

City-State on a Hill: The Institutional History Behind the Paradox of Modern Singapore

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Abstract

The Republic of Singapore exhibits a paradox - being one of the most economically free nations of the world, it remains a partially authoritarian society. I explore the institutional history of Singapore through a broad framework which explores the conjectures that citizens hold that influence development. Through the conjectures of upholding free trade and political order in the face of external crises, I roughly outline the process by which Singapore resulted in its modern paradox, and its implications.

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1 Introduction

The Republic of Singapore may be the worlds most successful city-state. It has experienced spectacular economic growth over the past few decades, and ranks second highest in the world in terms economic freedom after Hong Kong (Gwartney et al., 2012, 14). However, despite being the most economically free, its polity is comparatively unfree. Freedom House classifies Singapore as only “partly free,” with mediocre scores for both political rights and civil liberties of its citizenry (2013, 17).¹ This presents a paradox for Singapore and brings into question the broader application of lessons learned from the Singaporean experience to economic development. Unlike other liberal democracies, which have high economic freedom and high political freedom, some view Singapore, among other “East Asian tigers”, as evidence that development planning and State capitalism are coming to be the new desirable form of social arrangement, or that authoritarian politices can be normal in open economies. What caused a relatively free-market city-state to turn into a somewhat authoritarian polity? Furthermore, what implications are there for the example of Singapore in a broader context of contemporary economic development?

I provide a simple framework for viewing the institutional history which constrains the response of Singaporean citizens and the government to respond to exogenous global changes. The initial conditions and endogenous responses of citizen conjectures and opinions about Singapore’s development have led to the seemingly paradoxical result of modern Singapore one of strong and midly authoritarian political order and economic liberalism, with citizens actively supporting this. Singapore has always been a cosmopolitan city which have been guided mostly by the entrepot trade which has defined its economic role as one promoting unregulated international trade. As a city based solely on trade, any slowdown in exchange from abroad can harm the country’s merchants. Thus, they resist economic protectionism, and thus, to a large degree, curb rent-seeking from domestic producers. At the same time,

¹Singapore scores 4 out of 7 on both categories, on a range of 1-7 with 1 being the freest, and 7 being the least free.

at the intersection of competing empires, the city-state has always faced hardships unwittingly imported from international geopolitics and faced the threat of the invading Japanese Empire, a communist insurgency, and the hostility of its Malaysian rivals. Coupled with the centralized administrative mechanisms from its colonial past, Singapore's government under the People's Action Party (PAP) have been able to enjoy a monopoly on political power and have taken an active role in incentivizing economic development from abroad under tight social and political restrictions at home. The institutional history from its initial conditions as an entrepot colony, coupled with the political crises it has been forced to face, have crafted the economically free but partially politically free Singapore we observe today.

The developmental narrative of Singapore takes place within the broader analytical context of institutional change. North (1990) pioneered the exploration of institutions and institutional change as a major channel for economic development. Institutions lower the transaction costs of interaction, and are heavily determined by a society's initial conditions and endowments, rendering the study of economic history critical to understanding development. Over time, institutions can become locked in, as it becomes costlier to organize and deviate from the historical norm or focal point.

Acemoglu et al. (2001) and Acemoglu & Robinson (2012) suggest that how a society was colonized determines the types of political and economic institutions which first emerged (either inclusive or extractive), and thus determines whether a society will tend to grow wealthy (under inclusive institutions) or stagnate (under rent seeking and extractive institutions) in the long run.

Boettke et al. (2008) further describes how history matters: institutions "stick" based on how locally or indigenously they develop. Formal institutions that are designed by the State or imposed by foreign States do not "stick" and promote economic development if they are inconsistent with the local practices and knowledge, or "metis."

Coyne & Leeson (2004) and Coyne (2008) frame the problem of economic transition and liberalization, as well as post-war reconstruction as one of transforming games of conflict

into games of coordination by citizens rallying around certain focal points or conjectures. A society that can solve these problems with good conjectures will successfully liberalize, however most societies do not have such cultural endowments, and fall victim to rent seeking or conflict.

Barro (1996) suggests that inclusive political institutions and civil liberties emerge as sorts of “luxury goods” that citizens begin to demand once they grow sufficiently wealthy. Barro projected that Singapore (from 1994 data) would be one of the countries to experience greater democracy by 2000 (a move from 0.33 to 0.64 on Gastil’s democracy indicator). Yet according to Freedom House, Singapore remains partly free, and has mediocre scores on Civil Liberties and Political Rights 2013.²

The case study of Singapore itself has drawn considerable attention from scholars of political economy. Caplan (2009) describes two paradoxes in the political economy of Singapore: that its government today adopts economically good but politically unpopular policies (e.g. free trade), and that it is effectively a one-party state. Caplan offers three solutions: that it is a thinly-veiled dictatorship, that Singapore’s voters are unusually economically literate, or that Singaporean voters are unusually deferential to their government. He finds scant evidence for the first two hypotheses, and some evidence confirming the final one.

Caplan’s conclusion fits in line with a growing literature on the importance of cultural values in the Asian phenomenon. This hypothesis claims that Asian nations share common cultural endowment which has influenced their development through strong work ethics, propensity to save, and tendencies towards paternalism and group-orientation (Pye, 1988; Wong, 1988; Tai, 1989; Harisson, 1992).

There is another growing literature that argues that countries strong informal institutions, regardless of the strength of their corresponding formal institutions, predicts greater economic performance. Williamson (1999) and Williamson & Kerekes (2011) describe informal institutions (such as cultural norms and private associations) as key to economic

²Freedom House is the brainchild of Raymond Gastil, whose measures Barro uses for his projections of future democracy scores.

development. When Williamson includes Singapore in her study, however, despite its strong economic performance, in Williamson's (2009: 549) study of informal institutions, Singapore ranks 65th with a cultural index of 2.79, a culture not very conducive to securing private property rights. According to her topology, Singapore is a member of the poorest set of countries, those with strong formal institutions but weak informal institutions. On Williamson and Kerekes' (2011) informal institutions index, Singapore scores a weak 2.57, but on the formal institutions index, Singapore scores a near perfect 9.44, with a GDP/capita of 28,659. Yet Singapore has a significantly higher GDP/capita than the mean of those countries (\$6,662), and thus excludes Singapore as an outlier of this group (which significantly reduces the mean to just \$2,424) (Williamson 2009: 377). Thus, Singapore is a strong outlier of the group, it's weak informal institutions are not holding back its extensive record of strong economic performance.

