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# SINGAPORE IN 2000

## *Continuing Stability and Renewed Prosperity amid Regional Disarray*

===== Tim Huxley  
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During 2000, the city-state of Singapore was an island of continuing political stability and renewed economic growth in a region still suffering the effects of the economic, social, and political turbulence triggered by the regional financial crisis of 1997. However, changes in the nature of Singapore's economy were evidently affecting its social structure, and not altogether in a positive sense. And regional developments (particularly in the political sphere) had a negative impact on Singapore's interests, creating a sense of insecurity not felt since the late 1960s. It was clear that the policy-making elite faced important dilemmas in its efforts to shape a secure and prosperous future for the republic.

### The Economy

Singapore's rapid recovery from a short-lived recession in 1998 (when annual gross domestic product growth fell to 0.4%) has provided the economic underpinnings for continued social and political stability. After registering growth of 5.4% in 1999, the economy continued to gather pace during 2000 and, by the third quarter, quarter-on-quarter annual growth had reached 10.4%. The government forecasted that the overall annual growth figure for 2000 would be 9.5%, although independent assessments calculated that double-digit growth was likely. The electronics sector—which accounted for 43% of Singapore's manufacturing industry and had been boosted by rising demand from the developed world and the recovering economies of North-

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east Asia—was central to the economic boom, despite the reduction in disk drive production as businesses moved their operations to lower-cost locations. Other notably successful areas of the economy included the chemical industry (particularly pharmaceuticals), wholesale and retail trade, hotels and restaurants, and transport and communications.<sup>1</sup>

Singapore's government has never been prone to complacency where economic issues are concerned, and during 2000 it continued to focus considerable attention on how it could maintain the economy's international competitiveness in the future. One crucial move was to expand the national research and development effort. Government research and development funding will increase by approximately 50% under the National Science and Technology Plan 2005, unveiled by Minister for Trade and Industry George Yeo in October. Under the Plan, the government will invest S\$7 billion (US\$4 billion) over a five-year period, with the aim of transforming Singapore into a "knowledge-based economy."<sup>2</sup> A key initiative under the Plan involved establishing a Biomedical Research Council, underlining the government's estimation of the huge economic importance of life sciences—including biological, pharmaceutical, and medical components—in the future. The thrust to develop the life sciences sector also motivated the government to increase the emphasis on biology in Singapore's education curriculum, with the aim of developing a larger cohort of local personnel with relevant qualifications.

The government also attempted to encourage innovation and entrepreneurship, two qualities widely perceived as lacking in Singapore's economy despite its manifest strengths in other areas. According to Senior Minister Lee Kuan Yew, speaking in February, Singapore needed to change the way it operated or risk decline. A strong core of local entrepreneurs was needed to create competitive small and medium enterprises, he said.<sup>3</sup> Prime Minister Goh Chok Tong's National Day Rally speech also focused on the need to meet the challenges of the "new economy." According to Goh, Singaporean companies would need to operate like "revolutionaries" or "insurgents" in order to defeat challenges from international rivals.<sup>4</sup>

The reality, however, was that foreign-owned multinationals and large Singapore government-linked companies (GLCs) such as DBS Bank, SingTel (telecommunications), SIA (air travel), Singapore Technologies (IT, aerospace, and defense) and SembCorp (engineering and infrastructure) continued

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1. Statistics Singapore, "Latest Monthly/Quarterly Indicators," on the World Wide Web at <<http://www.singstat.gov.sg/CURRENT/current.html>> [accessed November 30, 2000]; and *Straits Times*, November 17, 2000.

2. *Straits Times Weekly Edition*, October 28, 2000.

3. *Ibid.*, February 19, 2000.

4. *Ibid.*, August 26, 2000.

to dominate the local economy. The U.S.'s Singapore embassy pointed out in a report released in June 2000 that the GLCs—as well as the state's control of Singapore's mass media—may pose “significant barriers” to government efforts to restructure the economy.<sup>5</sup> In March, government legislators directly criticized the GLCs in Parliament. These criticisms highlighted the GLCs' negative impact on smaller local businesses (many of which were yet to feel the impact of economic recovery) and led the minister for finance, Richard Hu, to give assurances that their activities would be scrutinized carefully in future.<sup>6</sup>

## Society

Though Singapore's economy continued to recover impressively during 2000, by no means did all Singaporeans benefit from this recovery. The number of people in employment grew significantly over the year, but so did unemployment. Whereas the unemployment rate had been less than 2% before the economic crisis of 1997–98, by June 2000 it had risen to 3.5%. While it fell again to 2.5% by September, these figures raised fears that the long-term structural unemployment rate might worsen because of the inability of older, unskilled workers to adjust to the changing requirements of the economy. In September, however, the government launched a skills-upgrading program to help such workers to maintain their employability despite fast technological change.<sup>7</sup> In the long-term, the government's decision that, with effect from 2003, education will be compulsory for all children should also improve the effectiveness of Singapore's labor force.<sup>8</sup>

The government hoped that skills-upgrading would ameliorate not just unemployment but also another, related social problem: the emerging disparity in income between Singapore's richest and poorest. While Singapore was rated the world's ninth most prosperous country on the basis of mean per capita income, an official report in May revealed that the average monthly household incomes of the poorest 10% of the population had fallen from S \$370 (US\$250) in 1997 to S \$258 (US\$154) in 1998, and again to S \$133 (US\$77) in 1999. The proportion of households earning less than S \$3,000 (US\$1,744) rose from 40% to 42%. At the same time, though, incomes of many senior civil servants, professionals, bankers, and senior company executives continued to rise rapidly: in 1999, the top 20% of households earned

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5. Economist Intelligence Unit (EIU), *Country Report—Singapore* (London: EIU, July 2000), p. 15.

