Varieties of Capitalism: Locating Singapore’s State-Led Model

With its emphasis on firm behaviour, the “Varieties of Capitalism” approach seems to neglect the role of state politics with its emphasis on firm behavior. Does Singapore’s successful state-dominated economic development make a convincing case for bringing ‘politics’ back into the study of political economy?

Lim Aik

In recent decades, scholars of political economy have made use of various conceptual tools in trying to explain the similarities and differences between national political economies. Among them, the Varieties of Capitalism approach (henceforth referred to as “VoC”), made prominent by Peter Hall and David Soskice in their work Varieties of Capitalism: The Institutional Foundations of Comparative Advantage (2001), stands out as a robust framework that throws light on the economic success of various capitalist countries, especially those belonging to the advanced capitalist member-states of the Organization for Economic Co-operation and Development (OECD). Situating individual firms at the center of analysis, VoC examines the role of both market-based and non-market institutions within an economy to identify the determinants of economic efficiency. Under this analytical framework, most successful economies are categorized into one of two types of market economies – liberal market economies, which are more reliant on market-based institutions, and coordinated market economies, which depend on non-market mechanisms to coordinate strategically.

This paper will argue for a need to expand the analytical scope of VoC in order to improve its explanatory capacity, especially by integrating politics into its firm-level analysis of market economies. Using the example of Singapore, the paper will explore a third dimension of categorization – state intervention – on top of the traditional liberal/coordinated binary. Such an approach will address the following three concerns which have often been raised in criticism of the VoC approach.

Firstly, by placing an emphasis on the firm as its unit of analysis, VoC theorists seem to neglect the “political” in “political economy”. The VoC approach relies largely on the analysis of strategic interaction between firms, labor and capital relations, and institutional determinants of behavior to explain capitalist market economies, leaving little room to explore the role of the state. Secondly, and possibly related to the above, is the difficulty with which VoC proponents have tried to examine the economies of countries such as France, Italy and Spain. VoC situates national economies along a spectrum ranging from more liberal forms of the market economy to coordinated models which feature non-market elements in their economy, and many countries (including Singapore) continue to resist the efforts of VoC scholars to compartmentalize them according to this logic.

A last charge that has often been laid against the existing VoC body of literature is that it is imbued with a large degree of Euro-centrism, drawing primarily upon empirical examples from Continental, Central and Eastern Europe. There are relatively fewer works on non-European examples, and while this is not a problem in itself, useful insights can be drawn from the developmental trajectories of Asian economies, particularly the successful adoption of the capitalist free market in the Tiger Economies – Taiwan, Hong Kong, South Korea and Singapore. Numerous scholars have already written works on the former three economies, and this paper shall contribute to the discussion by examining the relatively neglected Singaporean capitalist economy.

That being said, it is important for us not to deem the above three concerns as inherent flaws of VoC but to recognize that Hall and Soskice’s VoC framework is not an ossified structure of received wisdom – it is simply a coherent set of ideas meant to reinvigorate debate on the academic analysis of national economies. The absence of the state is more a matter of “heuristic emphasis” and not strictly an intrinsic deficiency in the framework.

The paper will begin by briefly summarizing the fundamental ideas of VoC in order to establish a common understanding of its implications and nuances, while the second section will attempt to expand the current VoC framework to better accommodate the role of the state and state politics. Following that, we will make use of the economic structure of Singapore as a case study to test the VoC approach empirically against an Asian model of a relatively successful market economy. The last part concludes by arguing for a return of politics to VoC discourse in order to render it applicable to the state-led models of the market economy that is prevalent in Asia.

The Explanatory Framework of VoC

Of the earlier theories on advanced industrial economies, three perspectives on institutional
variation have come to dominate the analytical study of comparative capitalism: firstly, the *modernization approach*, which explains economic capacity in terms of the institutional leverage that states hold over private firms in directing modernization efforts; followed by *neo-corporatism*, a framework that focuses on the “capacity of a state to negotiate durable bargains” with both employers and trade unions; and lastly a newer approach that Hall and Soskice term as “social systems of production,” which employs sociological ideas in assessing the behavioral interaction between institutions and firms.

