No. 161

Revitalizing National Competitiveness: The Transnational Aspects of Singapore's Regionalization Strategy (1990-2000)

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ISSN0129-8186
ISBN 981-3033-55-X
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Introduction

By the end of the 1980s, the Singapore government was concerned about the country's declining competitiveness in the global economy. After 20 years of strong economic growth, Singapore faced some of the most serious consequences of rapid economic globalization, especially the flight of capital from the industrial and manufacturing sector to neighboring countries such as Malaysia, Indonesia, Thailand, Vietnam and China. To compound the issue, the government's industrial upgrading programme in the 1980s —the so-called 'Second Industrial Revolution'—was not immediately effective (see Bello and Rosenfeld 1990; and Rodan 1997). In response, the Singapore government decided to intervene in the economy through the implementation of a national economic development strategy. Launched at the beginning of the 1990s, the strategy came to be known as the 'regionalization strategy,' which was designed to revitalize Singapore's economic competitiveness within the global economy. In essence, the strategy aimed not only to reduce the negative impact of economic globalization, but also to take advantage of new opportunities. The strategy had many thrusts; however, two particular sub-programmes—the regional industrialization programme and the regional investment programme—are interesting because the Singapore government's economic interventions took place outside of its national boundaries.

This paper argues although the Singapore government been an archetypal interventionist state since national independence in 1965 (see Castells 1988; and Perry, Kong and Yeoh 1997), the regionalization strategy marked a conscious evolution into a transnational interventionist state. Why did the Singapore government take this step? What was it hoping to achieve? This paper hopes to describe and explain the Singapore government's regionalization strategy with the aim of understanding how a transnational interventionist state functions in the regional economy. While there has been much research into the Singapore government's regionalization strategy, most have focused on the regional headquarters programme (Chia 1997; and Ho 2000), and the regionalization of Singaporean enterprises programme (Yeung 1998 and 2000; and Okposin 1999). Both programmes were 'national' in the sense that the Singapore government intervened in the Singapore economy. There have been some studies of the regional industrialization programmes (Perry and Yeoh

2000; and Grundy-Warr, Peachy and Perry 1998), but they have tended to focus on the spatial aspects of these projects as opposed to examining the programme as an economic interventionist state strategy. This paper hopes that this study into the transnational aspects of the regionalization strategy will fill the research gaps and contribute to the theories on the role of the interventionist state in the economy.

GLOBAL COMPETITION AND STATE INTERVENTION

This paper argues that with the regionalization programme, the Singapore government should be understood as a variant of the archetypal interventionist state. Within the perspectives of the sociology of economic development, interventionist states are characterized by their extensive use of 'development strategies,' which are sets of government policies that shape a country's relationship to the global economy through affecting the domestic allocation of resources among industries and major social groups (Gereffi 1990: 23). Governments tend to adopt interventionist economic strategies when pursuing 'late industrialization,' mainly because local private enterprises—which should be the country's main engine of economic growth—are economically uncompetitive and causing economic stagnation or decline (see Amsden 1989 and 1992; and Kiely 1998). An effective interventionist state will selectively intervene in the economy, usually (but not solely) through a careful programme of financial investments which are designed to enhance the country's competitiveness in the global economy (Chang 1999: 193-4). In this sense, the selective investments attempt to reallocate key economic resources (Schneider and Maxfield 1997: 12-14). One strategic path an interventionist state can take is to assume the 'developmental state' model (see Johnson 1982; Amsden 1989; Wade 1990; Evans 1995; and Woo-Cumings 1999). Governments undertaking the developmental state model achieved economic restructuring, industrial transformation and rapid economic growth through encouraging private and semi-private enterprises to enter into 'collaboration' on national economic projects (see Evans 1995). The state utilized liberal financial subsidies or co-investment strategies to encourage collaboration from targeted private and semi-private enterprises[1] (Wade 1990, Evans 1995, and Woo-Cumings 1999). The aim was to achieve a mutually beneficial situation, where these private enterprises would accept the state's investments and upgrade their technology in order to become globally competitive, which in turn would expand economic activities in the country. Thus, by 'backing winners,' the country would subsequently benefit from 'developmental effects,' defined as generating employment, earning foreign currency, and technology or managerial transfer (see Yu 1997, and Chang 1999).

Another form of state intervention could be seen from foreign direct investment (FDI)-oriented strategies adopted by some governments (see Stallings 1990). FDI could be used as capital to enhance (local) competitiveness. This can take many different forms, including foreign-domestic joint ventures, mergers and acquisitions, original equipment manufacturing (OEM) arrangements, and the physical location of industrial transnational corporations within the country (Lall 1996). In this case, the interventionist government would intervene in the local economy to 'adjust' the price of factors of production—such as land, labour, and raw materials—to attract foreign investors. For example, an interventionist government might negotiate with local labour groups to establish an attractive wage package that would encourage foreign industrial enterprises to locate operations in the country. Also, interventionist state might invest in national educational, health, housing, and infrastructural projects to improve the quality of human capital in the country. Thus, the objective of state intervention is to enhance the competitiveness of local factors of production with the aim of encouraging foreign investment, which in turn might potentially lead to economic growth through the income earned by employees, linkages with local businesses, and the training of employees (see Sklair 1994 and 1995).

