

CHALLENGES OF GLOBAL ECONOMIC COMPETITION: THE SINGAPORE RESPONSE

Caroline Yeoh

SINGAPORE'S ECONOMIC DEVELOPMENT (1959-1989)

Singapore attained internal self-government as a British colony in 1959, inheriting severe economic, social and political problems. The government's strategic response was to launch an industrialisation programme to attract manufacturing industries to Singapore. The first industrialisation strategy emphasized import-substitution, in expectation that the then proposed Malaysian common market would materialise.

Singapore's separation from Malaysia in 1965 gave rise to the need for export promotion. Industrial policies shifted from import substitution to export promotion because of the loss of Singapore's economic hinterland, the Malaysian common market. This, coupled with the impending announcement of a complete British military withdrawal in 1968, and the constraint of a small domestic market, led the government to adopt an export-oriented (EOI), labour-intensive industrialization strategy.

The government adopted an "interventionist" approach. Strong political, social and economic measures were introduced to ensure a favourable investment climate for the foreign investment-led EOI strategy. Institutions were reorganised, tax incentives revised and expanded, development of industrial estates accelerated, labour legislation introduced to improve industrial relations, the educational system restructured to emphasize technical education, and industrial training programmes expanded.

Fortuitously, the switch in industrialisation strategy coincided with favourable developments in the international economy - rapid expansion in world trade and multinational investments in export platforms. The EOI strategy proved remarkably successful. The government embarked on a new development strategy to shift the economy from low skill, low value-added, labour-intensive economic activities to higher value-added activities. This initial effort at economic restructuring was effectively shelved with the oil crisis, and world recession, of the mid-1970s.

However, by the late 1970s, its export-led economic growth reached a cross-road. Rapid growth had brought to the fore some strains in the economic structure, noticeably those caused by acute labour shortages and prospects of declining productivity growth. There was also serious concerns over the deterioration in the international economic environment, particularly the growing protectionism in the developed countries against its traditional, labour-intensive manufactured exports. Singapore was also beginning to lose its comparative advantage in these labour-intensive manufactured exports to other countries with cheaper and more abundant labour. These external and internal constraints on Singapore's further economic growth prompted the government to embark on its much-publicised second "Industrial Revolution" in 1979 (Ministry of Trade and Industry (MTI), 1981).

The magnitude, rapidity and complexity of the economic restructuring process led the government to adopt aggressive measures. Deliberate restructuring was spearheaded by a 3-year wage-correction policy designed to phase out low skill, labour-intensive activities. New fiscal incentives were introduced to encourage industries to shift into technologically more sophisticated activities; R&D efforts were actively promoted; manpower developer programmes were stepped up, etc, (Yeoh, 1988).

The target of 8-10% per annum set in the Economic Development Plan was achieved in the early 1980s. However, the Singapore economy stumbled into a severe recession in 1985. An Economic Committee was formed to examine the causes of the recession, identify new growth areas and chart new directions for the Singapore economy (MTI, 1986). Remedial measures were promptly introduced (Lim and Associates, 1988; Economic Development Board (EDB), 1988). The economy turned around, and the GDP growth rates rebounded to 9.4% in 1987, 11.2% in 1988 and 9.2% in 1989.

Singapore has achieved impressive rates of economic growth which few countries have matched. Concomitant with rapid economic growth, Singapore's economy has evolved from that of an entrepot into a bustling manufacturing-service economy, with a global orientation. This transformation has been made possible through the astute formulation, and prudent implementation, of strategic responses to trends and developments - favourable, or otherwise - in the international economy (Goh, et al, 1993).

CHALLENGES IN A CHANGING ENVIRONMENT

Singapore's EOI strategy in the 1960s and 1970s was based on labour-intensive manufactured exports, and spearheaded by foreign investments. This was adequate to sustain high rates of economic growth. The scenario of the 1980s was markedly different. Low cost countries in the region, and elsewhere, were developing rapidly. These economies were steadily improving their technological capabilities, and the quality of their products. These countries were beginning to produce, and competitively market, some of the products manufactured by Singapore's traditional industries. For Singapore, growth can no longer be achieved simply by producing more of yesteryears' products. Singapore has to come up with new economic products to sustain its growth momentum into the 1990s and beyond. Singapore businesses have to move into higher value-added segments of established industries, or generally, move into more sophisticated industries and services which require higher skills and technology, and which can justify its higher cost structure.