The “Varieties of Capitalism” approach intends to go beyond all three in providing a new framework of ideas to make sense of institutional variations across OECD capitalist economies, and this section gives an overview of the VoC approach. VoC literature places the firm at the center of analysis, examining the strategic interaction between firms and economic institutions in order to derive insights about the nature of a particular market economy. Firms inevitably encounter coordination problems in their operation, and VoC focuses on five spheres in which firms have to deal with issues of coordination in order to operate efficiently.

First of all, firms in a market economy must solve problems in the sphere of *corporate governance*, which refers to the method firms employ to secure capital and the resultant relationship with the institutions and investors who provide funding. The second sphere is *industrial relations*, where macro-level negotiations between labor organizations and employer associations are needed to coordinate wages and the provision of good working conditions. In the area of *inter-firm relations*, issues of technology transfer, collaborative initiatives and supplier-client relationships must be resolved between different enterprises, both within and beyond specific industries. Fourthly, both companies and workers face problems in the coordination of *vocational training and education*, having to decide on the allocation of resources for the skills training of the workforce. A last sphere in which firms encounter difficulties would be in the internal relationship with their *employees*, as the careful calibration of employee competencies and character dispositions is important in advancing a firm’s interests.

**Two Different Conceptions of Market Economies**

With regard to solving the problems within these five spheres, the VoC approach distinguishes between two archetypal models of political economies and the institutional preferences of each. In liberal market economies (LMEs), firms depend on the unfettered logic of the *free market* in order to coordinate effectively, emphasizing the regulatory role of arm’s-length contracts, signals sent out by the interaction of market forces, hierarchical relationships and competition. The United States, Australia, Ireland, and the United Kingdom have often been used as prime examples of LMEs which employ a market-based approach to, *inter alia*, firm interaction, wage determination and corporate governance.

On the other end of the spectrum, firms within coordinated market economies (CMEs) rely on *non-market* solutions to these same coordination problems. This entails a high density of strategic relationships, a large degree of collaboration (instead of competition), and regulated interaction between firms and other financial entities. The market economies of the Scandinavian social democracies, Germany and, to some extent, Japan serve to exemplify such an arrangement of economic institutions.

**Institutional Complementarities & Comparative Institutional Advantage**

VoC theory argues that in both CMEs and LMEs, the *configuration of economic institutions* confers benefits on firms that operate within each respective market economy. These benefits are engendered by the inherent congruity within each system, and are manifested in various complementary features that can be found operating within both CMEs and LMEs. Hall and Soskice term them *institutional complementarities*, defined as a situation between two institutions in which “the presence (or efficiency) of one increases the returns from (or efficiency of) the other.”

For example, most firms in Germany rely on long-term bank credit for what VoC academics have termed “patient capital,” and this disposes them to favor long-term projects. Corporate planning is therefore done with a long time horizon in mind, and this fits nicely with the German labor culture which favors long tenures for workers and specialized skills training (something that would prove unfeasible in a fluid labor market where workers often job-hop). In turn, the availability of disciplined and highly-skilled workers contributes to the overall efficiency with which longer-term projects are pursued.

This leads to the last concept that is crucial to VoC analysis: that of *comparative institutional advantage*, a term Hall and Soskice (2001) use to refer to the notion that the “institutional structure of a particular political economy provides firms with advantages for engaging in specific types of activities.” The patient capital, consultative and diffused corporate leadership, and longer-term outlook of CME firms (as reflected in the German example above) allow them to fare better in industries that rely on *incremental innovation*: industries such as mechanical engineering, and the production of consumer durables and transportation equipment. Conversely, labor market fluidity
and strong centralized corporate management of firms in LMEs are thought to give them an edge in industries that require radical innovation, such as telecommunications, medical engineering and biotechnology.\(^7\)