6. *Ibid.*, April 2000, p. 14.

7. *Straits Times Weekly Edition*, August 12, 2000.

8. *Ibid.*, August 19, 2000.

18 times as much as the lowest 20%, compared with 15 times as much in 1998.<sup>9</sup>

The growing presence of foreign skilled workers and professionals in the economy has created resentment among those Singaporeans who feel that their upward socioeconomic mobility has been impeded. The initial findings of the 2000 census, released in August, revealed that 19% of Singapore's total population of 4 million were neither citizens nor permanent residents, compared with only 10% of 3 million in 1990.<sup>10</sup> This evidence of the republic's increasing reliance on immigrants (with attendant implications for social cohesion) reinforced the government's existing concerns over Singapore's low fertility rate, which had already prompted several initiatives during 2000. Most importantly, in March the government announced that policies encouraging procreation should be aimed at a wider social spectrum than the better-educated class already targeted. In April, the government established a high-level committee to study the issues of fertility and marriage in detail. Long-term social and infrastructural planning is based on an estimated total population of 5.5 million by 2040.<sup>11</sup> Unless the government's pro-natalist policies succeed, foreigners will comprise a considerably higher proportion of this future population than was the case in 2000.

## Politics

Because of the nature of Singapore's political system, social issues did not reverberate politically during 2000, but the widening gulf in prosperity between richer and poorer Singaporeans could have repercussions in the next general election, due to be held by August 2002. In the meantime, the local political scene was subdued. The opposition remained small and ineffective, and a Speaker's Corner established by the government in September did not make any immediate impact on Singaporeans' political consciousness. Nevertheless, the government felt it necessary to contain rumblings of discontent within the 14% Malay minority by establishing channels for direct and frank dialogue between senior People's Action Party (PAP) figures (including the prime minister and senior minister) and community groups.<sup>12</sup> Important questions at issue included the impending impact of compulsory education on the status of Muslim religious schools and restrictions on the role of Malays in Singapore's armed forces.

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9. S. Jayasankaran, "A City Divided," *Far Eastern Economic Review*, October 12, 2000, pp. 26–27; and EIU, *Country Report—Singapore*, p. 21.

10. Statistics Singapore, "Census 2000," on the World Wide Web at <<http://www.singstat.gov.sg/C2000/census.html>> [accessed November 30, 2000].

11. *Straits Times Weekly Edition*, April 29, 2000.

12. *Straits Times*, November 7, 2000.

In November, Goh Chok Tong celebrated a decade as Singapore's prime minister—a not unremarkable achievement in view of the earlier widespread assumption that he was essentially an interim leader pending the installation of a more durable figure, most likely Lee Hsien Loong, the elder son of former Prime Minister Lee Kuan Yew. It was nevertheless widely expected that Goh—who has continued to emphasize the importance of bringing fresh faces with ministerial potential into the PAP—would step down after the next election. In the meantime, Lee Kuan Yew maintained a higher political profile, particularly in foreign affairs, than most observers would have anticipated when he relinquished the premiership in 1990. The second volume of his memoirs, entitled *From Third World to First*, was published in September. While Lee's interpretations of past events were not uncontroversial, particularly in Malaysia, the book made less impact than its predecessor had in 1998.

### Foreign Affairs and Security

If Singapore's domestic political scene remained essentially unruffled, the same could not be said of its regional environment, which was—as ever—a central foreign policy concern for the government. Neighboring states' domestic problems have often adversely affected Singapore and during the late 1990s the republic found itself in a regional strategic environment akin to that of the mid-late 1960s, when it endured tense relations with neighbors to both north and south. However, during 2000 relations with Malaysia stabilized. In February, the two governments agreed on how to resolve the so-called Clob issue (concerning Singapore-owned shares frozen by Malaysia since 1998). Lee Kuan Yew's visit to Malaysia in August (his first for a decade) and his generally conciliatory tone while there underlined Singapore's determination to keep relations with Kuala Lumpur on an even keel. However, negotiations on a "package" of other contentious bilateral issues did not make progress. In March and April, Malaysian politicians and commentators responded adversely to an article in Singapore's *Straits Times* newspaper referring to Prime Minister Mahathir's "precarious position."<sup>13</sup> Malaysian politicians' negative reaction in October to Lee's justification of the acquisition of new air-to-air missiles for Singapore's air force again illustrated the continuing sensitivity of bilateral relations.<sup>14</sup>

Relations with Indonesia remained vulnerable to the new unpredictability of that huge country's politics in the post-New Order era, despite Singapore's efforts to develop friendly relations with the government of President Abdurrahman Wahid. In January 2000, Goh Chok Tong announced a S \$1.2 billion

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13. Chua Lee Hong, "A Tale of Two Democracies," *ibid.*, March 25, 2000.