Some attribute the staggering economic success to a new East Asian style of State-capitalism, which uses formal institutions of government to centrally plans economic industrialization and development under concentrated (sometimes authoritarian) political power. The unique feature of development planning of this type is the claim that government agencies can (and should) identify which industries can best promote growth, and implement a policy menu of strategies to incentivize investment in these industries (Powell, 2003, 5). This literature begins with Japan's post-war economic "miracle" under the Ministry of Trade and Industry's industrial policy Johnson (1982). Johnson describes the system by which

“[t]he duties of this bureaucracy would be ... to identify and choose the industries to be developed ... to identify and choose the best means of rapidly developing the chosen industries ... and ... to supervise competition in the designated strategic sectors in order to guarantee their economic health and effectiveness” (1982, 314-315).

Stiglitz (2001) looks at the econometric evidence connecting industrial policy in East Asia and economic success. While shying away from a theory of development or substantial

policy conclusions, Stiglitz suggests that “The fact that almost *all* of the economies in the region had industrial policies suggests that such policies were an important part of their growth strategies (2001: 519).

Wade (1990) argues that East Asian success is derived from high levels of investment in key industries, with government policies which distort relative prices to drive investment into these industries through a series of tax incentives and subsidies. This theory “emphasizes capital accumulation as the principal general force for growth, and interprets superior East Asian performance as the result of a level and composition of investment different from what the [free market] policies would have produced,” (Wade 1990: 29).

A number of authors dispute the role of the state in generating economic success. Some dispute the economic success: Krugman (1994) compares the strong apparent performance of Singapore’s economy with that of the Soviet Union in the 1930s. [T]he miracle turns out to have been based on perspiration rather than inspiration: Singapore grew through a mobilization of resources that would have done Stalin proud (ibid, 70). Singapore’s industrialization has been based largely on one time policy shifts that enable it to catch up to other countries due to its already high cultural and labor endowment, leading to Krugman’s strong conclusion that all of Singapore’s [apparent abnormal] growth can be explained by increases in measured inputs. (ibid, 71). Similarly, Young (1992) notes the policies of “accumulation of physical capital via forced national saving and the solicitation of a veritable deluge of foreign investment...have been astonishingly successful, with the share of investment in Singapore’s GDP rising from 9% in 1960 to a high of 43% in 1984 (Young 1992: 14). Yet, Young argues that Singapore’s apparent investment in particular sectors may overshadow the decrease in productivity from moving to less productive sectors (ibid, 16). Furthermore, Young 1993; 1994 argues that the apparent gains in East Asian nations was vastly overstated by valuing inputs instead of outputs. Singapore’s total factor productivity drops only to 0.2% with Young’s corrections (Young 1994: 670).

Others accept the success but dispute the importance of the State’s actions: Powell

(2003) surveys the evidence of the East Asian growth experience and concludes that the extent of the Asian Tigers' successes were due to their openness to markets and exports. He draws a sharp distinction between "industrialization" policy and economic development. Since the State cannot successfully grapple with the problems of economic calculation and perverse incentives, it cannot plan to increase value to consumers. Instead, it substitutes its successful solution to a technical problem of how best to increase output (not the extent of the market or consumer satisfaction). This is consistent with Krugman (1994) and Young's (1993, 1994) story of Soviet-style mobilizations of resources and input valuation overstating the State's contribution. At the same time, Powell notes that the very strong free-market policies and embracing of international trade and migration were what actually caused the economic development of the Asian Tigers.

I contribute to these literatures to explain Singapore's paradoxes by employing the simple model of development used by Coyne and Leeson (2004) and Coyne (2008). Singapore fits this framework with its focal points being conjectures that preserve free trade and survival. Its rich history as a bastion of free trade in a protectionist world has always engendered a distrust of economic protectionism and taxation which threaten merchants depending on a very unstable world market. The decline of the entrepot trade from external trade and geopolitical shocks further explain its shift to industrialization of domestic manufacturing, albeit constrained by its historical entrepot-based institutions. Its tensions with other empires and nations have also allowed its governing authority (whether British colonial administration or Singapore's People's Action Party) broad power to order society to protect it from external threats. Threats from the Dutch, Japanese, communists, and Malaysian powers have legitimized the ruling party in power to use harsh means to enforce law and order formally. These two mechanisms best explain the economic success and political harshness that characterize modern Singapore.

The remainder of this paper is organized as follows. Section 2 explores the paradoxes of Singapore observed today. Section 3 describes the basic framework for economic development



Figure 1: Singapore’s geographic location. Source: CIA (2013)

around conjectures. Section 4 describes the conjectures, tradeoffs, and constraints faced by Singaporean citizens and their government throughout their history. It also briefly compares Singapore’s evolution with its closest companion city-state, Hong Kong, to further emphasize the role of institutional change in their divergence. Section 5 concludes.

2 Singapore at a Glance

Singapore today is an outlier in almost any interesting statistic. Singapore is a country smaller than New York City (274 mi^2) with a population greater than Finland (5,312,400) and a GDP per capita greater than Norway (\$60,688 PPP in 2011) (CIA, 2013; WorldBank, 2012). Figure 1 displays the location of Singapore in Southeast Asia.

Singapore was originally settled in 1819 as a trading post for the British East India Company. Over time, it grew in importance as a center for regional trade, serving as an entrepot, an international trading port without tariffs or taxes. Its growing wealth and strategic location allowed the small port to grow in administrative importance to the British

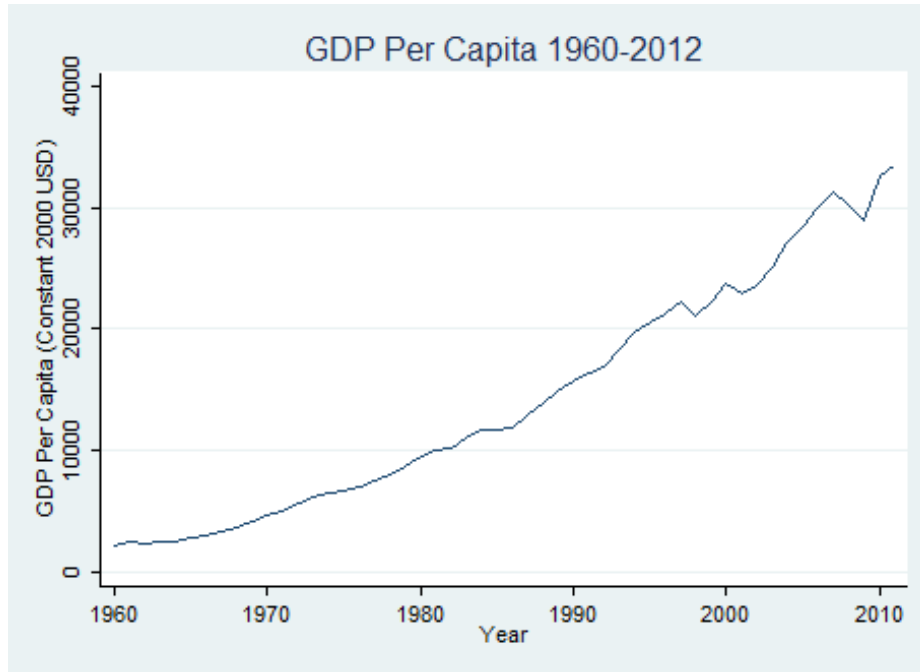


Figure 2: Singapore's GDP Per Capita 1960-2012. Source: WorldBank (2012)