The success of OECD market economies can thus be explained in terms of the institutional complementarities inherent in each system, as well as the comparative institutional advantage that can be enjoyed from specialization in the industries where local firms are deemed to have an edge. However, VoC theorists have had immense difficulty imposing this analytical framework on countries such as France, Spain and Italy, at times classifying them in a third category with indeterminate labels such as “Mediterranean”\(^8\) or “Mixed Market Economies.”\(^9\) This paper agrees with the need for a third explanatory paradigm, but argues that the category should instead focus on the role of the state in order to distill the essential institutional features present in these economies, a view that has already been raised by critics of Hall and Soskice’s model, such as Schmidt\(^10\) and Hancké.\(^11\) The next section will suggest additional reasons in support of a third category of analysis to supplement contemporary VoC discussions on the political economy – the State-dominated Market Economy (SME).

**Expanding VoC – “State Market Economies” as the Third Category**

The capitalist state has always had a role to play in the economic regulation of the free market, being “one element among others of coordination and one that is present everywhere – in different forms, with different functions, and to varying degrees.”\(^12\) In response to the apparent inadequacy of the VoC framework in explaining the political economies of certain countries, Vivien Schmidt proposed the notion of “[b]ringing the state back”\(^13\) into VoC literature by paying more attention to the state’s role in influencing economic behavior and shaping institutional structures. In LMEs, the state can be defined as “liberal” because it functions primarily “as an agent of market preservation” by legislating to locate decision-making capabilities in the hands of company executives and limiting the influence of organized labor,\(^14\) whereas in CMEs, the state is defined as “enabling” because it goes beyond mere arbitration and facilitates the interaction between firms and institutions within the political economy.

In countries that Schmidt identifies as potential “State-influenced Market Economies,” however, the state can be found to be not only facilitating but influencing in its role, intervening regularly to enhance positive business activity and hinder economic interactions which result in negative spillover effects.\(^15\) An example of an “influencing state” can be found in François Mitterrand’s French government in the early 1980s, which imposed state-intervention policies to increase France’s economic competitiveness. These were effected through “a massive programme of nationalization and restructuring” which sought to recreate a level of non-market coordination in corporate governance and labor relations similar to that found in Germany in modern times.\(^16\)

From the above, we can get a sense of how countries such as Spain, Italy and France differ from archetypal CME and LME examples used in traditional VoC discourse. Firms in CMEs are able to utilize non-market strategic coordination to overcome the problems that they face because of pre-existing business cultures and institutional linkages in the political economy which prove conducive for such modes of cooperation. LMEs, however, depend on the regulatory function played by competitive relationships, unfettered markets and an overarching framework rooted in liberal capitalism. SMEs typically lack the coordination structures that can be found in CMEs (or are unable to tap into them, for political or historical reasons) and cannot enact the legislation needed to secure the “space” so crucial to the market freedom of LMEs. In such a situation, it is therefore necessary for state agencies to step in and compensate by providing alternative institutional measures to help firms coordinate.

For example, in Spain, a country whose “institutional frameworks defy easy classification,”\(^17\) state actors directly influence business-labor relations by developing a system of tripartite bargaining “to reform social policies and regulate the labor market.”\(^18\) This solution came about because the Spanish economy, lacking the strong coordination mechanisms of CMEs and rejecting the alternative of deregulation and decentralization of LMEs, needed another solution to secure cooperation. State-led negotiations and other political activity beyond the level of the plant serve to define not only the economic institutions present in the Spanish market economy, but also the manner in which these institutions change and adapt to new global realities.

While the possibility of SMEs as a third category of VoC seems plausible, it is theoretically underdeveloped and not robust enough to hold its own alongside the well-elaborated discourse surrounding CMEs and LMEs. The next part of this paper will attempt to advance the “State-dominated Market Economy” idea by testing it against the empirical example of Singapore, a fast-growing “Tiger economy” of Asia that has long established itself as an authoritarian regime fixated on achieving material development. The choice of an Asian nation as the target of analysis yields various advantages. Firstly, it is in Asia “where we can find the best other examples of state capitalism”\(^19\) outside of post-Franco Spain and Mitterand’s France. Also, taking the VoC discussion out of Europe offers a
breath of fresh air, potentially revitalizing a discursive framework that has, at times, seemed ossified and trapped by its reliance on the same few European countries for empirical comparison.

