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Li Kuan Yew's Economic Reforms in Singapore

Sh.Sh.Xamrakulova

PhD., Head of Department of "World History" Faculty of History, Samarkand State University, named after Sharof Rashidov, Uzbekistan

Muhammadiyeva Gulrux

4th-year student of the Faculty of History, Samarkand State University, Uzbekistan

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Abstract: This article analyzes the economic reforms implemented in Singapore between 1959 and 2000 under the leadership of Lee Kuan Yew. The paper examines key factors such as post-independence Singapore's gradual transition from industrialization to a knowledge-based economy, policies for attracting foreign direct investment, labor market reforms, inflation management mechanisms, the Central Provident Fund (CPF) system, and the creation of the Jurong Industrial Estate. Additionally, it analyzes the reasons behind the successful navigation of the 1997–1998 East Asian financial crisis.

Keywords: People’s Action Party (PAP), People's Defence Force, Monetary Authority of Singapore (MAS), National Wages Council (NWC), Economic Development Board (EDB), Central Provident Fund (CPF).

Introduction: Lee Kuan Yew assumed the position of Prime Minister of Singapore in 1959, and the country achieved independence in 1965 with a population of 2 million. Singapore joined the United Nations on September 21, 1965. The economy of Singapore was gradually transformed based on specific goals in distinct stages: during 1959–1965, focus was placed on the production of import-substituting goods to reduce local unemployment; during 1966–1973, export-oriented labor-intensive industries, particularly textiles, were developed. During 1973–1984, high-technology industries and services — especially shipbuilding, oil refining, electronics — were developed as drivers, forming a development path structured in 4 stages. From 1985 to the present, Singapore has been shaped as a center of knowledge-based economy, finance, IT, and biotechnologies.

RESULTS AND DISCUSSION

In the early years after Singapore gained independence, it was dependent on Malaysia in many respects, and numerous press outlets began making predictions that Singapore's collapse was inevitable. Even in London's Sunday Times newspaper on August 22, 1965, Richard Hughes wrote the following: "If British bases worth more than 100 million pounds sterling are closed, Singapore's economy will collapse" [3;158]. By this time, Singapore pursued a policy of rapprochement with the United States. Lee began striving to achieve international recognition of Singapore's independence. In 1965, Singapore's nominal gross domestic product per capita amounted to approximately 500 US dollars. Between 1965 and 1986, Singapore's economy recorded an average annual growth of 8.6%. By the 1990s, this figure rose to 13,000–14,500 dollars, which indicated that it had grown nearly 28 times compared to the figures of the early years of independence. After British troops were withdrawn in 1967, the country became increasingly committed to a growth strategy based on supporting free trade and exports [6;154-157]. While other states were afraid of foreign capital, Lee Kuan Yew opened the door wide to them. Singapore granted foreign investors the right to 100% ownership (most countries required at least 51% local partnership). Shell, Mobil, and other major companies built oil refineries in Singapore. As another factor in the development of the economy, the country did not restrict the inflow of capital and foreign investments, which increased sharply especially in the late 1970s. In the 1960s, foreign investments averaged 2 percent of GDP, with foreign investments generating profit in the manufacturing and financial services sectors. In 1968, a currency division of Bank of America was established in Singapore. By the early 1970s, foreign investments rose to an average of 5 percent of GDP. As a result of the international oil crisis, global recession, and regional political uncertainty, they declined somewhat in the mid-1970s, but recovered by the end of the decade. By the mid-1980s, they accounted for an average of 8 percent of GDP. From 1987 onwards, the volume of investment grew sharply and averaged 13 percent until the early 1990s. In 1993, the government introduced a number of privileges, particularly tax benefits, to encourage investments abroad. In 1959, unemployment among the poor and poorly educated population constituted a large percentage. To overcome this problem, the path of rapid industrialization was chosen.

