
SINGAPORE IN 2002

Economic Lassitude and Threats to Security

William Case

Abstract

During 2002, Singapore's government attempted to stimulate political life by encouraging debate among its backbenchers in parliament. It took steps also to revive economic competitiveness, adjusting tax incentives and targeting new industries. And it tried to perpetuate security, setting up a range of new agencies through which to deal with terrorist threats.

Politics

In Singapore's last general election, held in 2001, the People's Action Party (PAP) government strengthened its hold over parliament, winning 82 of 84 seats. It thereby countered the opposition's oncept-potent strategy of contesting in less than a majority of constituencies in hopes of maximizing protest votes, while acquiescing in the PAP's return to office. Throughout 2002, then, the government, its mandate refreshed, met with few political challenges. To the contrary, it was left to deal with its perennial dilemma over how to fabricate some challenging discussion in parliament. Prime Minister Goh Chok Tong thus proposed in March that a People's Action Forum of some 20 PAP backbenchers be formed to act as in-house critics,¹ providing some semblance of the opposition that parliament cannot. Though this proposal was eventually shelved, constraints were still loosened on parliamentary debate, except over constitutional, budgetary, and security matters.

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1. *Straits Times Weekly Edition*, March 23, 2002, p. 1.

In these circumstances, Tan Soo Khoon, having stepped down as speaker after the last election in order to assume a new role as a PAP backbencher, emerged during 2002 as “an icon of the kind of MP Singaporeans would like to see,”² criticizing his government over projected rises in public transport fares and the goods and service tax (GST). Dr. Wan Kai Yuen and Dr. Tan Cheng Bock were similarly celebrated as “backbenchers known for their sharpness of comment.” On the other side, commentary in the country’s leading daily, the *Straits Times*, encouraged a more obliging ministerial demeanor, “the kind not too macho to talk about having wives, children. . . . Not only are their individual personas humanized, but the Government is humanized too.”³

But such calls for feistier backbenchers and kindlier ministers hardly amounted to the types of pressures that, as transitologists have recently advised, can, in a context of economic downturn, advance democratization. Indeed, Singapore continued to defy most such theorizing, since its large middle class, though shaken by new uncertainties over employment, appeared to renew its support for the government and single-party system. Deputy Prime Minister Lee Hsien Loong lent sanction to these arrangements, advising that “[w]hether we will end up with a multi-party system, or a two-party system, or whether there will be some kind of a dominant party, the People’s Action Party in some form . . . we should try to preserve a certain social and political cohesion, so that there is a dominant mainstream view of the way the country should go.”⁴

The Economy

Though Singapore’s government warded off political pressures, it continued to encounter steep economic challenges. To be sure, the country regained some of the ground that had been lost during the previous year, achieving an overall growth rate estimated at 2.2% for 2002.⁵ Fears persisted, however, that this only constituted a reprieve, with electronics sales, construction, and property still lagging. Even the profits of Singapore Airlines, consistently ranked as one of the region’s best-managed firms, contracted sharply.⁶ Overall unemployment thus rose to 4.8% in September,⁷ demoralizing job seekers and shoppers. Indeed, as growing numbers of Singaporeans expressed a wish to emigrate, the government began to turn testy in its pronouncements, drawing a stark line between what it characterized as “quitters” and “stayers.”

2. *The Straits Times Interactive*, May 23, 2002, <<http://straitstimes.asial.com.sg>>.

3. *Ibid.*

4. *Far Eastern Economic Review* (hereafter *FEER*), July 11, 2002, p. 50.

5. Ministry of Trade and Industry, <<http://www.mti.gov.sg>>, accessed January 6, 2002.

6. *FEER Interactive*, December 27, 2001–January 3, 2002, <<http://www.feer.com>>.

7. Ministry of Manpower, <<http://www.gov.sg>>, accessed January 6, 2003.

To help reestablish Singapore's competitiveness, the Economic Review Committee, under the direction of Deputy Prime Minister Lee, released a set of recommendations in 2002, most of which addressed questions of human capital, entrepreneurship, knowledge-based industries, taxation, and superannuation funds.⁸ Lee conceded, however, that no matter what might be done, the 9% annual growth rates achieved for a decade prior to East Asia's economic crisis would never be restored.⁹ Hence, it would appear that the terms of Singapore's social contract, limiting political rights in return for economic benefits, can no longer be guaranteed. As Raymond Lim, minister of state for trade and industry and foreign affairs, intoned: "Lifelong employment in government-linked companies or in the civil service can no longer be taken for granted. . . . We need to . . . appreciate that, as a government, we should not be very preoccupied with trying to reduce uncertainty for our people."¹⁰

A major challenge involves Singapore's dependence on electronics exports. Today, Singapore is being squeezed at the top end of the market by the greater technological innovation found in other East Asian countries, especially Taiwan. Singapore's Chartered Semiconductor Manufacturing, for example, the world's third largest manufacturer of customized chips, appears to be losing out directly to the Taiwan Semiconductor Manufacturing Company.¹¹ At the same time, Singapore has been squeezed at the bottom end of the market by countries with lower production costs, like Vietnam.