14. *Ibid.*, October 28, 2000.

(US\$698 million) aid plan, including a US\$400m trade assistance package, to accelerate Indonesia's economic recovery. Singapore also maintained close links with Indonesia's armed forces (largely deprived of outside connections in the wake of events in East Timor in August-September 1999), mainly through joint exercises. Nevertheless, Singapore's government clearly remained profoundly concerned over the prospects for Indonesia's stability and cohesion, as separatist movements and ethnic conflict engulfed a number of its peripheral provinces. At the same time, Abdurrahman's view of Singapore was apparently tinged with paranoia: in April he threatened "stern action" against any Singapore Navy submarines that might stray into Indonesian waters.

Given the unstable nature of the regional environment, it was not surprising that Singapore continued to reinforce its military capabilities. In April, Singapore's air force added a second squadron of F-16 fighter aircraft to its locally based order of battle, which was also strengthened with the first deliveries of KC-135 long-range in-flight tanker aircraft. The navy's first submarine was also delivered and a joint reconnaissance satellite project with Israel was reported.<sup>15</sup> Defense relations with the U.S. intensified further, with the signature of an Acquisition and Cross-Servicing Agreement (to facilitate mutual logistic support) in April and the Singapore Armed Forces' first participation in the U.S.-Thai "Cobra Gold" large-scale combined arms exercise in May.

Singapore also used diplomatic and economic means to enhance its security during 2000. Having punched above its weight diplomatically for many years, in October the republic achieved a long-held ambition through being elected to a non-permanent seat on the U.N. Security Council for a period of two years commencing in January 2001. Enhanced trade ties within and beyond East Asia were viewed as another means of enhancing other countries' stake in Singapore's survival. In response to the failure of the Association of Southeast Asian Nations (ASEAN), the Asia Pacific Economic Cooperation forum, and the World Trade Organization to progress quickly toward attaining their free trade goals, during 2000 Singapore moved rather dramatically to outflank countries resistant to free trade by establishing bilateral free trade agreements (FTAs) with a range of partners. In November, Singapore and New Zealand signed the region's first FTA, following agreement between Singapore and Japan the previous month to negotiate an FTA during the course of 2001. During 2000, Singapore also explored the potential of FTAs with Australia, Canada, Chile, India, Mexico, and the U.S.

Despite the range of difficulties faced by ASEAN since the late 1990s, particularly in terms of absorbing new members with weak economies and

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15. *Jane's Defence Weekly*, July 5, 2000, p. 2.

repressive political systems, and the preoccupation of established members (particularly Indonesia) with domestic problems, maintaining the regional grouping's health remained a key foreign policy goal for Singapore. Though reluctant to assume a formalized leadership role, when Singapore's government hosted the annual ASEAN informal summit in November 2000 it launched the Initiative for ASEAN Integration, which will focus on developing human resources in Burma, Cambodia, Laos, and Vietnam. Unfortunately, this initiative was partially responsible for provoking an extraordinary outburst from Indonesia's president who, in a speech to members of Singapore's Indonesian community, took Singapore to task for a range of shortcomings, including supposedly influencing ASEAN to neglect maritime Southeast Asia, over-emphasize relations with Northeast Asia, and fail to support the integration of East Timor and Papua New Guinea into ASEAN.<sup>16</sup> Menacingly, he suggested that Indonesia and Malaysia should collaborate to "teach a lesson" to Singapore by cutting off its water supply.<sup>17</sup> Although similar rhetoric was fairly common currency among non-government politicians in Malaysia and Indonesia, coming from a national leader Abdurrahman's statement was unprecedented.

## Conclusion

Notwithstanding structural weaknesses (particularly the dominance of GLCs and the growing shortage of suitably educated Singaporean workers) that might dampen economic progress in the longer term, during 2000 the evidence of Singapore's recovery from the 1998 technical recession was striking. Economic success continued to underpin enviable social stability. There were problems—including growing income inequality, resentment over the increasing presence of foreign workers, and the Malay community's complaints—but these were unlikely to undermine the PAP government's legitimacy significantly.

The social and political knock-on effects of Indonesia's economic collapse, which contributed to ASEAN's loss of momentum, loomed large in Singapore's regional outlook. Singapore continued to seek stable relations with its neighbors, and to value cooperation through ASEAN. But adverse Southeast Asian developments during 2000 seemed likely to reinforce Singapore's long-established interest in using far-flung economic and security connections to mitigate the constraints imposed by an unstable regional locale.

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16. *Straits Times*, November 27, 2000.

17. *Jakarta Post*, November 26, 2000.