TRENDS IN THE INTERNATIONAL ECONOMY

Given Singapore's global orientation, the increasing competition for foreign investments has received much attention from Singapore's policy-makers and planners. A significant development is the implementation of the single European market, and its impact on the global economic environment. A revitalised Western Europe would become extremely attractive to American, Japanese and other investments. This picture was further complicated by developments in Eastern Europe, viz, the collapse of communism, the

"disintegration" of the USSR, the emergence of different versions of "market economies", etc. The question here is whether these developments in Europe would significantly divert the attention of, and investments by, international business from the Asia-Pacific region.

Singapore has identified a competitive position, viz, to become "a developed country but with a margin of advantage" (MTI, 1986, p.11), as a strategic response. This strategic intent implies that Singapore must offer the capabilities of a developed country, and at the same time, provide a conducive pro-business environment that enables businesses to generate higher rates of return compared to other locations, developed countries included. Specific strategies to develop Singapore into a "global city with total business capabilities" (EDB, 1994, p.15) are discussed in the *next section*. At the same time, Singapore has also signalled its intent to continue investing in OECD countries "where there are good investment opportunities in specific niche sectors" (EDB, 1993b, p.1).

In as much as there are exciting developments in Europe, several important trends have emerged in the Asia-Pacific region. The combined Gross National Product of Japan, the Asian NIEs and Asean is almost 70% that of Western Europe and around 65% that of the United States. The high economic growth of Japan and the Asian NIEs has spread to the Asean economies, and other emerging economies in the region (World Bank, 1993). The Sakura Research Institute's medium-term economic forecasts also bodes well for the East Asian economies. Average annual growth rate of 8% is forecasted for China and Vietnam, 6.6% for the Asean countries and the Asian NIEs, 4.6% for India and 3.7% for Japan. The OECD report, Long-term Prospects for the World Economy, has projected that the Asia-Pacific region will account for one-third of world production by 2010, compared to about one-quarter in 1990; by 2040, half of global output will be "Made in Asia" (OECD, 1992).

The strengthening of Asia as a global economic force will present to Singapore challenges in terms of increased competition - for investments and markets - from neighbouring countries. At the same time, Singapore's strategic location in the Asia-Pacific region places it in a unique situation to realise the burgeoning investment, and market, opportunities afforded by the dynamism of regional economies. Singapore's geographical focus, almost by default, is on the Asia-Pacific region (EDB 1993a; 1993b; 1994; 1995). Singapore's regionalisation programme will be discussed in the *next section*.

SINGAPORE'S ECONOMIC STRATEGIES

In 1984, Mr. Goh Chok Tong, Singapore's present Prime Minister, set the target for Singapore to become a developed nation by 1999 (Vision '99). This strategic intent was clearly articulated in the 1986 Economic Committee Report:

By the 1990s, we must aim to become a developed nation. We must aspire to be as good as any developed country in terms of education and skill level, range and sophistication of our economic activities, capital invested per worker and productivity per worker. (MTI, 1986, p. 11).

New strategies and initiatives were developed. The main ideas were set out in the document, Gearing Up for an Enhanced Role in the Global Economy (EDB, 1988). The

1990 Global Strategies Conference added new dimensions to these deliberations (EDB, 1990).

STRATEGIC ECONOMIC PLAN (SEP)

Vision '99 has since evolved. Singapore's strategic intent to join the first league of developed nations, with the next 30 to 40 years, was spelt out in the document, The Strategic Economic Plan - Towards a Developed Nation (MTI, 1991). The SEP also set out the strategic plans and operational thrusts to upgrade Singapore's capabilities, and to realise this enhanced vision. Strategic thrusts 1 to 4 have been formulated to strengthen Singapore's economic fundamentals; strategic thrusts 5 and 6, to nurture the development of industry clusters and business niches; and the last two strategic thrusts, to enhance Singapore's economic resilience amidst uncertainties in the international environment. These strategic initiatives have been discussed in another paper (Yeoh, 1992).