In these circumstances, the government has begun to scour for new industries, including bio-technology, petrochemicals, niche markets in defense industries, and financial, educational, and health services. The Economic Development Board (EDB) has thus invested heavily in biotech industries, encouraging top international scientists and corporate research centers to relocate to the city-state. Further, in order to ease moral reservations about some areas of experimentation, an ethics committee was created by the government in June, though it duly approved "some of the most liberal stem-cell research guidelines in the world."¹²

Throughout its industrial progress, whether in electronics or other industries, Singapore has depended on foreign direct investment. But on this score it now encounters a second major challenge, indeed, one that afflicts many Southeast Asian countries—the competition for investment capital posed by China. Throughout 2002, then, Singapore continued to press for a more rapid

8. For a summary of the Economic Review Committee's structure and aims, see the Ministry of Trade and Industry webpage, <<http://www.mti.gov.sg>>.

9. Quoted in *Asian Analysis-Singapore*, "Managing Slower Growth, August 1, 2002," <<http://www.aseanfocus.com/asiananalysis>>, accessed September 9, 2002.

10. *FEER*, July 11, 2002, p. 44.

11. *Ibid.*, September 19, 2002, <<http://www.feer.com>>.

12. *Ibid.*, July 11, 2002, <<http://www.feer.com>>.

implementation of the Association of Southeast Asian Nations (ASEAN) Free Trade Area, thereby reasserting the region's standing as an efficient production base for foreign investors. At the same time, Singapore has encouraged the ASEAN-China Free Trade Area, scheduled to be in place by 2012, as a way of forging new synergies with China's market.

A third important challenge involves Singapore's longtime deployment of developmental state strategies, favoring bureaucratic decision making over private entrepreneurship. The Economic Review Committee recognized that in shifting to new industries, smaller and more agile firms must gain a stronger footing. Hence, to stimulate enterprise, the committee recommended in 2002 that maximum personal and corporate tax rates be reduced from 26% and 24.5%, respectively, to 20% over three years, with budgetary shortfalls to be made up by gradually increasing the GST from 2% to 5%. These recommendations were approved by parliament's passage of the budget in May. In addition, analysts argued that Singapore's savings rates, the highest in the world at 51.5%, should be reduced in order to allocate capital more efficiently and generate better returns. Scrutiny thus focused on the country's superannuation scheme, the Central Provident Fund (CPF), to which large corporate and employee contributions are mandatory.

But more than reducing taxes and savings rates, analysts have suggested that the government scale back its business activities in order to nurture more private initiatives. Statist interventions, most conspicuously manifest in government-linked companies (GLCs), have long been touted as efficient and profitable. But speculation has recently mounted that behind low levels of disclosure, the GLCs are more accurately associated with cronyist appointments and scant returns on equity.

There were signs during 2002 that the government now acknowledges the need for reforms. For example, its main holding company, Temasek Holdings, under the tutelage of Ho Ching, Lee Hsien Loong's wife, has begun to shed its stakes in NatSteel. Though the steel producer helped to deepen Singapore's industrialization during the 1960s, it has since lost competitiveness. It has thus been subjected to the first ever management buyout of a GLC, with some of its assets being sold, and equity returned to investors. Temasek is also contemplating the sale of its stakes in Chartered Semiconductor Manufacturing, having announced in 2002 that it no longer views the firm as a "strategic holding." These strategies have been supplemented by the continuing global recruitment of top EDB officials and banking executives, new grant schemes and start-up funding for small- and medium-sized businesses, and extensive worker retraining.

Nevertheless, these sundry campaigns to revitalize the economy confront serious hurdles. Biotech products made up only 5% of Singapore's manufacturing output in 2001. The EDB seeks to double this figure by 2010, but

skepticism persists over whether the industry can ever generate the employment levels and earnings once provided by electronics. Lead times are lengthy, few new products have yet been developed, and Japan, Taiwan, and Australia offer sharp competition.

What is more, Singapore's efforts to integrate Southeast Asia's economies in ways that would help the region compete yet cooperate with China are hampered by its neighbors' wariness over trade liberalization. Accordingly, Singapore has resorted to a series of bilateral free trade agreements with countries outside the region, augmenting its prior arrangements with New Zealand by concluding new deals with Japan and Australia in 2002. Negotiations have also continued with the United States, Canada, and Mexico. But the hard bargaining with Australia typifies the challenges: in delaying the liberalization of services, Singapore long refused to recognize Australian legal and architectural qualifications, as well as some insurance standards. In turn, Australia demanded that Singapore boost local content to 60% before accepting export manufactures, while Singapore insisted on 40%.