To summarize, the interventionist state has to be understood as an investor in business or in society, or both. The developmental states of Asia invested heavily in carefully selected domestic enterprises, while other governments adopting the FDI approach invested in human or physical capital. Such investments were designed to achieve global competitiveness, which means that the state intentionally seeks to improve the country's economic competitiveness in the global economy for the purposes of building the platform for national growth. While the state is globally oriented, its actions are locally directed, as these interventionist states interacted with other domestic economic agents within its national borders. However, this paper argues that two particular thrusts of the Singapore government's regionalization strategy are unusual because they involve the transnational rather than local state investments or intervention. The following section discusses the Singapore government's earlier interventionist strategy in order to demonstrate why and how it evolved from a national to a transnational strategy.

TOWARDS REGIONALIZATION

Singapore's first wave of industrialization and economic development between 1965 and 1980 has been well documented, including analyses re-framing the experience within the interventionist perspective (see Castells 1988; Huff 1994; Perry, Kong and Yeoh 1997; and

Pereira 2000). Significantly, the Singapore government adopted both developmentalist and FDI-oriented interventionist models. On the one hand, the Singapore government intervened in the economy by utilizing state subsidies to encourage local (albeit state-owned) enterprises to collaborate in nationally important projects (see Huff 1994; Perry, Kong and Yeoh 1997; and Yeung 1998). This included projects in shipbuilding, telecommunications, infrastructural engineering and the public utilities (see Lim *et al.* 1988). On the other hand, the state also intervened in the economy to enhance the competitiveness of local factors—particularly land and labour—for the purposes of encouraging the location of multinational enterprises in Singapore (see Mirza 1986; and Pereira 2000). It managed to effectively govern labour groups, negotiating a wage package that would be attractive to foreign investors (see Leggett 1993; and Chew and Chew 1995). At the same time, the state invested heavily in developing Singapore's industrial infrastructure, seeking to lower the start-up costs for foreign manufacturing enterprises (see Pereira 2000). The reasons behind this dual interventionist strategy was because of the government's lack of confidence in private Singaporean industrial enterprises and the need for quick industrialization. Not only did the Singapore government feel that it was a long and tedious process to transform local private industrial enterprises into globally competitive entities, it felt that Singapore did not have the large multi-business conglomerates that could be found in Japan or South Korea (Huff 1994). Part of the reason for this was because Singapore's economy had never previously been industrially-oriented; instead, trade, commerce and the servicing of British military bases had been the main engines behind Singapore's colonial economy (see Perry, Kong and Yeoh 1997). Therefore, to many analysts, the Singapore government was simply being 'pragmatic' (Schein 1996). Transnational corporations were the primary engines of development, while the state's collaboration with selected state-owned enterprises formed the secondary thrust. Having established its priorities, the Singapore government carefully invested the developmental aid received from the World Bank, the United Nations Development Programme and other agencies in both thrusts accordingly.

Multinational enterprises were critical to Singapore's subsequent rapid industrial transformation and economic growth. By the mid-1980s, the total investment in Singapore was over US$2,600 million, of which 84 percent were 'foreign' and 16 percent were 'local' commitments (Lim *et al.* 1988: 255). In 1981, foreign firms accounted for 70 percent of the gross output in the manufacturing sector, over 50 percent of employment, and 82 percent of direct exports in the country (Bello and Rosenfeld 1990: 293). By 1973, Singapore moved a situation of labour surplus to labour scarcity (Huff 1994: 326). The unemployment rate fell to below four percent by 1974 (Rodan 1997: 153). With the rising number of jobs, women's participation in the labour force increased from 29.5 percent in 1970 to 44.3 percent in 1980. By the early 1980s, labour was so scarce that the government eased restrictions on foreign workers. However, the presence of multinational enterprises was not entirely due to the state's interventionist strategies. Other important factors include the structure of the global economy at the time. Before 1980, at least in the Asia Pacific region, Singapore did not face many competitors as a location for foreign investment. Only Taiwan and Hong Kong were largely open to global capital, and in countries such as South Korea, Malaysia and the Philippines, these governments strictly limited foreign investments (see Booth 1999). Thus, at that time, many multinational enterprises chose Singapore because they were partially 'excluded' from other locations within the Asia Pacific region.