SINGAPORE UNLIMITED

Over the past two years, the Singapore economy has been the second fastest growing in Asia, after China. Growth of 10.1% was registered in both 1993 and 1994. The forecast for 1995 is 9.2%. Singapore has also led the NIEs in the competitiveness rankings since 1989. In the latest World Competitiveness Report, Singapore turned in a perfect score vis-a-vis other Asian NIEs, on all eight factors used to compute the competitiveness score sheet. Overall, Singapore has been rated the most competitive NIE, and the second most competitive economy in the world, after the United States (World Economic Forum and IIMD, 1994).

Singapore's strategic intent has evolved in tandem with the impressive economic performance achieved in recent years. Singapore now intends to join the *first* league of developed nations, on a moving target basis, by the year 2000. This enhanced vision is succinctly spelt out in the document, Singapore Unlimited: *Singapore will become a Global City with Total Business Capabilities. It will become an international hub for high value-added businesses and a flourishing international centre for culture and the arts. Its manufacturing sector will be re-defined by highly profitable industry clusters. It will have a highly skilled and educated workforce. Singapore will become an Intelligent Island, a global centre of excellence for science and technology, a high value location for production and a critical strategic node in global networks of commerce, communications and information.* (EDB, 1995, p. 4).

SINGAPORE 2000

New strategic programmes are in place to hone Singapore's capabilities profile, and to realise its vision of becoming a first-league developed nation by the turn of the century. An overview of these strategic programmes - under the Singapore 2000 framework - is set out in Table 1.

Manufacturing 2000 Programme (M2000)

M2000 affirms the pivotal role of the manufacturing sector in Singapore. Action plans have been formulated - using the cluster development approach - for major sectors, including aerospace, petroleum and petrochemicals, specialty chemicals and pharmaceuticals, electronics components and systems, heavy engineering, precision engineering, marine engineering and light industries. Using value chain analysis, M2000 identifies capability gaps in existing industry clusters and proposes new initiatives to close these gaps. It is envisaged that these strategic initiatives (e.g. specific R&D activities, new facilities, strategic upgrading of supporting services, etc), when implemented, will bring about increased competitiveness for the manufacturing sector through lower total landed cost of the final product.

Another important aspect of M2000 is the focus on the manufacturing of key modules in Singapore. These modules will be supplied from Singapore for assembly into end-products in target markets. The transborder cluster development strategy will enable Singapore-based companies to leverage resources, and markets, in regional economies; at the same time, this approach will upgrade the manufacturing capabilities of regional sites (Appendix: Figure 1). A \$1 billion Cluster Development Fund has been set up for the Singapore government to share the risks and costs of strategic M2000 projects in Singapore, and the region. A \$2 billion Research & Development Fund has also been set aside to enhance industry R&D, build up research institutes and centres, as well as develop R&D manpower and infrastructure (National Science and Technology Board, 1991). The National Technology Plan and the National Information Technology Plan are also in place to support M2000 as well as the other strategic programmes.

International Business Hub 2000 Programme (IBH2000)

The IBH2000 programme will develop services as a twin pillar of the Singapore economy. Under IBH2000, Singapore will seek to enhance its attractiveness for investments in headquarters services, financial services, trade, logistics, communications and information, technology and engineering services, lifestyle services and creative businesses (Appendix: Figures 2 to 5).

The operational aspect of IBH2000 is to bring resources, and markets, to Singapore's doorstep in terms of finance, information, air and sea cargo, technologies and capabilities. The strategic thrust of IBH2000 is to enhance Singapore's role as an economic hub in the Asia-Pacific region, by positioning it as an important high value-added node for international companies (EDB, 1992). The broad-based supportive infrastructure (including soft infrastructure) being developed under the IBH2000 programme will enhance Singapore's position as an effective interface for outward investments into the region. IBH2000 is configured to complement, and give impetus, to Singapore's regionalisation efforts.