Finally, attempts to stimulate entrepreneurship have been weakened by the government's ambivalence over any serious retreat from involvement in the economy. Quoted in the *Far Eastern Economic Review*, Deputy Prime Minister Lee argues that CPF contributions are not excessive, because they help to cover housing and health-care costs. He also defends the GLCs, arguing that "government-linked companies in fact have a lot of entrepreneurship in them, and to say that a company should not do business just because of some government ownership, I think is wrong."¹³ The *Far Eastern Economic Review* opined, however, that a surer motivation for perpetuating the GLCs involves the fact that "the careers of many influential Singaporeans—some of them former government officials or relatives of government officials—are tied to these companies. . . . [S]trong interest groups within the economy delay the pace of pushing those assets into the private sector."¹⁴

National Security and Foreign Policy

At the end of 2001, Singapore's police arrested 13 people, eight of whom were alleged to have been trained at al-Qaeda camps in Afghanistan, for planning bomb attacks against the U.S. embassy and American naval vessels.¹⁵ Singaporeans, having long viewed their island redoubt as eminently secure, were stunned by these revelations. Some observers suggested, though, that

13. *FEER*, July 11, 2002, p. 49.

14. *Ibid.*, p. 46.

15. For background, see *Emergency Net News Special Support*, January 12, 2002. <http://www.emergency.com/2002/Singapore_terror02.htm>.

such terrorist activity was hardly surprising, given Singapore's close alignment with U.S. foreign policy.

Throughout 2002, the government warned shrilly about organizations like Jemaah Islamiah [Islamic Community], asserting that a network of terrorist cells was operating across Malaysia and Indonesia. Thus, the Home Affairs Ministry formed the Home-Front Security Center to oversee various operations and joint exercises. It also created the National Security Secretariat and a Joint Counter-Terrorism Center.¹⁶ In August, the Internal Security Department, evidently following up on evidence gained through the previous year's arrests, detained an additional 21 persons. The government claimed that the intended targets were not American facilities this time, but Singaporean ones, including waterworks, Changi Airport, and projects on Jurong Island. Hence, observed the *Straits Times*, "Whatever qualms some Singaporeans or foreigners may have had before about the use of the Internal Security Act to detain people without trial, few would entertain such qualms now."¹⁷

The apparent aim of the terrorism was to implicate the Malaysian government, thereby sparking nationalist conflicts in Singapore between Muslims and non-Muslims. But even though the attacks were prevented, the demeanor of Singaporean officials still inflamed local Malay sentiments, with spokespeople habitually characterizing the alleged terrorists as "Malay Muslims." Resentments were exacerbated too when the Education Ministry suspended several female Malay high school students for wearing the *tudung*, an Islamic head covering, because, the ministry argued, distinctive religious clothing endangered national identity. A local Malay advocacy group, Fateha, responded by complaining of a "disrespect for Islam."¹⁸ It then sought assistance from the government of Malaysia, which swiftly offered the students enrollment in its own school system. Singapore's government, adopting in turn a more conciliatory posture, set up neighborhood "confidence circles" through which ethnic Chinese, Malays, and Indians might meet.¹⁹ The deputy prime minister, Tony Tan, also tried to placate Muslims by announcing that the families of the alleged terrorists would not be penalized financially, and that Malays would still be accepted into the army.

However, even as the governments of Singapore and Malaysia cooperated at some level on security issues, they generated new frictions on other fronts. Most importantly, the rates at which Singapore purchases water from Malaysia, set by agreements forged during the early 1960s, have been contested in recent times by Kuala Lumpur, leading to acrimonious exchanges throughout

16. *Straits Times Interactive*, May 17, 2002, <<http://straitstimes.asial.com.sg>>.

17. *Ibid.*, September 21, 2002, <<http://straitstimes.asial.com.sg>>.

18. *Asian Analysis-Singapore*, "A Place in the Sun," April 1, 2002, <<http://www.aseanfocus.com/asiananalysis>>, accessed May 8, 2002.

19. *Straits Times Weekly Edition*, February 2, 2002, p. 1.

2002. On National Day, Singapore countered with a display of self-sufficiency, distributing bottles of purified waste water labeled "Newater." But while the product was consumed with much fanfare during the National Day celebrations, it has since been relegated to industrial applications and air conditioning systems.

Singapore's regional preeminence as a transshipment center was also challenged by Malaysia, which has established new port facilities at Tanjung Pelepas in southern Johor State. With handling costs 30%–40% below Singapore's, Malaysia wrested away the business of Danish shipping giant Maersk in 2001, and then, in mid-2002, that of the Taiwanese line Evergreen Marine. It has been estimated that Malaysia could acquire as much as 20% of Singapore's shipping, over time. Thus, as Singapore continued work on sun-dry land reclamation projects that threatened to interfere with ocean currents and ships' passage, it was accused by Malaysia of seeking to sabotage the prospects of Tanjung Pelepas.²⁰

These disputes over water and shipping were backgrounded by other contentious issues, including the sharing of airspace, ownership of railway land, and the construction of new transport links. But despite these issues, the pragmatism that continues to govern relations between Singapore and Malaysia was made plain by Senior Minister Lee Kuan Yew, who stated that one way to reestablish market competitiveness for both countries would be for them to reintegrate. Prime Minister Mahathir Mohamad replied that the possibility was "remote," but he did not bluntly rule it out, a response interpreted as "fairly cordial."²¹ One expects, then, that while their bilateral relations must be characterized as volatile, Singapore and Malaysia will continue to reach understandings over their most vital interests.

20. *Ibid.*, March 30, 2002, p. 3.

21. *FEER Interactive*, July 11, 2002, <<http://www.feer.com>>.