Locating Singapore Within VoC

The main thrust of this paper is to locate Singapore along the CME-LME spectrum often mentioned in VoC-related literature, and if this goal proves difficult, the task will then be to explain why this is so. A preliminary glance at its economic structure makes the island-nation seemingly incompatible with both the CME and LME models of development, because the state features so heavily in several aspects of its economy. While it is only natural for the state to be present everywhere and that there is "too little analytical value-added to be derived from adding a separate variety of capitalism defined exclusively by the role of the state," this paper will argue that the analysis of some Asian capitalist economies, such as Singapore's, could force this assumption to be discarded because the state plays a more authoritative economic role in many parts of Asia than it does in Europe.

This section will outline Singapore's economic structure and examine the behavior of firms within the framework of existing economic institutions, keeping in mind the five spheres (mentioned by Hall and Soskice), in which firms require coordination solutions. By doing so, I will look at whether it is possible to cast Singapore in the tentative mould of an SME and at the same time seek to explain its economic success using the VoC approach. In the interest of brevity, the following parts will restrict the analysis to three aspects of Singapore's economic framework where the state seems to occupy a more salient role: industrial relations, corporate governance and vocational training.

Industrial Relations in Singapore

Singapore's model of the market economy is heavily skewed towards developmental objectives, and anomalously features the state in a variety of economic roles that seem to escape traditional VoC analysis. In the sphere of industrial relations, the Singaporean case stands out due to the high level of integration between the state and the single largest labor organization in the country, National Trade Union Congress (NTUC). Headed by a Cabinet Minister, NTUC is affiliated with 63 member unions and 6 associations, representing the labor interests of almost 500,000 workers. In a country with only 68 employee-class unions, the NTUC is undoubtedly the most important labor organization. This arrangement seems to lend itself well to centralized wage bargaining between labor and capital under the auspices of the state, a process favored in CMEs in which the equilibrium wage is not simply the intersection of the supply and demand of labor, but the negotiated outcome between employers and workers.

In 2007, however, the total employed labor force stood at 2,670,800, out of which only 18.7% are union members. This low percentage of overall union density, defined as the percentage of employed union members as part of the total employed labor force, diminishes the influence of organized labor and is more typical of the situation in LMEs (refer to Table 1 above), where unions are generally weaker, and enjoy less support and lower membership rates.

The issue of industrial relations is further complicated because the state does not merely play a facilitative role through NTUC. It dominates wage determination and adjustments to the extent that, in the words of the World Bank, qualifies it as “a branch of the ruling People's Action Party.” The Singaporean solution to the problem of wage coordination can be described as a state-led tripartite arrangement (state-firms-union) with the government playing a strong role in deciding and controlling the wage negotiation process not only through NTUC but also through the National Wages Council (NWC). Set up in 1972, the NWC draws its membership from the state, organized labor and capital-owners, making annual recommendations on the extent of wage and salary adjustments which are then endorsed by the Cabinet.

Ostensibly, there is a high level of coordination that might dispose one to associate Singapore with the CME end of the VoC spectrum. However, this paper will argue that state dominance, in actual fact, reflects a very limited capacity for “bottom-up” coordination between firms and other economic institutions in Singapore, unlike traditional CMEs such as the Scandinavian social market economies. The Employment Act of 1968 and the Industrial Relations Act (1969) serve to curtail the ability of unions to independently organize industrial action and to bargain effectively. The state effectively steps in to fill this void and in doing so, imposes its agenda “top-down” under the guise of tripartite wage negotiations. Both the designation of the NTUC chief as a Ministerial-level position and the Cabinet's endorsement of the NWC’s recommendations serve to further emphasize the fact that while industrial relations in Singapore are not independent of the state, the state cannot be said to be weak or ineffective in its coordination of wage policies.

