# Industrialisation through foreign direct investment

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## The turn to the multinational after 1965

Separation from Malaysia on 9 August 1965, examined in Chapter II of this part, removed the premise of the early strategy.[1] A single city could not build an industrial base on its domestic market alone. Indonesia's Confrontation had already cut trade with the archipelago, while Malaysia was now a separate state with its own tariffs. The government responded by turning outward. It decided to manufacture for world markets and to attract the companies that controlled access to them, which in practice meant American, European and Japanese multinationals.

The decision was less obvious than it seems in retrospect. Many newly independent states of the 1960s regarded multinational companies with suspicion, because they associated foreign capital with colonial exploitation and preferred state ownership or protected national champions. Within Singapore's own politics, the trade unionist James Puthucheary had argued that the state should own strategic heavy industry. Puthucheary remembered Winsemius as a convinced advocate of private enterprise. Stoelinga shows that Goh Keng Swee shared the adviser's view.[2]

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Singapore's leaders concluded that the city had no time to grow its own industrialists. Foreign firms brought capital, technology, management and, above all, markets.

The year 1967 marked a turning point. Investors from Japan, the United States, Britain and Hong Kong increased their commitments. The riots of 1967 in Hong Kong, inspired by the Cultural Revolution in China, led hundreds of Hong Kong companies to look for a safer base. The EDB opened an office in New York, which within four months received about a hundred enquiries from American manufacturers, many of them semiconductor firms. Applications from potential investors rose from 1,174 in 1967 to 1,300 in 1968.[3]

## Pioneer status and the Economic Expansion Incentives Act 1967

Tax incentives were the principal instrument used to influence investment decisions. In 1966 alone, 26 newly registered firms received pioneer status with a five-year tax holiday. The government expected them to employ 19,000 workers once in full production. In 1967 the legislature replaced the ordinance of 1959 with the Economic Expansion Incentives (Relief from Income Tax) Act, which consolidated the incentive law and became the framework for later incentives. The Act has been in operation since 15 December 1967.[4]

The structure of the Act reflects the logic of the developmental state. The Minister may declare an industry and its products to be a pioneer industry, after which a company may apply for a pioneer certificate. In its current form, the relief period for a pioneer company may not exceed 15 years in total.[5] The incentive is therefore a discretionary grant. It is negotiated case by case between the company and the government agency, which can attach conditions on investment, employment or activities. By giving the EDB a powerful bargaining tool, the Act turned the relationship between investor and state into a contractual partnership.

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An official of the late 1970s explained the underlying philosophy with a simple arithmetic. With a corporate income tax rate of 40 per cent, he told an international tax conference in 1980, the first theorem of taxation was that "less is more", because 40 per cent of zero is zero.[6] The state gave up revenue from new investments in order to obtain them at all, counting on the wages, the suppliers and the later taxable profits that the investments would generate.

## Texas Instruments and the electronics cluster

The arrival of Texas Instruments in 1968 became the founding legend of the EDB. According to the account given by Lee Hsien Loong in 1991, the company knew little about Singapore and doubted whether local workers had the skills and discipline needed on an electronics assembly line. EDB officers took the visitors to a wig factory, where young women patiently stitched hairs one by one onto wigs. Once convinced, Texas Instruments took its project from commitment to the production of the first semiconductors in fifty days. When the plant was officially opened on 4 July 1969, it already employed a thousand workers.[7]

Other semiconductor and electronics firms followed, including National Semiconductor, Hewlett-Packard, General Electric and Fairchild from the United States and Hitachi, Philips and Siemens from Japan and Europe. Stoelinga, relying on the work of Linda Lim, gives the scale of the result: 91 electronics firms employing 46,247 workers in 1975, a fifth of the industrial workforce, and 185 firms employing 71,727 workers in 1980. By 1991 Singapore produced more than half of the world's Winchester disk drives. Lee Hsien Loong called this "a man-made competitive advantage, created by EDB's efforts".[8]

Training followed investment. The EDB set up training centres with Tata of India, Rollei, Brown Boveri and Philips, followed by the Japan-Singapore, German-Singapore and French-Singapore institutes. Rollei, the German camera maker, and Philips helped to establish two of these centres in the early 1970s. They prepared workers with little formal education for jobs in multinational factories.[9] The pattern

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of bringing in a foreign firm and using its presence to build local skills became a permanent feature of the EDB's method. Chapter IV of Part J examines its successor programmes for talent.

