The free-port principle: open to every flag

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The idea of the free port

The decision that shaped Singapore more than any other was the decision to make it a free port. Ships of every nation could enter the harbour, land and load their cargo and leave without paying customs duties on the goods they traded. Singapore was prohibited from earning revenue through port duties.[1]

Raffles saw the free port as a weapon against the Dutch system. In the same letter of 10 June 1819, he wrote: "One Free Port in these seas must eventually destroy the spell of Dutch monopoly; and what Malta is in the West, that may Singapore become in the East."[2] The comparison with Malta, which Britain had acquired during the Napoleonic Wars as a naval base and trading station in the Mediterranean, shows how Raffles saw the settlement: as a strategic position of the maritime empire that would attract trade by its openness and protect it by British power.

The free-port principle drew on ideas that were gaining ground in Britain. Adam Smith's critique of mercantilism had been published in 1776. Since then British manufacturers and merchants had increasingly demanded free access to markets.

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The private merchants who wanted to end the Company's China monopoly used the same arguments. In the ports of Asia, the free port had a practical meaning: it removed the dues and restrictions that Dutch, Spanish and Asian rulers imposed and that raised the cost of trade.[3]

Revenue without duties: the farms

A settlement without customs duties still needed revenue. It had to pay for its administration, its police and its public works, since the Company in Calcutta expected it to pay its way. The answer, adopted by Farquhar and developed by his successors, was the revenue farm. The government sold, usually by auction, the exclusive right to conduct certain businesses – the sale of opium, the sale of alcohol and, until Raffles prohibited it, gambling – to private contractors, the farmers, who paid a fixed sum for the licence and recovered it from their customers.[4]

The opium farm in particular became the most important source of revenue of the colonial government of Singapore for most of the nineteenth century. It was farmed to syndicates of Chinese merchants, who used their profits to build fortunes and influence. The farm tied the finances of the colony to the consumption of opium by its own labouring population.[5] The free port, in other words, was compatible with taxation and allocated its burden in a particular way: trade was untaxed, and consumption, above all the consumption of opium, bore the cost of government.

Common misconception

The free port is sometimes understood as a settlement without taxes. Early Singapore levied no customs duties on trade, but it raised revenue from licences and revenue farms on opium, alcohol and, until 1823, gambling. The choice favoured merchants and shifted the fiscal burden onto consumers, many of them poor labourers. The modern fiscal model of Singapore, with low taxes on business and capital and significant revenue from consumption and state assets, has a long ancestry.

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Free port and the rule of law

The free port offered merchants more than freedom from duties. It offered them the protection of a European power with a navy, a predictable administration and, increasingly, a system of courts that enforced contracts and property rights. Raffles' regulations of 1823 laid down rules for the registration of land, the conduct of the market and the administration of justice by magistrates drawn from the merchant community.[6]

The combination of free trade and legal security is the core of the institutional model that the previous chapter identified in the successful ports of the Strait: protection, predictability and a moderate price of passage. Malacca under the sultans had offered all three. Portuguese and Dutch Malacca and Dutch Riau had raised the price of passage by force. British Singapore offered protection and predictability at a price of zero for the trade itself. Wong Lin Ken, the historian of Singapore's entrepôt trade, concluded that Singapore held its own against Dutch competition because "it had a headstart, and, what was more important, it had no governmental interference in trade".[7]

Singapore and the Dutch system compared

The contrast between the Dutch and British systems in the archipelago should not be overstated. The Dutch also maintained free ports at times, while the British imposed monopolies elsewhere, above all on opium in India. In the Strait in the 1820s, however, the contrast was real and was perceived as such by Asian merchants. Bugis traders from Sulawesi, Chinese junk traders from Amoy and Canton and Arab merchants from Palembang knew Dutch duties and restrictions from experience and chose Singapore because it spared them.[8]

The comparison foreshadows a theme that runs through the later history of the financial centre. Singapore has repeatedly attracted business by offering a regime that is more open, more predictable or less costly than that of its competitors, while

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maintaining a reputation for order and legality. The balance between openness and integrity, and the reputational risks that openness brings, are examined in Parts E and H of this book.

Notes

1. Wikipedia, "Founding years of modern Singapore" (accessed September 2026): Singapore was established as "a free port" and was not to earn revenue through port duties. ↩
2. Raffles to Colonel Addenbrooke, 10 June 1819, quoted in "Letters and Correspondences of Raffles", *The History Makers* (samhistmakers), accessed September 2026. ↩
3. On the influence of free-trade ideas on British policy in Asia in the 1810s and 1820s, and on the free-port model of Penang and Singapore, see Tarling, *Anglo-Dutch Rivalry in the Malay World 1780–1824*, and Wong Lin Ken, "Singapore: Its Growth as an Entrepot Port, 1819–1941", *Journal of Southeast Asian Studies*. ↩
4. Wikipedia, "Founding years of modern Singapore" (accessed September 2026): Farquhar resorted to "selling licenses for gambling and the sale of opium"; Wikipedia, "Stamford Raffles" (accessed September 2026): in 1823 Raffles "imposed heavy taxation on what he considered social evils such as drunkenness and opium smoking". ↩
5. On the opium farm as the principal source of revenue of colonial Singapore and on the role of Chinese syndicates, see Carl A. Trocki, *Opium and Empire: Chinese Society in Colonial Singapore, 1800–1910*, Ithaca, Cornell University Press, 1990. ↩
6. Raffles' regulations of 1823, including the appointment of magistrates from among the merchants and rules on land and markets, are summarised in C.M. Turnbull, *A History of Modern Singapore 1819–2005*, Singapore, NUS Press, 2009, chapter 1. ↩

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7. Wong Lin Ken, "Singapore: Its Growth as an Entrepot Port, 1819–1941", *Journal of Southeast Asian Studies*, text accessed through Cambridge Core, September 2026. ↩

8. On the Bugis and Chinese junk traders' preference for Singapore over Dutch ports in the 1820s, see National Library Board Singapore, Infopedia, "Bugis trade", and Wong Lin Ken, "Singapore: Its Growth as an Entrepot Port, 1819–1941". ↩

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