The state's role in wage determination is further magnified if one were to consider Singapore’s three-part wage structure. Most workers in Singapore receive their wages in three forms: a basic wage, a variable bonus, and deferred wages in the form of contributions to the Central Provident Fund (CPF), Singapore’s forced savings scheme which serves both to accrue funds for investment in state development
projects, and also to finance the healthcare and eventual retirement of Singaporean workers. Wage bargaining only affects the basic wage, but the proportion of an individual’s pay to be apportioned as CPF contributions is decided by the government through the CPF Board. At present, it stands at 20% of an employee’s total wages for any given month, and CPF contributions have proved to be more resistant to negotiated change than basic wages because of the dual purpose of the scheme. From this, it seems that neither the traditional industrial bargaining of a CME nor the free market wage determination of an LME captures the expansive role of the state in Singapore.

Corporate Governance

The Singapore Code of Corporate Governance was adopted on 4 April 2001 to provide guidance to private firms in the area of corporate governance. For example, it outlines provisions for the clear separation of roles between the chief executive officer and the chairman of the board of directors, in addition to the empowerment of the board of directors in all matters of consequence outside of the day-to-day running of the firm (which remains the purview of the management). The Code specifically recommends that committees be formed to handle remuneration issues, nomination of top executives and auditing, with such committees comprising a majority of directors who are independent from the company management. This suggests a model of corporate governance akin to the German CME, where top managers “rarely have a capacity for unilateral action.”

Further analysis, however, will reveal that Singapore’s structure of corporate governance is fundamentally unlike those of CMEs. In Germany, the Works Constitution Act of 1972 (Betriebsverfassungsgesetz) provides for the establishment of a works council for firms with employee strength above five, and these works councils hold substantial sway over crucial decisions affecting the company. Singapore’s Code, however, merely recommends a division of authority at the highest level without any diffusion of power to rank-and-file workers. Such an asymmetrical arrangement does not facilitate coordination between labor and capital and it simply increases the firm’s management accountability to shareholders.

Let us now continue with the examination of corporate governance in Singapore by looking at the means through which companies obtain capital, paying special attention to the role of the state and the government-linked companies (GLCs). Singaporean firms rely on both the equity market and bank-based lending for capital, even though most small and

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade union density, 2007 (%)</th>
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<tr>
<td><strong>Nordic CMEs</strong></td>
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<tr>
<td>Finland</td>
<td>70.3</td>
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<tr>
<td>Sweden</td>
<td>70.8</td>
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<td>Norway</td>
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<tr>
<td>Denmark</td>
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<td><strong>LMEs</strong></td>
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<tr>
<td>Canada</td>
<td>29.4</td>
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<tr>
<td>United Kingdom</td>
<td>28.0</td>
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<td>United States</td>
<td>11.6</td>
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<tr>
<td><strong>Others</strong></td>
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<tr>
<td>Japan</td>
<td>18.3</td>
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<tr>
<td>Italy</td>
<td>33.3</td>
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<tr>
<td>France</td>
<td>7.8</td>
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<td>SINGAPORE</td>
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Table 1. Net union densities of selected OECD countries (in contrast with Singapore).

Source: OECD Employment Outlook database, http://www.oecd.org/document/34/0,3343,en_2649_33927_40917154_1_1_1_1,00.html#union (accessed 15 March 2009)
medium enterprises and GLCs tend to turn to bank credit to obtain funding. The latter are important corporate entities charged with the development of particular aspects of Singapore’s economy (refer to Table 2 for an overview of their interests), and receive substantial amounts of preferential loans from local banks, particularly the Development Bank of Singapore (DBS) and the Post Office Savings Bank (POSB). POSB is the only bank which has its deposits guaranteed by the government, and regulations are in place to ensure that it holds a significant part of its assets in “government securities, loans to GLCs or statutory boards and deposits at DBS.”31 From the above, we can observe a close network of interaction between banks and firms, especially GLCs, which seems to hint of a corporate governance structure typical of a CME.