## The reorganisation of 1968: EDB, JTC and DBS

Success overloaded the Board. In 1968 the government split off two of its functions into separate institutions. The Jurong Town Corporation, today JTC Corporation, was established on 1 June 1968 to take over the development and management of industrial estates. The Development Bank of Singapore, incorporated on 16 July 1968 to take over the EDB's industrial financing, began operations on 1 September 1968.[10] The EDB kept investment promotion as its core task.

The reorganisation created a division of labour that still shapes Singapore's economic administration. One agency sells the location, another provides the land and buildings, a third finances the projects. Each is a statutory board with its own statute, budget and management, working under the political direction of a ministry. The model allowed the government to use commercial methods without giving up control. It also prepared the way for the financial institutions examined in the following chapters: DBS became one of the three large local banks discussed in Part D, while the offshore market opened in the same year is the subject of Chapter IV of this part.

# Notes

1. SG101, "1959–1965: Early Economic Strategies", op. cit.: Singapore was separated from Malaysia on 9 August 1965. ↩
2. F. Stoelinga, *Albert Winsemius*, op. cit., p. 224, citing the oral history interview with J. J. Puthucheary (National Archives of Singapore, reel 10), in which Puthucheary recalled that Winsemius "was very much a private enterprise man". ↩
3. F. Stoelinga, *Albert Winsemius*, op. cit., pp. 328–329, quoting Chan Chin Bock, "Romancing the American MNCs", in Chan Chin Bock et al. (eds), *Heart*

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*Work*, Singapore, 2002, pp. 32–53, at 44, on Hong Kong companies "relocating their operations to Singapore to get away from the strikes, the bombs and general chaos"; F. Stoelinga, *Albert Winsemius*, op. cit., p. 329, citing Lee Soo Ann, *Industrialization in Singapore*, p. 63. ↩

4. F. Stoelinga, *Albert Winsemius*, op. cit., p. 328, citing the EDB Annual Report 1967; Speech at the sixth International Tax Conference, February 1980, op. cit., p. 3: "In 1967, the Economic Expansion Incentives (Relief from Income Tax) Act was passed to replace the earlier legislation and to consolidate the laws."; Economic Expansion Incentives (Relief from Income Tax) Act 1967, as reproduced on lawplayer.com from Singapore Statutes Online (accessed November 2026): "In operation from 15 December 1967". ↩

5. Economic Expansion Incentives (Relief from Income Tax) Act 1967, ss. 3–6, as reproduced on lawplayer.com (accessed November 2026): s. 4 (approval of pioneer industries), s. 5 (pioneer certificates), s. 6(1) and (3) (relief period "not exceeding 15 years" in total). ↩

6. Speech at the sixth International Tax Conference, February 1980, op. cit., p. 4: "40 per cent of zero is zero, 40 per cent being the Singapore income tax rate on corporation profits". ↩

7. Speech by BG Lee Hsien Loong, 1 August 1991, op. cit., p. 3: the project "got off the ground within 50 days flat, from date of project commitment to the production of the first batch of semiconductors and integrated circuits in Singapore"; F. Stoelinga, *Albert Winsemius*, op. cit., p. 329: official opening of the plant on 4 July 1969 with a thousand employees. ↩

8. F. Stoelinga, *Albert Winsemius*, op. cit., p. 329, citing Linda Lim, *Trade, Employment and Industrialization in Singapore*, Geneva, 1986, p. 87; Speech by BG Lee Hsien Loong, 1 August 1991, op. cit., p. 10: Singapore was "the dominant producer of Winchester disk drives in the world, accounting for more than 50 per cent of world output". ↩

9. Speech by BG Lee Hsien Loong, 1 August 1991, op. cit., p. 9; F. Stoelinga, *Albert Winsemius*, op. cit., pp. 322 and 378. ↩

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10. Wikipedia, “JTC Corporation” (accessed November 2026): established on 1 June 1968 as the Jurong Town Corporation; SG101, “Jurong: From Swamp to Suburb”, op. cit.: the mandate was “later passed to Jurong Town Corporation (JTC), which was set up … in 1968”; Wikipedia, “DBS Bank” (accessed November 2026): incorporated by the government on 16 July 1968 to take over the industrial financing responsibilities of the EDB, began operations on 1 September 1968; Wikipedia, “1968 in Singapore” (accessed November 2026). ↩

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