However, in the 1980s, the global economy underwent rapid change. In the Asia Pacific region, this led to large scaled industrial restructuring (Chiu, Ho and Lui 1997). Under these conditions, Singapore's competitiveness was negatively affected by endogenous and exogenous factors. Internally, due to almost 15 years of rapid economic growth, labour and land costs in Singapore were rising. To multinational enterprises, operating costs were rising due to wage increases. Also, because of the country's relatively small size, land and rent costs were increasing because of the demand for industrial space. These factors weakened the profit margins for many multinational enterprises, especially those involved in labour intensive and low-value added manufacturing. Externally, the governments of several Southeast Asian countries, including Indonesia, Malaysia and Thailand liberalized their economies to attract foreign capital (see Jomo 1997; and Tongzon 1998). These governments wanted to emulate the FDI-oriented strategies of countries such as Singapore, Taiwan and Hong Kong because of the relative lack of success of their own indigenous enterprise fostering strategies. In 1979, the China government also began allowing foreign capital into its Special Economic Zones (see Park 1997). As these countries, regions and areas were comparatively 'under-developed', the average labour, land and even raw materials costs there were only a fraction of those in developed and newly-developed countries. In 1990, the overall operating costs in Johor (in Malaysia) or Batam (Indonesia) were 75 percent lower than Singapore (Kumar and Lee 1991: 4). In the 1980s, Singapore's position as a prime location for low-cost manufacturing was under threat with many new competitor countries that could offer transnational corporations more attractive factor costs. Therefore, in the latter half of the 1980s, many transnational corporations were seeking to relocate their lower value-added operations out of Singapore into these newly emerging industrial areas (Bello and Rosenfeld 1990: 298). The Second Industrial Revolution—introduced in the 1980s to upgrade Singapore's industrial structure away from low value-added manufacturing—did not enhance Singapore's competitiveness at least in the short-term[2]. It was at this stage that the Singapore government designed its 'Regionalization' strategy:

> 'The strategic intent of the regionalization programme is to build an external economy that is closely linked to and which enhances the domestic economy by participating in the growth of Asia. This programme seeks to form a network of strategic zones in key markets with emphasis on building good linkages between our regional projects and domestic clusters.' (SEDB 1995: 8)

This strategy was explicitly designed to improve Singapore's competitiveness within the global and regional economy (Wong and Ng 1997: 121). It consisted of several sub-programmes, including the regional industrialization programme, the regional investment programme, the regionalization of Singaporean enterprises programme and the regional headquarters programme[3]. As suggested in the opening section of the paper, the Singapore government's regionalization strategy is still highly interventionist. For instance, in the regionalization of Singaporean enterprises programme, the state encouraged private (and state-owned) Singaporean enterprises to branch out into the region through offering attractive subsidies (see Yeung 1998). At the same time, the regional headquarters programme could be understood an extension of the state's investment in local factors of production, particularly in improving human capital, to attract foreign companies to establish regional headquarters in Singapore (see Ho 2000). However, these two sub-programmes adhere to the more usual form of state intervention, where the state interacted with local economic agents, or the state intervened within its national borders to enhance local factors of production. The regional industrialization and regional investment programmes are a distinct departure. The following sections examine each sub-programme in greater detail.

REGIONAL INDUSTRIALIZATION PROGRAMME

The regional industrialization programme was designed to capture and exploit a niche that emerged from the regional industrial restructuring in the 1980s. While costs such as wages, land and raw materials were low in the emerging industrial zones of Asia, these areas often lacked high quality industrial infrastructure and industrial management (Kumar and Lee 1991: 12). As a result, some industrial multinational enterprises were hesitant to relocate operations from Singapore—which had a relatively 'secure' investment environment—into these areas. Sensing an economic opportunity, the Singapore government identified that its 'core competence' in the region was its industrial property development and administration, where it established a good reputation among the multinational enterprises that had earlier stationed their operations in Singapore. Thus, the Singapore government was confident that it could financially profit from supplying high quality industrial infrastructure and management in the region. This could be achieved through building and managing self-contained industrial estates—industrial parks—across Asia.

The government's main aim was to generate an external income that would supplement Singapore's national economy from financially profiting from this programme. Such profits were projected from the surplus income generated from re-sales or re-lease of industrial units to transnational corporations seeking to relocate in the region. From the perspectives of interventionist state theories, regional industrialization programme resembled an earlier strategy to attract the location of multinational enterprises to Singapore. Such strategies involved state intervention to improve the competitiveness of a particular location, based on the assumption that foreign investors would prefer to locate operations in the most competitive places.