Over the years, however, more firms have been turning to the stock exchange as a source for financing. Singaporean GLCs, for example, accounted for 27% of stock market capitalization in 2000, following years of privatization efforts.32 This could signify a shift towards a corporate governance structure more reliant on the stock market that is preferred by LMEs, but does not conclusively place Singapore on the LME end of the VoC spectrum. That being said, what is observable is a trend that has already been mentioned in a previous part: that of state direction.

The role of the state, with respect to corporate governance, goes beyond mere regulation or facilitation and extends into the outright ownership of significant institutional actors and firms. As can be seen from Table 2, GLCs such as Singapore Airlines, Keppel Corporation, and Singapore Power are owned by Temasek Holdings, the Singapore government’s principal holding company, and financed by its subsidiary holdings. In fact, the dearth of private entrepreneurship in Singapore has been attributed to the strong “entrepreneurial state,”33 concentrated in the large GLC sector, which seems to crowd out the need for an enterprising private sector. This seems to defy the logic that has prevailed in most CMEs and LMEs that have been under the scrutiny of VoC scholars, because VoC theorists have not devised a framework that can accommodate such a pervasive governmental role.

Vocational Education and Training

In the area of vocational training, the Singaporean state has always taken an aggressive stance in the retraining of structurally-unemployed workers and other job-seekers. This is accomplished through agencies such as the Workforce Development Agency (WDA) and the Economic Development Board (EDB), with the latter involved in conducting training courses for workers of foreign firms that have entered into joint ventures with the EDB.34 The WDA’s Workforce Skills Qualification programme, in particular, has done much to upgrade the specialized skills of workers in various industries, with penetration rates as high as 13% in the Retail sector, 16% in Tourism and even 100% in Security-related jobs.35

The situation in Singapore seems to differ from LMEs, where firms provide only general skills training for workers in view of the fluid labor market, and from CMEs, where specialized industry-specific training is often linked to long-term contracts that are meant to tie down workers to their sponsoring firms. State-subsidized/sponsored skills training and upgrading empower the workforce with specialized skills without compromising the flexibility of the labor market, and this illustrates a unique situation that is only achievable with an “influencing” state that goes beyond mere facilitation to active involvement in imposing long-term developmental objectives on the institutions of the market economy.

Complementarities and Institutional Advantage of Singapore’s State-led Model

How do the abovementioned structural features come together to produce a coherent and economically successful set of institutions? The answer could very well lie in the abnormally large extent of the state’s involvement in ordering and influencing Singapore’s political economy. The co-optation of organized labor through NTUC and the widespread adherence (of both public and private sector employers) to NWC wage guidelines36 help create a highly disciplined workforce that is malleable and compliant. CPF then mobilizes forced savings from these workers and channels funds towards economic development, mainly through investment in the GLCs, and their allocation is subject to a great degree of calculation and calibration between state apparatuses. Often, this allocation is highly responsive to the needs of capital owners and foreign investors. Lastly, government-sponsored vocational education serves to equip workers with skills thought to be relevant to the prevailing economic climate, and the malleability of the workforce ensures that the training provided remains closely aligned with state-defined developmental objectives.

The result is a political economy that is distinguished by what this writer terms disciplined innovation (in contrast to the radical innovation of LMEs and incremental innovation of CMEs), a quality that provides immense economic flexibility and imbues the Singaporean economy with a protean characteristic. Singapore is able to provide the long-term stability and technical expertise needed for medium to high-tech industries like oil-refining, oil rig construction and semiconductor manufacturing, yet at the same time maintain a level of labor market fluidity and centralized decision-making conducive to industries such as advertising, hospitality, and the
financial services. All these economic activities are infused with capital obtained from both the city-state’s exceptionally large gross national savings and foreign direct investments (FDI). Disciplined innovation thus allows Singapore to enjoy comparative institutional advantage in areas of goods and service provision that require a mixture of radical and incremental innovation, because the pervasive role of the state allows for a large degree of short to medium-term malleability in the structuring of economic institutions that is sustained by a steady flow of capital.

