consonance in Singapore’s response to the three crises. In response to declining global demand, the Singapore government had in all instances relied on fiscal expansion to stimulate economic activity as well as ensure socio-economic stability, although other forms of policy measures have also been implemented to achieve similar goals, such as implicit subsidies and forward guidance. In any case, Singapore’s approach to managing economic crises is highly Keynesian in nature and orientation, with a strong emphasis on fiscal policy interventions.

More importantly, this interventionist approach to addressing economic crises flowed from the two ideological components of Singapore’s economic governance approach, namely strategic pragmatism and the developmental state model. While strategic pragmatism drives the government’s efforts (fiscal policy) to manage short-term policy problems (e.g. crises) to attain longer-term strategic goals (economic stability), the DSM emphasizes economic growth as an over-riding policy objective, with much of the policy responses discussed above focused on stimulating economic activity through fiscal expansion.

Proposed Discussion Questions

- How has Singapore managed the negative impacts of economic crises? What types of policy measures have been implemented?
- What are the ideological foundations of Singapore’s economic governance model? How have these informed the country’s approach to managing economic crises?
- What are the pros and cons of applying fiscal policy measures to combating economic crises?
- How have Singapore’s policy responses to economic crises benefitted businesses and citizens?
REFERENCES