The Singapore government believed that it had the necessary economic, political and social resources to invest in this programme. Economically, the country's consistent economic growth and trade surplus between 1965 and 1980 meant that the Singapore government had accumulated large financial reserves[4]. Politically, the Singapore government's diplomatic relations with the other governments in the region could be described as 'good' (Leifer 2000: 2-3). Thus, the Singapore government was confident that these governments would support the programme, not least because they could enjoy 'developmental effects' such as employment creation, technology transfer and urban development. Finally, the Singapore government had social capital such as credibility and trust, especially among industrial transnational corporations. Due to the country's earlier successful industrial transformation and rapid economic growth, the Singapore government had become well known as an effective government that was 'pro-free market,' and 'anti-corruption' (see Schein 1996). Investors would also benefit from the high quality infrastructure and management that the Singapore government developed in these estates, in addition to the region's low labour, land and material costs. Although investments in infrastructure were generally very high, the Singapore government it believed that re-selling and sub-leasing industrial property to investors could be financially profitable in the long term. Furthermore, an income could be earned through charging tenants a fee for industrial management services.

At the same time, the programme also intended to create '...a Singapore outside of Singapore for enterprises.' (Perry and Yeoh 2000) By developing and managing industrial estates in the region, enterprises in Singapore—regardless of whether they were foreign or Singaporean—could relocate lower value-added operations, relieving them from the highly uncompetitive costs in Singapore. While these enterprises should—in theory—rely on the 'market' signals (defined as price of factors such as labour and land costs in the region) to venture abroad, many were hesitant because of the region's relatively poor quality industrial infrastructure and bureaucratic administration. Thus, with the regional industrialization programme, the Singapore government facilitated the outflow of many enterprises[5]. The Singapore government ran a pilot industrial parks project located on the Indonesian island of Batam in 1989 (see Kumar and Lee 1991). When the Batam project turned out to be relatively successful, the Singapore government extended the programme, developing a whole series of industrial parks across the Asia Pacific region. By 1995, the Singapore government had earmarked projects in China (in Suzhou and Wuxi), Vietnam (just outside Ho Chi Minh City), India (Bangalore), Thailand (outside Bangkok), and again in Indonesia (Bintang and Karimun Islands) (see Appendix 1).

By the end of the year 2000, a preliminary evaluation of the industrial parks programme can be made[6]. Six of the seven industrial parks had begun operations; only one—the park in Thailand—was 'seriously delayed' as a direct result of the severe impact of the Asian Financial Crisis[7]. In the other parks, at least up to 1997, tenancy was actually very high with the park developers being able to 'fill' the available industrial units relatively quickly. In that period, the Suzhou Industrial Park project was probably the most successful, at least in attracting multinational and Singaporean enterprises. The *Singapore Business Times* reported on the progress of Phase One, the initial eight square kilometres of the overall 70 square kilometres project:

> 'To-date, the SIP [Suzhou Industrial Park] has attracted 99 projects with investment commitments of US$2.7 billion, of which 80 are industrial projects worth US$2.1 billion. The average size of the projects at US$27 million each was the highest in China and 44 were already in production with another 22 under construction.' (*Singapore Business Times* 15 Jan 1998)

The reasons for the initial success of the Suzhou Industrial Park project were its superior infrastructure and administrative policies, the strong government-to-government support behind the project, and the rapidly expanding China economy (Pereira, forthcoming). However, the project experienced a sudden downturn. The Asian Financial Crisis and a series of problems with the Suzhou Municipal Authorities after 1997 led to a marked slowdown in new commitments from foreign investors. Still, the project managed to attract three of the ten largest investment commitments in all of China between 1998 and 1999; these were Nokia's US$100 million plant (*Singapore Straits Times* 29 Oct 1998), Glaxo-Wellcome's US$100 million plant (*China Britain Trade Review* 1 Feb 1999), and Andrew Telecom's US$120 million plant (*Singapore Straits Times* 24 Mar 1999). Eventually, the two 'problems' led the Singapore government to disengage itself from the Suzhou Industrial Park project (see

Pereira, forthcoming). The disengagement involved the Singapore government selling its stake in the project to the Chinese authorities in a bid to recoup some of its financial losses incurred (*Singapore Business Times* 29 June 1999).