Empire, first becoming a member of the Straits Settlements in 1824, then the Settlements' capital in 1836, and then to its own separate crown colony status in 1867. Singapore was invaded and ravaged by the Japanese Empire in World War II, and then returned to the British in 1945. Following the war, anticolonial sentiments forced the British to relinquish their colonies, and initially Singapore entered a federation with other Malay former colonies to form the new country of Malaysia in 1963. Racial tensions between Malaysia's Malay majority and Singapore's majority ethnic Chinese populations along with jealousy of living in Singapore's economic shadow impelled the other Malay provinces to unanimously expel Singapore from Malaysia in 1965, creating the newly independent nation of Singapore.

Since its independence the 1960s, Singapore has achieved remarkable economic growth. Figure 2 displays the surge in GDP per capita over time. Figure 3 displays the high growth rates in GDP per capita and Figure 4 compares these high numbers to the growth of the United States over the same period.

Singapore's legal system was originally founded as an importation of English common law (Turnbull 1989), but since independence, has in part returned to a more autochthonous



Figure 3: Singapore's GDP Per Capita Growth 1960-2012. Source: WorldBank (2012)

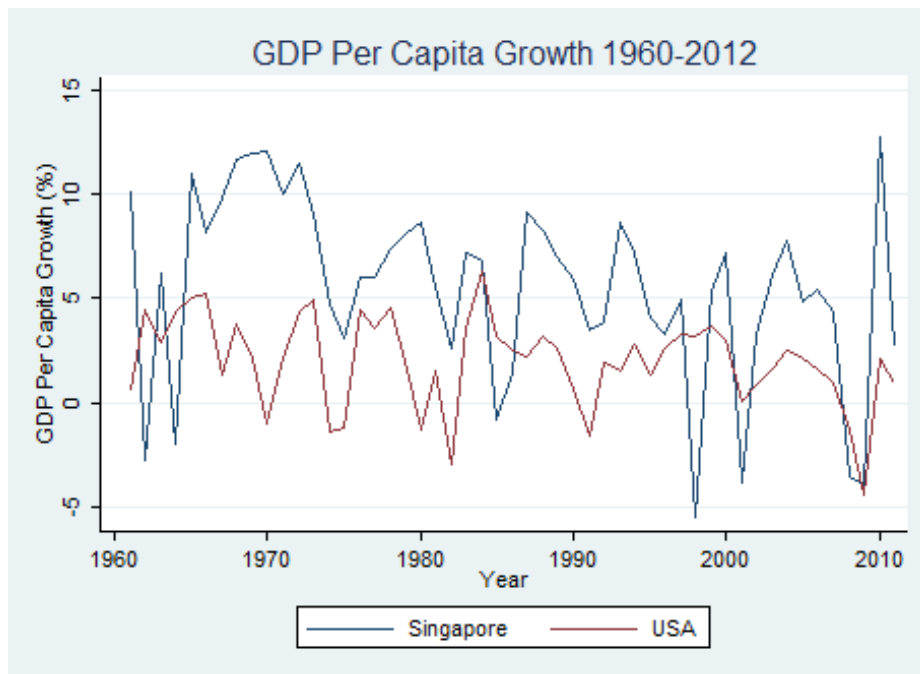


Figure 4: Singapore vs. USA Growth of GDP Per Capita 1960-2012. Source: WorldBank (2012)

system. Trial by jury was abolished in 1970, resting all judicial decisions solely in the hands of judges (Law, 2007, 1.7.2). Punishments for crimes are often retributive and include corporal punishment, specifically “judicial caning” for dozens of offenses ranging from rape to vandalism to carrying a firearm (WCPR, 2008; USStateDepartment, 2013). Emphasis is also placed on public cleanliness and order, as citizens can be heavily fined for littering, smoking in public, and there are severe punishments (including judicial caning) for the Outrage of Modesty and other sex-related crimes (ibid). Singapore also has a mandatory death penalty for the crimes of murder, drug trafficking, and certain firearms offenses. This has led to sharp criticism by human rights watchdog organizations such as Amnesty International, which condemns Singapore for having “possibly the highest execution rate in the world relative to its population” (2004, 1). Likely due to such deterrence measures, crime in Singapore is extremely low. Djankov et al. (2003) find Singapore to have relatively low legal formalism (with a score of 2.5 on their formalism index), similar to the levels of the United States (2.62) and the United Kingdom (2.58). They also find that countries with low levels of legal formalism tend to feature more growth, as disputes can be settled more quickly and efficiently, with less opportunities for rent-seeking by judicial agents.

The World Justice Project (2012) finds Singapore to be one of the strongest country with institutions that support the rule of law. It ranks Singapore 1st in the world for “Order and Security,” granting it a perfect score of 1 for limiting civil conflict, a very high score of 0.96 for controlling crime, and a score of 0.82 for limiting violence as a solution to addressing grievances. WJP also ranks Singapore highly for the absence of corruption, ranking it 7th in the world with a high score of 0.91, as well as civil and criminal justice globally ranked 4th and 3rd, respectively. However, Singapore is much less stellar in the categories of fundamental rights and open government: freedom of speech and assembly get the lowest scores of 0.52 and 0.58, respectively.

Singapore’s political institutions are highly centralized in the form of a unitary government. Much of Singapore’s government resembles the Westminsterian system it adopted

from the British. Singapore has a president who is the head of state and a prime minister who is the head of the government. Singapore's legislature is a unicameral Parliament. Both the president and members of Parliament are elected by popular vote in a first-past-the-post system. The People's Action Party (PAP) has been elected the majority party by wide margins continuously since 1959, when the then crown colony of Singapore obtained home rule and political parties were first formed. Interestingly, and perhaps tellingly, the CIA World Factbook 2013 lists that Singapore has no political pressure groups and leaders."³

Singapore is also well known for its significant lack of corruption, both as perceived by its citizens and international organizations. Transparency International 2012 gives Singapore a score of 87 out of 100 on its Corruption Perceptions Index, ranking it 5th in the world. Thus, despite de jure measures that nominally assure free elections, and strong perceptions of legitimacy by the public, de facto, Singapore paradoxically remains a one party state.