Conclusion: Bringing Politics Back Into VoC

To recapitulate, VoC focuses both on the presence of institutional complementarities within a market economy and its ability to reap the benefits of comparative institutional advantage as crucial determinants of economic success. Firms in LMEs are able to do so through their use of free market mechanisms, the presence of switchable assets and a calibrated structure of institutions grounded in liberal capitalism. CMEs on the other hand draw on strategic networks and overlapping economic institutions to coordinate effectively, thus ensuring an efficient framework responsive to changes in market conditions.

However, there are market economies which do not have the coordination mechanisms needed to pursue the CME model, and do not possess the liberal socio-political conditions needed for an LME to thrive. In such countries, the state usually steps in to provide the institutional measures required for firms to cooperate and in doing so, their role often goes beyond mere facilitation to active involvement. This is undoubtedly true for a state like Singapore, which is geared towards developmental objectives under the strong directive arm of the PAP government. It is in such a country, and perhaps in East Asia, that we can find working models that fit tentatively into the mould of an SME, a market economy model where the state actively helps firms in solving problems associated with inter-firm relations, corporate governance, labor relations, internal employee relations and vocational training.

Singapore’s state-led solutions to the above problems can be viewed, firstly, as a product of a political trajectory which has propelled the PAP government into a preeminent status in most aspects of the nation-state’s economic existence, and enabled it to decide and implement policies with little opposition. However, the continued survival of state-sponsored institutions, such as NTUC, CPF, GLCs

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<tr>
<td>MediaCorp</td>
<td>100</td>
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<td>DBS Group Holdings</td>
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<td>Bank of China</td>
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Table 2. Selected Major Investments of Temasek Holdings (% Core Interest as at 31/03/2008)

Source: Temasek Holdings website,
(accessed 28 March 2009)
under Temasek Holdings and vocational education spearheaded by agencies like WDA and EDB, clearly points at the existence of a deeper logic that transcends historicism and path-dependent explanations of political history. It seems that the heavy involvement of the state in the market economy of the Singaporean SME engenders complementarities and benefits that sustain such a model.

These complementarities manifest themselves in the near-absolute stability of the Singaporean polity (a quality that has proven irresistible to many overseas investors looking to invest in the region), a highly-trained and disciplined workforce, and a well-oiled machinery which attracts, anchors, and nurtures foreign investments through tax breaks and various state-sponsored incentives. Such conditions bestow the country with a comparative institutional advantage in industries (such as the four key manufacturing clusters – electronics, chemicals, biomedical sciences and engineering), that require both the long-term stability associated with CMEs and the radical creative energies that LMEs can unleash. This flexibility has allowed the Singaporean economy to progress from import substitution to export oriented industrialization (EOI) in the 1970s by keeping labor costs low (through a regulated wage determination process) and labor productivity high (through state-supported training programmes). In recent times, disciplined innovation has also allowed us to transit to a high-tech phase of economic development anchored in knowledge-based and high value-added industries.

All in all, the relative success of the state-led capitalist economy in Singapore has made a strong case for the need to expand VoC’s scope to include the role of political power in creating and sustaining institutional coordination mechanisms. The recent credit crisis serves to illustrate the importance of state involvement in maintaining the structural integrity of the international economic framework, as more banks are nationalized and governments tighten the grip on financial regulation. In Singapore, the role of the state goes beyond propping up the financial system in times of crisis to creating conducive market conditions buttressed by a stable political environment. The city-state’s “soft authoritarianism” and collective self-discipline  contribute to a brand of disciplined innovation that has allowed Singapore to rapidly catch up with the West in a way that unfettered liberal democracy, in Singapore’s particular historical circumstances, would not have made possible according to Ghesquiere. While more research is needed to further elaborate on the characteristics of an SME and its role within the VoC framework, Singapore’s relative success in implementing the market economy leads one to conclude that the state occupies a position of analytical importance that has thus far eluded mainstream VoC discourse.
Endnotes


31. Pebbles and Wilson, Economic Growth and Development in Singapore, 44.


34. Pebbles and Wilson, Economic Growth and Development in Singapore, 41.