However, at the other industrial parks, the outlook was not as pessimistic. Most of them had achieved initial occupancy targets; for example, the oldest project at Batam saw over 93 percent of available industrial lots taken up (*Singapore Straits Times* 22 Aug 1997). This was remarkable when compared to the other seven largely vacant industrial estates on the Indonesian island, which were managed by Indonesian agencies (Grundy-Warr, Peachy and Perry 1999: 316). The Vietnam-Singapore Industrial Park, 35 kilometres outside Ho Chi Minh city, reported 16 companies signing up for industrial space even before the estate was operational (*Singapore Straits Times* 24 May 1997). Similar situations were reported for several of the other industrial estates, for example, after only two years of development, the Wuxi and Bintang industrial estates managed to reach an occupancy rate of around 50 percent (*Singapore Straits Times* 22 Aug 1997). The Bangalore project in India was slightly different from the others, as it was not conceived as a typically 'industrial' estate. Instead, in aiming to take full advantage of the huge Information Technology (IT) resources available in India's so-called 'Silicon Valley,' the Bangalore Technology Park catered more to IT software and hardware development companies. This focus has had its own advantages and disadvantages; not for the first time, the IT sector's enthusiasm for the Bangalore Technology Park was directly related to the sector's fortunes in the global economy. This meant that before 1998, IT companies were actively seeking occupancy in Bangalore (see *Singapore Straits Times* 14 Dec 1998); however, after 1998—the Asian Financial Crisis struck in the middle of 1997—the project saw a slowdown of new investors.

The Crisis also negatively impacted the regional industrialization programme significantly. This was because the Crisis had itself led to a severe reduction of demand for industrial products, both from consumers as well as from other producers (see Henderson 1999). With the market for industrial products shrinking rapidly, industrial enterprises postponed or cancelled additional capacity. From the perspective of the Singapore government, this meant fewer prospective occupants for its regional industrial estates. This was 'unfortunate' for the last of the Singapore government's regional industrial park, the Thai-Singapore 21st century Industrial Park (known as TS21) located in Rayong (south of Bangkok). Its launch, scheduled for 1997, was delayed for nearly two and a half years[8]. This was because the developers—a Singaporean government-linked corporation—adopted a 'wait-and-see' approach because the market for industrial property being weak. There were even rumours that this particular project would be abandoned (see *Bangkok Post* 10

September 1998). In addition, other 'spillover effects' of the Asian Financial Crisis—such as the social and political upheaval in certain countries—also affected the Singapore-developed parks. The TS 21 project in Thailand saw many environmental demonstrators protest over '...the dumping of toxic materials' into neighboring reservoir, which was critical to the farmland in the surrounding area[9]. The first protest was held in 1999 when the project was re-launched (see *Bangkok Post* 20 Feb 1999) and again in the year 2000 (see *Bangkok Post* 5 Apr 2000). This has led the Singaporean government-linked corporation undertaking the Rayong project to announce in November 2000 that they have decided to put the '...Thai project on hold again,' both because of the environmental concerns as well as the slow recovery of the Thai economy (*Singapore Straits Times* 9 Nov 2000). Also, in 1999, during the height of the political turmoil in Indonesia caused by the Crisis, the Batam and Bintang Industrial Parks were affected by riots and work stoppages. This was caused by the ethnically driven conflict between the Batak and Flores Indonesians who had migrated to the islands in search of employment (see *Far Eastern Economic Review* 12 Aug 1999; *Singapore Straits Times* 2 Aug 1999). At one stage, the Singapore government contemplated withdrawing operations in Indonesia for safety reasons (*Singapore Straits Times* 2 August 1999).

Although all of the Singapore government's regional industrialization projects were negatively affected by the Asian Financial Crisis after 1997, many—including the Suzhou Industrial Park which was no longer owned and managed by the Singapore government—saw a renewed interest in industrial units after 1999. For instance, the Bangalore Technology Park announced that it had jumped from 50 percent occupancy to 'full' in the first half of the year 2000 alone, and would embark upon a second estate immediately[10] (see *Singapore Straits Times* 12 June 2000). Similar trends were reported from the other Singapore-developed industrial parks in the region[11]. Despite this recent return to slightly more optimistic investor sentiments, there have been no reports of any of the projects in the regional industrialization programme actually being 'profitable.' At the very best, some projects have only returned to a position where there was the potential for growth. The Singapore government would argue that the regional industrialization programme was designed to supplement the Singapore economy over the long term, since infrastructural projects require large initial financial investments.

Yet, the regional industrialization programme did have some positive economic benefits, if not for the Singapore government then at least for the companies that have relocated some of their lower value-added operations to these regional industrial parks. The majority of the enterprises that chose to take up occupancy at these regional industrial parks usually established additional units as opposed to entirely shifting all operations abroad. This was the case in the Suzhou (see Pereira, forthcoming) and Batam (see Kumar and Lee 1991) projects. At the same time, relocating enterprises tended to upgrade the operations at remaining unit in Singapore, which in itself could be beneficial to Singapore's economy[12]. For those that located in a Singapore-developed industrial park, most investors were reported to be very satisfied with their operations within these industrial parks, especially in terms of actualizing costs savings (see Pereira, forthcoming; Kumar and Lee 1991; and Perry and Yeoh 2000). Thus, the programme did create an outlet for multinational as well as Singaporean enterprises—both private and government-linked—to reduce operating costs and improve their competitiveness, which in turn should improve Singapore's economy.