The World Values Survey (2002) provides further evidence that Singaporeans find the existing system legitimate. 18.7% of citizens were "very satisfied" with the way people in national office were handling the country's affairs, with 72.7% "fairly satisfied" with this assessment (E125). Only 20.4% of Singaporeans believe that their country "is run by a few big interests looking out for themselves" rather than "for the benefit of all the people" (E128). 36.5% rate having a democratic political system as something "very good," and 54.8% believe it is "fairly good" (E117). It also seems that Singaporeans are rather resigned to staying out of the political realm and remaining within their individual spheres of action. Only 7.2% of citizens have signed a petition, 39% claimed that they would, but 52.3% would never sign one (E025). Likewise, 75% of Singaporeans would never attend a lawful demonstration (E027). Singaporeans are also highly concerned with economic growth, with 58.8% of them saying that "a high level of economic growth" should be their nation's top priority (E001). Much of this cultural evidence supports Caplan's (2009) hypothesis, but the

³Compare this to the entry for the United States, which lists "environmentalists; business groups; labor unions; churches; ethnic groups; political action committees or PAC; health groups; education groups; civic groups; youth groups; transportation groups; agricultural groups; veterans groups; women's groups; reform lobbies."

		Political Party 1	
		Adopt Policy	Cater to Special Interest
Political Party 2	Adopt Policy	A , A	0, b
	Cater to Special Interest	b, 0	$\frac{b}{2}, \frac{b}{2}$

Figure 5: The Reformer’s Dilemma. Source: Coyne and Leeson (2004: 24)

question remains - where did this cultural feature originate from, and what are the economic mechanisms that relate them to development?

3 Development, Institutions, and Conjectures

Coyne and Leeson (2004) and Coyne (2008) frame economic development in transitioning countries as a variant of a Prisoner’s Dilemma game which they call the “Reformer’s Dilemma.” Agents of the government who wish to grow the economy must cooperate with each other to implement a liberalizing policy (e.g. a tax cut). However, individual agents or political parties can also gain by catering to a special interest and obtaining rents from a particular industry or firm which stands to lose from the policy. Rent-seeking can potentially block the liberalizing policy, resulting in stagnation and conflict, instead of cooperation and development. Figure 5 (adapted from Coyne and Leeson (2004: 24)) displays the reformers dilemma with the simple assumption that there are two political parties. If both players choose to implement the reform, both obtain benefit A. If one party chooses to cater to a special interest, then that party earns b, but also blocks the reform from going through, resulting in a net gain of 0 for the other party. If both parties cater to special interests, the policy does not go through and both parties split the rents obtained. In this prisoner’s dilemma setup, $b > A > b/2 > 0$. For society, the payoff is highest when both political parties seek to adopt the reform.

According to the Folk Theorem, even though defection (catering to special interests) is a dominant strategy due to the payoff structure, cooperation (both adopting the policy)

		Government	
		Good Conjectures	Bad Conjectures
Citizens	Good Conjectures	x , x	0, 0
	Bad Conjectures	0, 0	-x , -x

Figure 6: Coordination game around various conjectures. Source: Coyne and Leeson (2004: 25)

is possible over the long run. Provided that all players have the right conjectures and expectations expecting that defection will be punished (resulting in a short term gain of b and then 0 afterwards) and cooperation sustained (resulting in a long run gain of A) both players adopt the policy as a dominant strategy.

If the reformers dilemma is successfully solved, the agents of the government then have an opportunity to play a second game of coordination with the populace in implementing the policy. Figure 6 (adapted from Coyne and Leeson (2004: 25) describes this game. Citizens and the government have the opportunity to coordinate based on mutual conjectures. A conjecture here is a set of ideas, opinions, and expectations about the institutions the society contains and will follow (e.g. what is the proper role of the state, etc). If both the citizens and the government have “good conjectures” (e.g. the protection of property rights), they can properly coordinate and result in the reform developing the economy, earning both the government and citizens a positive payoff x . If both government and the citizens have “bad conjectures” (e.g. expropriation of private property), then the reform fails to implement properly, and the economy stagnates as all players earn losses of x . If citizens have a different set of conjectures than the government (e.g. citizens expect the government to not expropriate property, but it then proceeds to), then the reform again fails.

Through this process, institutions emerge to help turn games of conflict into games of cooperation, and to provide focal points to assist citizens and the government to coordinate their conjectures around. Very rarely will all games of conflict be turned into games of coordination, as there are often a spectrum of both existing simultaneously. Further, multiple

conjectures can exist simultaneously, each featuring a range of potential payoffs from coordination. Exogenous shocks to the society from external forces can also impact the conjectures chosen (i.e. a shock to global demand for trade can reduce conjectures that “free trade is good” and shift the major coordinating conjectures to others, such as “protectionism is necessary”). These shocks, and shifts across several competing conjectures will play a key role in the story of Singapore’s institutional development.

4 Singaporean Institutions of Coordination

The modern city-state of Singapore was born as a British colony. It inherited a heritage of colonial institutions and conjectures as the initial conditions which framed the problems for Singaporean development. The citizens and government of Singapore have historically agreed upon two focal conjectures: the importance of free trade and the importance of security. The colonial origins of Singapore’s entrepot trade directed many of its citizens to invest heavily in the business of international trade. This, combined with the fact that Singapore is a city-state with no hinterland, drove citizens to specialize in the transshipment business and other international trade-based occupations. As international trade is a very fickle business, its citizens are at high risk of losing profits and their livelihoods, citizens oppose any measures by governments which would regulate trade. Thus, due to high specialization and the small scale of the city, excessive rent-seeking is prevented from stalling long run economic success. This sharp focus and economic interest in promoting trade and efficiency has evolved from a colonial policy to become to be the chief focal point for citizen demands, placing all other concerns, such as development of liberal social and political institutions second.

Simultaneously, Singapore has faced many external political crises which have highlighted the importance of security to the populace. The early colony was plagued by hostile advances by the Dutch, threatening the city’s survival. More recently, the Japanese Empire invaded and sacked the city during the Second World War. Following the reconstruction, Singapore

sought a federation with other Malay cities to form the nation of Malaysia. Strong racial differences between the ethnic Malay and Chinese Singaporeans generated race riots in 1964 and the separation of Singapore from Malaysia in 1965. Threatened by further barriers to key resources and a historical common market with Malaysia, Singapore was forced to develop on its own and diversify its economy through state-guided industrialization. The government under the People's Action Party also initiated several emergency measures to consolidate protect against threats, which the government has been essentially operating under ever since.