Local Enterprise 2000 Programme (LE2000)

The LE2000 programme is structured to build up local enterprises to support, and become key players, in the M2000, IBH2000 and Regionalisation 2000 programmes. These

Table 1: Strategic Programmes for the 1990s: An Overview

Programme	Strategic Intent	Government Assistance
Manufacturing 2000	<p><u>Manufacturing and ...</u> To sustain the manufacturing sector's contribution to Singapore's economy at more than 25% of GDP, and employment share at more than 20%.</p> <p><u>Technology</u> To achieve R&D spending of 2% of GDP in the medium and long term.</p>	<p>Cluster Development Fund Research & Development Fund Tax incentives Research Incentive Scheme for Companies Product & Process Development Assistance Scheme Research & Development Assistance Scheme Technology Development Fund R&D Incubator Programme</p>
International Business Hub 2000	<p><u>Trade and communications</u> To develop Singapore as a premier international trade and communications hub, and a global gateway for goods, services, people and information.</p> <p><u>Tourism and lifestyle</u> To enhance Singapore's economic development and to improve the quality of life of Singaporeans by positioning the republic as an attractive tourist destination, a tourism business centre, and a tourism hub in Asia with a vibrant tourism and lifestyle industry.</p>	<p><u>Headquarters and business services</u> Tax incentives Operational Headquarters (OHQs) Approved Royalties Approved Foreign Loan Scheme Export of Services Incentive Warehousing and Servicing Incentive</p> <p><u>Trade and communications</u> Approved International Trader Approved Oil Trader Approved International Fair Approved International Shipping Enterprise Aircraft Licensing Scheme</p> <p><u>Tourism and lifestyle</u> A comprehensive package of incentives is being put together under the National Tourism Plan framework.</p>
Local Enterprise 2000	<p>To develop an internationally competitive local enterprise sector by improving the performance of local small and medium-sized enterprises.</p> <p>To nurture promising local enterprises (PLEs) in the manufacturing and services sectors to achieve a target of 100 companies with at least \$100 million in sales turnover in the next 10 years.</p>	<p>Broad-based assistance: more than 60 government development assistance schemes (EDB (1993c), p. 23)</p> <p>Industry-level assistance (e.g. infrastructural support, cluster development, etc)</p> <p>Focused assistance (i.e. nurturing PLEs to become home-grown Asian MNCs)</p>

Regionalisation 2000	<p>To increase GNP through Singapore based companies participating in the dynamic growth of the region.</p> <p>To increase GDP through economic spin-offs derived from overseas investments to the domestic economy.</p>	<p>Business Development Scheme Cluster Development Fund Double tax deduction (overseas investment development expenditure) Franchise Development Assistance Scheme Local Enterprise Finance Scheme (overseas) Market and Investment Development Assistance Scheme Overseas Enterprise Incentive Overseas Investment Tax Incentive Regionalisation Training Scheme Regional Venture Funds Incentive</p>
-------------------------	--	--

Sources: Economic Development Board, Yearbook, 1994 and Singapore Unlimited, 1995

enterprises will be encouraged to adopt strategic growth plans, develop new capabilities and products, and regionalise their operations. The government has put together a comprehensive, multi-agency administered package of initiatives to enhance the MNC-local enterprise nexus (appendix: figure 6), and importantly, to nurture promising local enterprises into home-grown Asian MNCs (EDB, 1993c; EDB, 1995).

Regionalisation 2000 Programme (R2000)

The dynamism of the Asia-Pacific economies presents Singapore with unique opportunities to develop Singapore's external economy (or, "second wing"). The strategic intent of R2000 is to create the external economic space for local and Singapore-based multinationals to redistribute their resource-dependent operations, and to upgrade their operations in Singapore to higher-end activities which require Singapore's unique set of competencies. This transborder cluster development approach, discussed earlier, allows regional sites to leverage on each others' resources, technology and markets. Significantly, this variation of the "Shakkei" approach would ensure that the development of regional economies, and sites, leads to positive complementary growth for Singapore.

The strategic thrust of R2000 is the establishment of flagship projects in the region, to create a "Singapore-style" business environment in emerging economies for local companies and Singapore-based MNCs. The Singapore Inc. approach is adopted here. In this instance, the Singapore government takes the strategic initiative to identify, and develop, provinces and sites in the region, and to use these Singapore-developed sites as locations to access resources and markets. These regional sites, when developed, will enhance Singapore's own competitiveness as a high-value investment site with strategic linkages with the region, as well as the competitiveness of Singapore-based companies that re-distribute the resource-dependent operations to these sites. At the same time, Singapore lends its competitive strengths (e.g. core competencies in infrastructural development and management) to these regional sites to enhance their competitiveness. The government-to-

government project to develop an integrated industrial township in Suzhou Province in China illustrates this strategic manoeuvre.

