

Simon Johnson: One Page Summary

15.223, class #4: State-Driven Development -- Singapore

Porter's diamond: Singapore had an important “natural resource” – its port. The country's leadership also found ways to use this to create not just an immediate competitive advantage (in terms of Porter's diamond) but also as a way to climb the productivity ladder.

Productivity ladder: Direct foreign investment played a key role, with Singapore always placing great value on the training that companies could provide. Pursuing low wage jobs per se was never seen as attractive; the emphasis in Singapore is on moving up, particularly in terms of skills.

The same strategies that worked well during the catch up phase of economic development may prove more difficult to implement now that Singapore is rich.

Can creativity be taught in schools or in some other way? Similarly, are the structures and incentives of Singapore conducive to an entrepreneurial culture?

Is it better to require top talent to stay in Singapore or rather to let people roam the world – gaining experience in ways that cannot be centrally planned – and then want to return?

Macroeconomics and finance: There are some advantages to being a relatively small country, including in terms of how governance operates. There may also be less potential for social conflict – and less pressure to overborrow or overheat the economy. The Monetary Authority of Singapore has avoided overvaluation and kept inflation low.

Singapore's national savings are high – including through the Central Provident Fund, from which the government borrows to make investments.

High savings are also reflected in a large current account surplus and net foreign assets (including reserves and sovereign wealth fund assets.)

What is the optimal level of government debt? In most countries 20-40 percent debt-to-GDP is seen as a relatively cautious approach. Singapore, in contrast, has large net government assets. This suggests a very different view of the world and the shocks that it will face.

There may also be advantages to feeling that you live in a potentially difficult neighborhood – this can help form a consensus that economic development is all important. Would Singapore's approach to trade unions have worked elsewhere – including chairing the productivity agency and learning about “total factor productivity”?

Potential lessons for other countries: Could other countries apply the Singapore approach to economic development, particularly with such an extensive role for the government, e.g., the Economic Development Board (EDB), Temasek, and the Development Bank of Singapore (DBS)?

Why does this work in Singapore but result in corruption and inefficiency in so many other places? Could such an approach work in the United States, even at the local level?

Are high salaries for government officials the key to Singapore's success? Would this work elsewhere?

How did Singapore react to the growth of China – and to the development of its manufacturing capability? Does this still pose a threat?

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