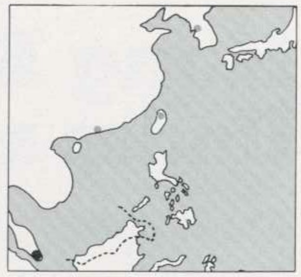
Singapore: Path to Prosperity



By Takeshi Mori

One of the characteristics common to all Asian NICs is their poverty of natural resources. Singapore is particularly poor in resources and its 2.6 million citizens live on only 622 square kilometers of land and depend on imports not only for food but even for drinking water. Yet Singapore's current prosperity is in a sense the product of these rigorous conditions.

In 1965, Singapore broke with Malaysia over serious racial confrontations between Malays and people of Chinese descent, and became an independent state. When Britain announced the withdrawal of its military forces from the island nation in 1967, Singapore's economic independence seemed in jeopardy. It was thought that independence would hinder transit trade, while 20% of the working population depended on the British forces for employment.

Yet the fears proved unfounded. Under the strong leadership of Prime Minister Lee Kuan Yew, political stability was consolidated and the government vigorously implemented a policy of attracting foreign capital to promote industrialization. As a result, Singapore attained an average annual real growth in its gross domestic product (GDP) of 11% from 1965 through 1969. When the world economy slipped into recession in the 1970s, Singapore continued to post annual growth averaging 9.4% throughout the decade. Per-capita real GDP increased 3.4 fold during the period 1965–1980.

With these remarkable accomplishments behind it, the government announced in June 1979 that it would upgrade the country's industrial structure. By sharply raising wages which previously had been kept intentionally low, the government attempted to change the country from a labor-intensive industrial structure to a capital and technology-intensive one. The policy, however, sharply raised business costs, and coincided with the onset of a global recession. Since the end of 1984 Singapore has recorded negative economic growth (minus 1.8%) for the first time since independence.

Singapore's leaders are nothing if not flexible. The government promptly established the Economic Committee to review the nation's economic policy, reduced the burden on employers in the Central Provident Fund, and took steps, including a wage freeze, to lower production costs. It further encouraged investment by lowering the corporate tax rate. These prompt adjustments, together with the appreciation of the Japanese yen and other favorable external factors, helped Singapore to rapidly regain its competitiveness in world markets. Exports expanded, and there was a fresh inflow of foreign capital. As a result, the growth rate climbed back up to 1.8% in 1986 and to 8.8% in 1987. By 1987, real per-capita GDP was 4.9 times larger than in 1965. Singapore today is clearly approaching the level of industrially advanced countries.

Investment by other countries in Singapore increased 22% in 1987 over the preceding year. As in the preceding year, Japan was the biggest investor, accounting for 34% of all foreign investment commitments. The U.S. was second in new investment in 1987 at 31%, but remains the leader in terms of cumulative investment. Both countries have actively invested in manufacturing industries, and particularly in electronic components, computer peripherals and electrical products. Their aim is to tap Singapore's highly developed infrastructure, good geographical location and intelligent and highly skilled work force. Industrial firms in search of unskilled labor no longer move to Singapore.

Today Singapore is basically pushing ahead with its 1979 policy of enhancing its industrial structure. The capital and knowledge-intensive industries welcomed by the city-state are not limited to manufacturing, but include such service industries as information technology-related services, distribution, medicine, engineering and headquarters services. Singapore offers various incentives to encourage these industries to set up shop. One of the incentives is the "operational headquarters status" accorded to corporations which locate their Asian regional headquarters there. There were 13 corporations with this status at the end of 1987, including U.S., European and Japanese companies. Income accruing from the services they offer within the region is taxed at a low 10%.

Small though it may be, Singapore will continue to exist as a viable state far into the future so long as it continues to maintain an efficient and corruption-free administration, offers efficient infrastructure and highly educated and trained workers, and practices economic management that trusts in market mechanisms.

Singapore is pushing ahead with enhancing its industrial structure, and offers a variety of incentives to attract international companies.

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