The Singapore government's regional industrialization programme can be explained by its motivations to alter the balance of competitiveness within the regional economy. It could be argued that this programme was necessary because of Singapore's eroding competitiveness as a location for industrial manufacturing, especially in low value-added operations. Therefore, with its economic, political and social resources, the Singapore government intervened in the regional economy by supplying high quality industrial infrastructure and bureaucratic administration to selected sites. This created highly competitive industrial estates managed by the Singapore government that attracted multinational (and Singaporean) industrial enterprises. The forecast was for financial profits to supplement Singapore's economy in the long term. Although this was not realized in the programme's first decade—indeed, it could be argued that the Asian Financial Crisis between 1997 and 1999 compounded the situation by causing many projects to lose money—the fundamentals of the regional industrial parks, which were its superior infrastructure and administration, remained sound. This at least offered some hope to the Singapore government that the programme will become potentially profitable should the global economy return to expansionist trends.

REGIONAL INVESTMENT PROGRAMME

The second transnational aspect of the Singapore government's 'regionalization' strategy was the regional investment programme. Simply put, the Singapore government sought to invest in the region as a portfolio investor. Portfolio investment is distinct from foreign direct investment (FDI). While both forms of investment entail ownership interest, portfolio investment does not grant the investor control of an overseas project whereas foreign direct investment usually does (see Okposin 1999). Portfolio investment decisions are generally short term in nature, determined mainly by the expected rate of return and the risk of investment while foreign direct investment decisions are usually as long term projects (Okposin 1999: 5). Furthermore, the range of stocks that portfolio investors could invest in is much wider than FDI-forms of investment. Broadly defined, portfolio investment 'products' would include foreign currency speculation, real estate investments, stocks, equities and shares, and other forms of unit trusts, bonds and securities. What was particularly unique about the Singapore government's programme was that its investments were not in Singaporean but regional 'products.'

The Singapore government had been a portfolio investor since the early 1980s, establishing Temasek Holdings and the Government of Singapore Investment Corporations (GIC). Temasek Holdings was given the mandate to manage investments within Singapore, whereas the GIC invested in foreign markets. The GIC's original mission statement in the 1980s was to firstly diversify the state's assets—mainly the large surpluses accumulated during the period of rapid economic growth—and secondly '...interpenetrating Singapore in the core financial and industrial networks of the advanced economies' (Castells 1988: 32). Officially, the GIC operates as a separate 'private limited' company; however, in reality, the GIC is financed by the state, and its key board members are state bureaucrats that are close to the government. According to the GIC:

> 'GIC is incorporated under the Companies Act and is wholly owned by the Government of Singapore. However, as it manages government assets and the country's reserves, it has been designated, under the Constitution of Singapore, as a "Fifth Schedule" company. Several consequences arise from this status: The appointment (or removal) of GIC's directors and group managing director requires the assent of the President of Singapore. GIC must submit its financial statements and proposed budget to the President for approval. These are to be accompanied by a declaration by the chairman of the board and the group managing director on whether there has been, or is likely to be, any drawing on reserves not accumulated by GIC during the current term of office of the government. The President is entitled, at his request, to any information concerning GIC, which is available to GIC's directors[13].' (*Singapore Business Times* 23 May 2001)

It was at the beginning of the 1990s—as part of its 'regionalization' strategy—that the Singapore government expanded the function of the GIC. Its role is as follows:

> 'Set up as a private limited company in 1981, GIC is a fund management firm of international standing. Entrusted with the nation's assets by the Government of Singapore, its activities include investment in equities, bonds, foreign exchange, real estate and special investment.' (Official GIC website[14], http://www.gic.com.sg/)

Towards this end, the GIC formed three sub-groups: the main GIC group, the Real Estate Group and the Special Investment Group. The main group—registered as GIC Private Limited—houses departments that make investments in equities, bonds, and foreign exchange, and other research and advisory offices that advise other Statutory Boards and Government-Linked-Corporations on the investment of their surpluses. As the name suggests, the Real Estate Group focuses on investing in the global real estate market. Finally, the Special Investments Group focuses on venture capital, leveraged buyouts, direct investments in private companies and strategic public equity stakes. In 1999, it announced that it managed a fund size in excess of S$120 billion (*Singapore Business Times* 23 May 2001). The GIC is not bound by law to have its accounts publicly audited (Peebles and Wilson 1996: 34). It only answers—both operationally and financially—to the government[15]. It thus does not publish annual reports, nor is it obliged to reveal any information to the public.

Although the GIC claims to operate in the global market, its main sphere of opportunities was in Asia especially in the 1990s. This was not only because this was a focus for the GIC, but also because in the first half of the 1990s the region had the fastest growing markets in the world. Between 1990 and 1997, it could be argued that the GIC was probably achieving its targets, through investing in regional markets, currencies, and stocks and shares. Profit yields at the time were generally positive.