4.1 Initial Conditions: Open Trade as an Entrepot

4.1.1 Economic History

The modern society of Singapore originated as a British crown settlement. Sir Thomas Stamford Raffles, an agent of the British East India Company settled a trading post on the island by signing a treaty with the local chieftain Temenggong of Johore in 1819 (Turnbull, 1989, 1). Around this time, Singapore had only 1,000 inhabitants, with most being indigenous orang laut, and only 20-30 Malays and 20-30 ethnic Chinese (ibid.:5). Raffles, and the East India Company, sought to boost British trade and secondarily to help civilize South-east Asia in true romantic fashion. The location was chosen for its strategic geographic and geopolitical position controlling the southern entrance to the Straits of Malacca, offering the British a springboard into both China and East Asia. By 1824, with another treaty, the entire island was granted to the British, and in 1826 became another crown colony of the Straits Settlements (under the British India jurisdiction), ultimately becoming their capital in 1836.

Raffles, and its second governor, Dr. John Crawfurd were fervent free traders. Raffles defended Singapore's success against skeptics in the Company, gleefully noting "the simple but almost magic result of that perfect freedom of trade, which it has been my good fortune to establish" (Turnbull, 1989, 22). Raffles was determined to preserve absolute freedom of

trade permanently, and upon his departure from the island, assured its burgeoning merchant population that “no sinister, no sordid view, no considerations either of political importance or pecuniary advantage, should interfere with the broad and liberal principles on which the British interests have been established. Monopoly and exclusive privileges, against which public opinion has long raised its voice, are here unknown...that Singapore will long and always remain a free port and that no taxes on trade or industry will be established to check its future rise and prosperity” (ibid). Crawford further abolished all anchorage and other fees, making Singapore unique as a port which was free from not only tariffs, but also from port charges (ibid, 27). He continued to destroy the existing monopolies over wooding, watering, and ballasting ships.

Under Crawford’s rule, Singapore’s first official census in 1824 documented a sharp burst in population, trade, and tax revenue: The first official census in 1824 documented 11,000 inhabitants, mostly Malay, with Chinese as the second largest group. There were 6 major firms on the island at that time. Crawford also legalized gambling, a controversial move but one that the colonial government profited from immensely: with half of its \$75,000 in revenues in 1825 coming from gambling taxes (Turnbull, 1989, 27). Singapore’s tax revenue soon outstripped Penang, the official capital of the Straits Settlements. Crawford and Raffles enacted strict standards of “beauty, regularity, and cleanliness” through public works projects (ibid). Since the merchants of Singapore were so dependent on international trade, a very fickle business with constant ebbs and flows, each attempt at taxation was met with fierce resistance by a nervous and exposed populace (ibid, 48).

Following its consolidation, Singapore grew to become the chief port in the region. With new steam-powered ships, and the opening of the Suez Canal, Singapore became the prime cosmopolitan port to connect the East and the West. By 1880, over 1.5 million tons of goods were passing through Singapore each year, with around 80% of the cargo transported by steamships(Landow, 2005). Many merchant houses were set up in Singapore mainly by European trading firms, but also by Jewish, Chinese, Arab, Armenian, American and Indian

merchants, along with a slew of Chinese middlemen servicing trade between Europe and Asia.

As a city-state that depended entirely on entrepot trade, Singapore had to remain ever vigilant and constantly competitive or else fall into irrelevance. Merchants regarded booms as times of freak prosperity and slumps as the herald of permanent ruin (Turnbull, 1989, 42). In 1840, upon the opening of a nearby rival Dutch port of Macassar, the merchant G. F. Davidson wrote “I think the trade of Singapore has reached its maximum; and that the town has attained to its highest point of importance and prosperity” (? , 69). Again in 1862, with the Dutch again expanding their empire into nearby Sulawesi, and the opening of China after the Second Opium, Straits Settlements Governor Orfeur Cavenaugh lamented that “Singapore has ceased to be the great port of transshipment, either for native produce or European goods; vessels from England now pass through without breaking bulk whilst the native trade is naturally attracted to the nearest marts” (Turnbull, 1989, 43). Despite the constant fears, between 1824 and 1872, the total value of the colony’s trade increased eight times (Chiu et al., 1997, 23). Singapore became the distribution center of local produce from the Malaya and Indochina for shipment to Europe, North America, and China.

Thus, throughout its formational years, the merchants who settled and opened up shop in Singapore were always on edge about international developments that threatened to steal the entrepot’s comparative advantage. In doing so, Singaporeans resisted all proposals by the British authorities to impose new taxes, even which were meant to pay for new port infrastructure, security, and social programs (Turnbull, 1989, 48). “Free trade became a sacred cardinal principle and any threatened infringement was opposed vehemently as commercial heresy” (ibid, 49). Despite the constant gloom and doom, Singapore thrived and by 1903 became the world’s seventh largest port by shipping tonnage (ibid, 93). Singapore’s “industrial progress was disappointing and the story of agriculture was one of almost unrelieved gloom, which further forced it to specialize heavily in the entrepot business, and to place economic growth as a priority before social or political growth (ibid, 43).

4.1.2 Institutional Mechanisms

The history of Singapore's reliance on entrepot trade provided a cooperative solution to the Reformer's Dilemma. Since most of the labor force was highly specialized service sector merchants related to the entrepot trade, most of their interests were aligned in preserving free trade. Any barriers to free trade would hurt all of Singapore's economy, making it much less competitive relative to other local ports which were always in fierce competition with Singapore. Erecting any sort of barrier would vindicate the frequent fears of the merchants that Singapore would be passed over by international shippers.

Furthermore, as a city-state with no hinterland, there was not a wide diversity of domestic producers or interests (such as farmers or factory workers) who could vie for the ear of the State. The entire city was at the mercy of other nations for resources which native Singaporeans could not produce on their own (such as food). Thus, it was difficult for any individual or firm to seek rents from the government since protectionism would ultimately hurt all involved from lack of business altogether.

In terms of figure 5, this entrepot constraint lowered the returns from rent seeking, b relative to A . A , the gains from adopting a policy (in this case, maintaining free trade) were the only rational option and thus became the dominant strategy. Thus, the State being constrained by external affairs provides a credible commitment to open markets and free trade.