Continuing industrialization required raising the skill level and education of the workforce. For this purpose, a five-year education plan was introduced to create a workforce with the mathematical and other technical knowledge required in the economy, and as a result, the number of skilled workers in industry increased and 21,000 jobs were created, nevertheless, the unemployment rate remained above 10 percent [8;350]. During 1967–1973, manufacturing created 147,500 jobs. In the late 1970s, Singapore abandoned the era of cheap labor. In geopolitical economy, Singapore was brought to such a state that it became an equally necessary partner for both the West (USA) and the East (China). During Lee Kuan Yew's era, the level of corruption in Singapore fell to nearly zero, which increased the flow of investments hundreds of times compared to 1965. Another reform carried out by Lee Kuan Yew that we can mention is the Jurong economic zone. When Lee Kuan Yew took control of the government, unemployment in Singapore was above 14%. The idea was to transform 6,500 hectares of swampland in the western part of Singapore into a massive industrial area. At the time, many called this project "Goh's Folly" (in honor of Goh Keng Swee - the author of the project and Finance Minister), because no one believed that a factory could be built in a swamp [1;580]. The Economic Development Board (EDB) was established in 1961 to develop Jurong. Its main tasks were defined as follows: providing investors with ready infrastructure (roads, water, electricity), leasing land for factory construction at low prices, and protecting from bureaucracy. The Jurong economy developed through 4 main stages. In the 1970s, oil refineries (Mobil, Shell) were built on the Jurong islands. In the 1980s–1990s, production shifted to electronics, computer disks, and semiconductors. In the 2000s, scientific centers such as "One-North" and "International Business Park" were established in the Jurong area. The greatest economic achievement of Jurong is the merging of 7 small islands to create one massive artificial island. The world's largest petrochemical cluster is located here. Companies are connected to each other through a "pipeline system": the waste of one factory serves as raw material for another factory. As a result of this reform: more than several thousand jobs were created in Jurong. Through Jurong, Lee Kuan Yew sent a message to the world: "Doing business in Singapore is safe and profitable" [3;82-89].

In the early years of independence, during 1965–1970, inflation averaged 1 percent, but in 1974 this figure reached 34 percent. To reduce this inflation, the Monetary Authority of Singapore (MAS) carried out the following measures: took action against entrepreneurs who raised prices without justification, in 1973 the Singapore dollar abandoned its peg to the US dollar, and by regularly increasing the value (exchange rate) of the Singapore dollar, the prices of imported goods were reduced.

Based on the recommendations of the National Wages Council (NWC), it was monitored that wage increases did not exceed the rate of inflation, which prevented the "price-wage" spiral (wages rising because prices rise, which in turn causes prices to rise again) [2;250]. In 1961, a large fire completely destroyed a squatter settlement located on 47 acres of land in Bukit Ho Swee and left nearly 16,000 families homeless. The government then reviewed a bill and stated: "It is utterly disgusting to allow any benefit to be gained from this fire. In fact, if any benefit were allowed to be gained, it would only be a temptation, an inducement for those who own land where squatters are present to set fire to it" [5;215]. Restrictions on the import of essential goods were lifted, which increased supply in the market. As a result of these measures, the high inflation rate of 1974 fell to 2.6% by 1975. From 1981 onwards, the MAS formally adopted a policy based on a currency exchange rate basket. By regularly increasing the value (exchange rate) of the Singapore dollar, the prices of imported goods were reduced. Another achievement for Singapore's financial center was the Singapore International Monetary Exchange (SIMEX). In 1984, the Singapore Gold Exchange expanded gold futures trading to also include financial futures and renamed itself SIMEX. By 1998, SIMEX had listed a number of regional contracts encompassing futures on Japan, Taiwan, Singapore, Thailand, and Hong Kong stock indices. The London-based

International Financing Review awarded SIMEX the "International Exchange of the Year" award in 1998, making it the only Asian exchange to have won this title, and SIMEX achieved this award for the fourth time [9;166]. Lee compares Singapore's banks with world banks. He expresses the view that due to bilateral agreements with the United States or possibly World Trade Organization (WTO) agreements, Singapore would need to open its banking sector and remove protection for local banks [10;88]. Lee decides to break this old mold in 1997. At the beginning of 1997, with the permission of the Prime Minister, he engages Loong. On January 1, 1998, the Prime Minister appoints him as Chairman of MAS. With the help of several key staff members, MAS is reorganized and redirected, and implementing a new approach to regulating and developing the financial sector is considered [8;58]. Loong and his team changed MAS's approach to financial supervision. With the advice of management consultants and industry committees, they implemented policy changes that affected all parts of the financial sector. These changes and cautious approaches helped Singapore overcome the East Asian financial crisis of 1997–1998 [5;145]. By the 1990s, Singapore had become one of the world's largest financial centers.

CONCLUSION

The reforms carried out by Lee Kuan Yew during 1959–2000 transformed Singapore, which had a high level of poverty and unemployment, into one of the world's largest financial centers. The Jurong economic zone, established in place of swampland, the broad attraction of foreign capital, and the strict control of inflation by the Monetary Authority of Singapore (MAS) ensured the rapid growth of the economy. As a result, GDP per capita grew nearly 28 times from 1965 to the 1990s. Furthermore, the establishment of the SIMEX exchange, which justified international trust, and the cautious policy in the financial sector allowed the country to successfully and without losses pass through the East Asian financial crisis of 1997–1998 as well.

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