> 'Investment returns on Singapore's reserves have averaged well over 5 per cent in Singapore dollar terms over the last 10 years,' Finance Minister Richard Hu revealed in Parliament yesterday. Speaking during the debate on his ministry's budget, he said that the Government's investments were managed by three companies—the Government of Singapore Investment Corporation (GIC) which managed the Government's external assets, and Temasek Holdings and MND Holdings, which managed the bulk of its domestic assets. (*Singapore Straits Times* 15 March 1996)

This perhaps reflected why there were few reports in the press or even in parliament about the activities of the GIC. As far as the GIC was concerned, no news was good news.

However, with the onset of the Asian Financial Crisis in 1997, the GIC was financially 'struggling.' With most private investment houses openly declaring they were hurting as a result of the Crisis, there were rumours that the GIC was also in trouble. Furthermore, the GIC was named as a creditor of many investment houses, industrial enterprises and real estate projects in the region when these were declared bankrupt as a result of the Crisis. For instance, the GIC was named as a major investor in Guangdong International Trust and Investment Corporation (GITIC), which collapsed in 1999 (*Singapore Straits Times* 4 Nov 2000). In the same report, it was claimed that GIC was owed S$390 million dollars. In the weeks following this report, members of the public wrote to the press, one of whom accused the government of losing tax-payers' money (see *Singapore Straits Times* 5 Nov 2000). A senior official from Singapore's Ministry of Finance replied:

> 'GIC is a global investor. It cannot eliminate the possibility of loss in individual investments, but it minimizes its overall risk by diversifying its portfolio and holding assets of different types in different countries. The investment in GITIC, while not insignificant, constituted a small percentage of GIC's total portfolio. Despite the losses on GITIC, GIC's portfolio still enjoys good overall returns.' (Danielle Yew, Director (Finance), Ministry of Finance, writing in the *Singapore Straits Times*, 9 Nov 2000).

Using such data, there were some opposition members of parliament who were hoping to earn political capital by suggesting that the GIC was in financial trouble. In parliament, the opposition also queried whether the GIC had lost money with the falls on the Malaysian Stock Market. The Minister of Finance Richard Hu had to assure Parliament that '...GIC won't see losses from *ringgit* holdings' (*Singapore Straits Times* 5 Nov 1998). He went further on saying that the GIC was not exposed to the collapsing markets in Thailand, Malaysia and Indonesia (ibid.). In addition, in the mid 1990s, the GIC suffered other forms of 'bad publicity.' The GIC was alleged to have invested or co-invested in countries with so-called 'corrupt' regimes, such as Indonesia and Burma[16]. In both cases, the GIC's economic role was highlighted only because some groups were urging the Singapore government to either end or at least come clean with its 'dealings with corrupt regimes.' Many of these discussions took place on internet sites located outside Singapore[17].

Faced with this situation, and perhaps the realization that full 'secrecy' was no longer politically viable, the Singapore government relaxed its control over information on the GIC. This began with a very small 'newsbyte' found in the *Singapore Business Times* 28 Oct 1999 'On the Grapevine' section, which was entitled 'GIC's small revelation:'

> 'Jimmy Lam, GIC head of equities research, told participants at a fund management conference that GIC has 14 equities analysts—eight Americans, three Britons, one Malaysian, one Singaporean and one Taiwanese. It is on the look-out for more people to bring the team to 25.'

Consequently, nearly every new investment by the GIC was reported by the Singaporean press. This was in stark contrast to the previous decade where there was almost no news of the GIC's activities. In the year 2001, the GIC even allowed the *Singapore Business Times* to run a special supplement to mark the GIC's 20th anniversary, where the GIC gave a summary of its investment portfolio.

> 'GIC now has more than 200 investment professionals, comprising 60 per cent Singaporeans and 40 per cent foreigners. The core of the top management team comprises about a dozen Singaporeans who joined GIC in the 1980s. Giving a rare insight into the usually secretive GIC, Mr. Lee disclosed that the bulk of GIC's investments - some 40-50 per cent of its funds - are in global equities and invested in some 2,000-3,000 companies. Bonds account for 30-40 per cent, real estate 10 per cent, special investments and venture capital funds 5-10 per cent, and cash instruments the remaining 5 per cent. GIC has moved away from investing in country portfolios to picking global winners in equities. About half its funds are invested in North America, meaning the US and Canada. About a quarter are in Europe and the rest in Asia, including Japan.' (*Singapore Business Times* 23 May 2001)

It was even more interesting that the person reading out these details at a press conference was Singapore's Senior Minister Lee Kuan Yew, who was also the Chairman of GIC. In the supplement, there were other reports and interviews, including an interview with the GIC's President of Special Investments ('GIC SI's chief recalls some spectacular returns,' *Singapore Business Times* 23 May 2001), and a detailed summary of the GIC's 20-year performance ('GIC fund managers consistently beat benchmark,' *Singapore Business Times* 23 May 2001).