This allows players to solve Reformer's Dilemma and to transition to a coordination game around conjectures. Free and open trade is one of the central good conjectures. Due to their historical dependence on international trade for their livelihoods, Singaporeans reject any significant hindrance to their economic freedom. This provides a constraint on the conjectures that the government can rally the public around. This explains much of the lack of corruption and strong rule of law institutions observed in Singapore today, as well as its commitment to economic freedom as described in Section 2. As we will see in the next subsection, this locked-in institution of free trade will shape the path the Singaporean State

undertook to industrialize the nation from the 1960s onward.

4.2 New Conjectures: The Needs for Manufacturing and Security

4.2.1 Economic History

In addition to the tight economic constraints and path-dependency engendered by its historically entrepot institutions, Singaporeans also have had to face several major political crises that empowered the State and formal institutions at the expense of civil society. These new crises, thrust upon Singapore exogenously, formed the new conjectures that led to Singapore's State-guided industrialization, and the semi-authoritarian measures that Singapore is known for today.

Singapore's heavy reliance on the entrepot trade also placed it at the mercy of the geopolitics of other nations. After World War I, which left no mark on Singapore, the rest of the world began enacting protectionist measures due to the global depression and upsurge of economic nationalism. After the mid-1920s, the volume of trade passing through Singapore began to slide, from the peak of \$1,886.7 million in 1916 to just \$251 million in 1935 due to these factors (Chiu et al., 1997, 23). As the rest of the world had begun to industrialize internally and engage in import-substitution, Singapore found its key sectors in less demand. The problem would last well after World War II as well. As (Cheng, 1991, 184) notes:

“The 1940s closed with periodically recurrent but nevertheless quite often well-founded expressions of anxiety regarding the prospects for the future development of entrepot trade. The bugbears this time were growing economic nationalism and the desire to regulate and conserve foreign exchange on the part of neighboring territories, besides the usual commercial rivalry. These considerations reinforced fears in Singapore that the entrepot trade could no longer be depended upon to provide for increased employment and economic growth.”

The first major exogenous shock that disrupted Singapore's entrepot institutions and

political stability was World War II. In 1942, during the Battle of Singapore, the Japanese defeated the British garrison, known as the “Gibraltar of the East” and conquered the island. Winston Churchill considered the fall of Singapore to be the worst disaster and largest capitulation in British history (BBC, 2007). The Japanese occupied Singapore from its fall in 1942, to the eventual Japanese surrender in 1945. Throughout this period, the occupiers enacted harsh measures against not only the soldiers, but also the civilian population, especially against the majority ethnic Chinese (due to Japan’s war on mainland China), with one major incident, the Sook Ching massacre, claiming between 25,000 and 50,000 Chinese lives (Blackburn, 2000).

Following the surrender and return of Singapore to the British, the native population experienced a brief collapse into lawlessness, revenge killing, and looting. The devastation from the Japanese occupation and Allied invasion, and the subsequent disruptions of the entrepot trade led to severe shortages. No food could be imported from nearby nations who themselves held onto their surplus for the wartime emergency. Black markets emerged to distribute food at 10 times pre-war prices, and the British colonial authorities could not enforce any price controls (Turnbull, 1989, 200). Breaking the law had become a “patriotic virtue” during the Japanese occupation and the citizens despised the police as instruments of oppression. As noted above, unemployment was rampant due to the lack of international trade and devastation of physical infrastructure by the war.

When the British military finally restored order, the local citizens had lost respect for their once infallible mother country. The decades after the war saw a political awakening amongst the local populace and the rise of anti-colonial and nationalist sentiments, epitomized by the slogan Merdeka, or “independence” in Malay, under their first prime minister David Marshall. But during this time, Singapore experienced further severe political crises. With the aftermath of World War II, the wider Malaysian region fell under the influence of communists, sparking the so-called “Malayan Emergency” and the Communist Insurgency War. The communists launched a guerrilla war against the Malaysian authorities, and staged

several riots in Singapore, including the 1954 National Service Riots, the 1955 Hock Lee bus riots, and the 1956 Chinese middle school riots (Turnbull, 1989, 251-285). Most of these riots were tied to labor union groups sympathetic to the communist cause. The government initiated vigorous emergency regulations to arrest secret-society members and supervise other radical groups. The police broke up kidnapping groups and reduced the number of racial secret societies by 50% in 1963 (ibid, 276). Furthermore, the government cracked down on trade unions and banned them in 1965, claiming “The excesses of irresponsible trade unions...are luxuries which we can no longer afford” (ibid, 295).

Following the resolution of the Malayan Emergency in 1960, Singapore had to face another round of political crises forced on it from the outside. The British had decided to reorganize the former colonies of Malaya, Singapore, Sabah, and Sarawak into a new sovereign state of Malaysia in 1963. This was a great bargain for Singapore, still highly specialized as the entrepot depending on a common market with Malaysia (which had always been guaranteed by the British Empire) for exports and the importation of vital resources which Singapore lacked.

The first-ever general elections in 1959 reinforced the necessity of this movie. The populace swept the new People’s Action Party into power with a landslide victory, with Lee Kwan Yew as Prime Minister. The PAP under Lee argued that Singapore’s survival was again at stake as a tiny city with no resources and a declining entrepot trade. Lee and the PAP argued this would benefit them as a new common market and a potential new source of employment for Singapore’s burgeoning population. Singaporeans had to cope with the results of their success in its entrepot trade in this new hostile context. Singapore had one of the fastest growing populations in the world, and with less demand for international trade and its resulting services, this new young population faced chronic unemployment. The unemployment rate reached 9.1% in 1966, with disproportionately high youth unemployment (23% of men and 35% of women under 20 were unemployed) (Chiu et al., 1997, 31). Thus, the PAP campaigned under nominally socialist rhetoric and sought to provide work for its

burgeoning population. Yew promised a “social revolution by peaceful means” (Turnbull 265).

Indeed, the United Nations Committee on Colonialism declared, “Singapore is dependent on the Federation of Malaysia for its water supply, its trade and its survival. It is not viable by itself” (United Nations, 1962). However, aside from whatever envy the rest of Malaysia might have had for Singapore’s wealth and success, all the other colonies were ethnically Malay, while Singapore was comprised of majority ethnic Chinese and was a cosmopolitan melting pot of ethnicities attracted to the wealth generated by international trade. Racial tensions surged with Malayan policies of affirmative action for ethnic Malays under Article 153 of the Constitution of Malaysia, known as “Bumiputera.” They culminated in another round of racial riots in 1964 in Singapore, which killed 36 people, injured 556, and led to massive arrests of about 3,000 people (Eng, 2004).