In other instances, the Singapore government takes on the role of a "business architect" and "knowledge arbitrageur" (EDB, 1994, p.42), identifies business opportunities, and brings together the private sector and commercial segments of the public sector in Singapore, as well as foreign companies with specific competencies, to undertake large-scale investment projects in the region. Examples of this mode of regionalisation can be seen from the consortia developing the Batam Industrial Park, Bintan Industrial Estate, Bintan Beach International Resort, Karimun Industrial Complex in Indonesia (Yeoh, et al, 1992), the Wuxi-Singapore Industrial Park in China, the Bangalore IT Park in India, and the proposed Vietnam-Singapore Industrial Park. Singapore government agencies and government-linked companies are currently involved in more than 150 large-scale infrastructural development projects in the region (Singapore Enterprise, 1994).

R2000 also positions Singapore as a value-adding bridge for private sector-led regionalisation. Singapore's local companies, with their regional know-how (including "quanxi"), can add value to the industrial know-how of companies from the West as they venture into the region. Broad-based government-to-government agreements, as well as incentives, grants and loans are available to facilitate such strategic alliances.

CONCLUSION

The Singapore Unlimited Vision, and the total-systems approach of Singapore 2000, reflect a nation's determined efforts at strategic management for economic development. Singapore has to develop better capabilities to create the environment for international business, and for local enterprise, to perform more sophisticated activities in Singapore. At the same time, given its size constraint, Singapore has to plug into the international economy and into the global strategies of companies. Singapore has to encourage international and local businesses to redistribute, and re-configure, their activities in the region, to take full advantage of the distinct offerings of different locations, and to seek out new markets and new business opportunities in a fast growing, dynamic region. To realise this economic re-positioning, Singapore has built on its longstanding strategic partnerships with international companies, and has continued to forge strategic alliances with other governments in the region.

This unique combination of strategic forecasting of the economic environment, and strategic implementation of partnerships, and alliances, is the hallmark of Singapore's response to the challenges (and opportunities!) presented by global economic competition.

REFERENCES

- Economic Development Board (1988). *Global Strategies - The Singapore Partnership* (Conference Proceedings, 24-26 October).
- ___ (1990). *Global Strategies - World Class Partnership* (Conference Proceedings, 4-6 June).

- ___ (1992), Singapore: A Base for MNC's Regional Headquarters in Asia.
- ___ (1993a), Regionalisation Forum (Conference Proceedings; 21-23 May)
- ___ (1993b), Your Partners in Regionalisation: Singapore Government Agencies.
- ___ (1993c), Growing with Enterprise: A National Effort.
- ___ (1994), Yearbook.
- ___ (1995), Singapore Economic Forum (Singapore Unlimited; Conference Proceedings, 10 July 1995).
- Goh, Mark, Chong Li Choy and Caroline Yeoh (1993). "Strategic Management in Economic Development: The Singapore Experience", *International Journal of Management*, Vol.10, No.2, pp. 165-173.
- Ministry of Trade and Industry (1981). Highlights of Singapore's Economic Development Plan for the Eighties.
- (1986), Report of the Economic Committee.
- Ministry of Trade and Industry (1991). The Strategic Economic Plan - Towards a Developed Nation.
- Lim, Chong Yah and Associates (1988). Policy Options for the Singapore Economy.
- National Science and Technology Board (1991), National Technology Plan.
- Organisation for Economic Co-operation and Development (1992). Long-term Prospects for the World Economy.
- Singapore Enterprise (February 1994). "Regionalisation drive gathers steam: EDB involved in more than 150 overseas projects".
- World Bank (1993). *The East Asian Miracle*. New York: Oxford University Press.
- World Economic Forum and Institute for International Management Development (1994). World Competitiveness Report.
- Yeoh, Caroline (1988). "Industrial restructuring in an Asian newly industrialising country: Singapore's response to a changing world", unpublished D. Phil. thesis, University of Oxford.
- Yeoh, Caroline (1992). "Challenges of Economic Globalisation: Singapore's Strategic Response", Proceedings of the National Conference on Economic Globalization: Issues, Challenges, and Responses, 16-17 August, Langkawi, Malaysia, (Paper No. 6).
- Yeoh, Caroline, Lau Geok Theng, Mark Goh and Julie Richardson (1992). *Strategic Business Opportunities in the Growth Triangle*. Singapore: Longman.