Due to irreconcilable differences and the violence, in 1965 the Parliament of Malaysia voted unanimously (126-0) in favor of permanently expelling Singapore from the Federation. Malaysia sought to reduce her dependence on Singapore and now set up quotas, duties, and retaliatory tariffs which Singapore no longer could circumvent as a member of a common market (Turnbull, 1989, 290). Singapore was again thrust into economic turbulence and a struggle for survival by external events. The PAP took up decisive action and evidenced by their continued electoral success, the populace agreed.

Singapore still depended heavily on international entrepot trade in the late 1950s and early 1960s, largely with Malaya (ibid 268). In 1956, the tertiary sector (commerce, transport, storage and communication, and services related to the entrepot trade) accounted for 70.5% of the workforce, with only 16.3% involved in manufacturing (Chiu et al., 1997, 28). By the end of the 1960s, the PAP proposed a radical plan to industrialize and stimulate domestic production to diversify the economy and sop up unemployed workers.

The British added to the dilemmas when they withdrew their troops and disbanded the Singapore garrison in 1968, further isolating Singapore and forcing its economy to shift

course. The Singaporean government held another general election to determine where the popular mandate lay in terms of a new direction. The PAP They were reelected by a wide margin, as opposition parties were disorganized and had little appeal. The PAP won every Parliamentary seat with more than 84% of the vote and only 7 constituencies actually faced opposition (Turnbull, 1989, 295). The PAP were widely viewed as best handling the crises since independence, and the party had always sold its strategy in a rhetoric of survival and the need for the country to find its own way in a hostile world. (See Figure 4 for PAP's astonishing electoral results.)

Singapore's industrialization strategy relied heavily upon foreign direct investment. Even after the political turbulence, and the loss of their ability to specialize in entrepot trade, Singaporeans recognized that economic openness to foreigners was key to recovery and development. The PAP toned down the fiery rhetoric as the government recognized the need for foreign capital to develop. Lee Kwan Yew insisted that "We have never stated that we stand for an independent, democratic, non-Communist, socialist Singapore because we realize that a socialist Singapore is an economic impossibility" (Yew, 1961, 166). Singapore's ministers were constrained in their ability to command the economy, which had always been so dependent on foreign trade. To quell fears of capital flight, Goh Keng Swee, Deputy Prime Minister, declared in 1977 "that the government did not intend to nationalize private industry but to create new industries either on its own or in partnership with the private sector. Nationalizing existing industry, he felt, would not create new employment, wealth, or income, but only transfer it (Turnbull, 1989, 312). Instead, the government launched a series of policies to incentivize foreign multinational corporations to invest in a new manufacturing sector in Singapore. (Chiu et al., 1997, 37) notes, "It was foreign capital that transformed Singapore from a trading entrepot port to an industrial city." By 1972, a quarter of Singapore's manufacturing firms were foreign or jointly owned, accounting for 70% in value of industrial production, 83% of direct exports, and employing over 50% of the domestic labor force (Turnbull, 1989, 296). By 1990, multinational corporations accounted for 90% of

manufactured exports and 63% of production (Chiu et al., 1997, 80). This is a huge outlier compared with the rest of the region.

Throughout this period, the PAP introduced harsh measures to combat the communist insurgency which flared up from time to time. Singapore continued to uphold the Internal Security Act ("ISA") of Singapore (Cap. 143, 1985 Rev. Ed.), which was passed under the original Malaysian government during the Malaysian Emergency. The law allows the state to preventatively detain individuals, fight subversion, suppress organized violence, amongst other sweeping powers. The PAP used this to quell dissent against suspected Marxist rebels throughout the period, invoking the act as recently as 1987 (Turnbull, 1989, 298).

4.2.2 Institutional Mechanisms

Thus, as a result of the geopolitical developments which reduced the returns to the entrepot trade and the political chaos forced on Singapore by the British, the Japanese, and Malaysia crafted the Singapore we see today. High economic freedom and low political freedom result from the institutional history of Singapore and the conjectures that citizens find focal. Two major mechanisms channeled this new path.

First, Singapore's historical institution of entrepot trade always constrained the larger development strategy and reformer's dilemma. Closing the port to international trade or erecting large barriers to trade would ruin Singapore, as noted by the PAP and foreign investors. Thus, the conjecture of open trade remained locked-in from its historical development as an entrepot. The value of A in figure 5 remained high relative to B, which remained very small due to the delicate nature of being a city-state dependent on the world.

Second, citizens adopted new focal conjectures: that a manufacturing base needed to be established to survive, and that the government needed to restore order through harsh means. Both of these new conjectures needed to remain in the context of an open economy, lest it be captured by rent-seeking or autarky, which would imperil the entire island. This explains the high economic freedom Singapore has today, as it simply kept the institutional

legacy of free and open trade throughout its history. The cost of rent-seeking to close trade has always been historically too high.

At the same time, the citizens and the government both recognized the need for manufacturing to supplement the entrepot trade and provide a solution to both the rampant youth unemployment and to the fragility of international trade. The State selected the industries to be developed and attracted foreign investment from multinational corporations to develop the manufacturing base. Beyond this, the economy remained economically free and open, thus confirming Powell's (2003) hypothesis that State-led growth in East Asia was largely a misattribution. Countries like Singapore industrialized, which was largely directed by the State, but the wealth and economic development generated largely was a result of open markets and international trade, both of which Singapore kept open throughout. This also confirms Krugman (1994) and Young (1994)'s skepticism of the role of the State in increasing Singapore's wealth through massive investments. The foundations of development were always there, the State simply took credit for much of the industrialization, which was conflated with development.

The other major conjecture that emerged as a focal point for citizens in the coordination game of newly independent Singapore was the need for political order and stability. Political peace was accomplished by compromising the early principles that the PAP ran on: democracy, socialism, and close amity with the region (Turnbull, 1989, 305). Yet the populace continued to reelect the PAP continuously to the present, granting them a mandate to combat economic and political crises with a heavy hand. The PAP became synonymous with the State and, with a sense of legitimacy from its overwhelming popular support, it became institutionalized as the major social and political outlet. "Singaporeans fell into the habit of following directions, while the ruling group, conscious of the efforts they had put into building the state, became obsessed with efficiency and impatient with criticism," (ibid, 307). The PAP saw themselves in a Confucian light as benevolent rulers: "fathers and teachers of their people, offering wise and good government. While they tolerated other

Year	Seats in Race	Contested Seats Lost	Total Seats Won	Votes	Share
1959	51	8	43	281,891	54.1%
1963	51	14	37	272,924	46.9%
1968*	58	0	58	65,812	86.7%
1972*	65	0	65	524,892	70.4%
1976*	69	0	69	590,169	74.1%
1980*	75	0	75	494,268	77.7%
1984	79	2	77	568,310	64.8%
1988	81	1	80	848,029	63.2%
1991	81	4	77	477,760	61.0%
1997	83	2	81	465,751	65.0%
2001	84	2	82	470,765	75.3%
2006	84	2	82	748,130	66.6%
2011	87	6	81	1,212,514	60.1%

Table 1: The Electoral Results of the People’s Action Party (PAP). Note: Election Years with a * indicate the PAP controlled every seat in the legislature. All remaining years show PAP controlling a majority of the legislature. Source: Singapore (2011)

parties and organized regular elections, these polls were seen as a means to express passive dissatisfaction, not to elect opposition members” (Turnbull, 1989, 319). The new conjecture, which many Western observers would call “bad,” was deference to the PAP and the Singaporean government as the major caretaker of social and political affairs. This is evidenced by the PAP’s tremendous record of reelection and lack of opposition, despite its formal legality. Table 1 displays the electoral record of the PAP since its inception. These facts explain the results of the World Values Survey described in Section 2, and vindicate Caplan’s (2009) hypothesis that Singaporeans are especially deferent or resigned to let the government rule. However, this institutional history helps describe the mechanisms of how this conjecture evolved, rather than simply attributing some cultural trait of “deference to authority” to Singaporeans as an explanation.

4.3 Comparisons with Hong Kong

Singapore has always been a city-state that has specialized in international trade. However, it is not the only one. Its closest companion throughout its history has been Hong Kong,

Country	GDP/Capita (Global Rank) [2011]	Economic Freedom (Global Rank) [2012]	Freedom (PR, CL) [2013]
Singapore	\$59,710 (3)	8.69 (2)	Partly Free (4,4)
Hong Kong	\$49.417 (5)	8.90 (1)	Partly Free (5,2)

Table 2: The Two Asian Tiger City-States. Notes: PR = Political Rights; CL = Civil Liberties. Sources: IMF (2012); Gwartney et al. (2012); FreedomHouse (2013).

which is now a Special Administration of the Peoples Republic of China.

Hong Kong provides a key comparison to rule out the cultural hypothesis. Hong Kong and Singapore share significant amounts of common culture and history together. Both were originally British crown colonies and were set up as entrepots in strategic locations to expand British trade into Southeast Asia and China. Both city-states had their comparative advantage in facilitating international trade and fostered very economically liberal policies to open up their economies. Both are largely comprised of ethnic Chinese migrants who seek better opportunities to work in manufacturing and export businesses. Both were invaded and sacked by the Japanese Empire during World War II.

Today, both polities score very high on economic freedom, with Hong Kong ranked 1st in the world and Singapore 2nd. Table 2 displays a brief comparison between the two city-states. Hong Kong is also listed as “partially free” by Freedom House, but there is an obvious explanation. Hong Kong is not a sovereign state, but a province of the People’s Republic of China. As such, it has little political rights as to its broader governance, being a dependency of another nation. This explains the low score of political rights. However, it has substantially higher civil liberties than Singapore, thus confirming Singapore’s paradox of economic freedom but little political freedom. Today Hong Kong is a financial center integrated with the world financial system, while Singapore works more as a regional headquarters for multinational corporations which operate in Southeast Asia (Chiu et al., 1997, 11).

Several studies have attempted to compare these two city-states. (Young, 1992, 14)

notes that Hong Kong followed a more *lassiez-faire* policy of open trade than Singapore. Chiu et al. (1997) notes that Hong Kong's government took a much more laid back view of development and industrialization during the 1960s, while Singapore's government was actively seeking to plan development. Chiu concludes that answer to the puzzle of why "Hong Kong and Singapore developed differently after industrial changes, despite similar conditions like resource-endowment, colonial history, and the level of economic development...lies in the historical constitution of divergent development paths in the postwar era as well as the presence of diametrically different configurations of domestic institutions" (ibid, 5).

The main difference in Hong Kong's institutional development was the relative security that it faced following World War II. Despite being captured and returned by the Japanese to the British, it remained a British colony until 1997. Singapore, on the other hand, was granted independence and faced a constant barrage of political struggles thrust upon it from other nations. The added autonomy relaxed the political constraint against the Singaporean government under the PAP to take matters into its own hands. In comparison, Hong Kong's administration still had to work up the official channels to London, and maintained a much more "hands-off" approach to industrialization to lower administrative costs Chiu et al. (1997). The struggles against the Malay and the communists which wreaked political havoc on Singapore's social sphere also allowed citizens to coordinate under conjectures of more political authority and heavy-handedness than Hong Kong's peaceful transition.

5 Conclusions

Singapore is the unique result of institutional evolution and contingent politics. The crucible of political, social, and economic factors which developed the conjectures of open trade and order that defines the population of Singapore would be very difficult to replicate. Thus, Singapore cannot easily be claimed as a demonstration of the superiority of the East Asian model of state capitalism to be a potential alternative strategy for developing nations.

Singapore's institutional history tends to give credence to the hypothesis that cultural endowments explain a large degree of its success. This paper attempted to provide a framework for the mechanisms that contribute to the formation and evolution of those cultural traits through the conjectures that citizens and the government coordinate on to develop the economy. However, by comparing Singapore with Hong Kong, this analysis helped isolate the importance of institutional development rather than accept a broader cultural explanation.

Singapore's history, along with Hong Kong's, may provide a new avenue of research on the role of trade-based city-states in the global economy. Some research has focused on the mechanisms and advantages of city-states that are open to world trade, at least historically in the context of Western Europe (Saul, 1982). While Singapore (and Hong Kong) may be historically-determined anachronisms, being the only major city-states in the modern era of nation-states, there are reasons to explore the potential and history of city-states as a method of political organization. This research, and the successes of Singapore might be used as further justification for the excitement around the Free Cities Project (Adam-SmithInstitute, 2011). Singapore's institutional history highlights the constraints and paths that an entrepot city-state places on development. A populace that is heavily specialized and involved in international trade forms conjectures to support it and will constrain further State encroachment over economic freedom over time. However, Singapore displays how such city-states can be plagued by political crises and lead towards authoritarian social policies under certain contexts.

More broadly, Singapore's economic history and the conjectures its citizens coordinate around further demonstrate the plain fact that ideas matter. In this case, the idea of free trade became nearly binding as a constraint on state action due to the potential losses to the county from protectionism and excessive rent-seeking. Also, the populace's view of the PAP's actions rendered them legitimate, creating a conjecture which allowed coordination, but on a more autocratic level. Thus, ideas can be powerful drivers of history through economic mechanisms.

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