This greater 'transparency' came soon after the GIC's 'second wind.' Rather than scale down regional investments because of the potential damage of the Crisis, the GIC intensified its portfolio investments in the region. In early 1998, Deputy Prime Minister Lee Hsien-Loong announced that the GIC would 'place out' S$35 billion, a significant increase over the S$10 billion average that it previously invested (*Financial Times* (UK) 27 Feb 1998). The GIC chose to go on the offensive rather than defensive. This included taking a 40 percent stake in the US$341-million RCBC Plaza in the Makati business district in the Philippines (*Asiaweek* 10 July 1998). In 1999, it was reported that the GIC had taken a 25 percent share in Sunway City, a Malaysian property developer, and an 11 percent share in a chain of Thai convenience stores (*Financial Times* (UK) 15 Oct 1999). The GIC bought 12.5 percent stake in Esso Thailand worth S$425m, its first foray into the energy sector (*Singapore Straits Times* 29 Sep 1999). In addition, the GIC was identified as one of many Singaporean companies '...looking for property bargains in Thai market as [the] Thailand [government] starts bond sale to bail out property firms.' (*Singapore Business Times* 2 May 1997) Thus, the GIC was hoping to buy shares and stocks of many regional companies while they were at their weakest. The hope was that when the market improved, the GIC would be able to make a profit. It was even more interesting that one of the managers of the GIC was quoted in the media in 1999, saying '...a real rate of return of 3 to 4 per cent on investments is an acceptable long-term yield in Singapore dollar terms.' (*Singapore Straits Times* 20 Aug 1999).

At one level, the Singapore government's portfolio investments in the region was entirely motivated by profitability. However, at another level, it could also be argued that because of these financial investments, the regional enterprises, real estate developers or investment houses received the necessary capital to re-establish their competitiveness. After all, it is only through their profitability that the Singapore government would itself generate any profits. This was most evident in the GIC's stake in Sunway City, a Malaysian real estate development project. In order to protect its investment, the GIC announced that it would lend its expertise in property dealings to Sunway's developers ('GIC to help manage KL's Sunway City,' *Singapore Business Times* 16 Oct 1999). With the political and economic uncertainty in Southeast Asia, global investors were less keen to take risks on the projects that the GIC eventually settled on. This was actually beneficial to the Singapore government as it meant being able to buy into these markets at relatively lower prices, with the potential for bringing better returns in the future. The regional investment programme illustrated how the Singapore government, rather than being defensive due to the Asian Financial Crisis, intensified its offensive strategy to become even more competitive as a regional portfolio investor.

THE SHORT TERM REPORT CARD

Although the regionalization strategy was originally conceived as a long-term programme, a short-term (albeit tentative) analysis might still prove instructive. With the regionalization strategy, the Singapore government had evolved into a transnational interventionist state. The circumstances that led to this intentional evolution were both internal as well as external. Internally, Singapore's factor costs had made its economy uncompetitive for industrial manufacturers; externally, there were emerging industrial zones in the neighboring Asia Pacific region. Under these conditions, the Singapore government took the bold move of evolving into a transnational interventionist state in order to supplement its other nationally-oriented interventionist programmes.

After a decade, both transnational programmes have yet to return any profits. Indeed, they even brought financial losses, as seen in the regional industrialization programme during the worst periods of the Asian Financial Crisis. This was despite both programmes being fundamentally sound, in the sense that the Singapore government's execution of the investment plans was based on strong business foundations. For example, the regional industrialization programme has proven that its development of high quality industrial infrastructure and administration in the Asia Pacific region was catering to a potentially profitable economic niche based on the high take-up rate before the Crisis, and the growing demand after 1999. It was the external economic environment—especially the onset of the Asian Financial Crisis—rather than any weaknesses in the strategy that most negatively affected the regionalization programme.

This has direct implications for understanding a transnational interventionist state in the global or regional economy. It shares a similarity with the nationally-oriented interventionist state, which is that achieving national competitiveness in the global economy is not solely due to the state's resources and strategies alone. The external environment is an equally important factor. However, for transnational interventionist states, the external environment—in this case the global or regional economy—is perhaps the most important factor. While nationally-oriented interventionist states might be able to make adjustments to its national economic policies—mainly because they often dominate in the local economic, political and social sphere—they have fewer resources to act in the regional economy.

Perhaps an interesting question might be to ask whether Singapore's global competitiveness would be advantaged or disadvantaged had the Singapore government decided not to pursue the two transnational programmes. Any answer to this question remains speculatory. As seen during the periods before 1997 and after 1999, these programmes appear to hold much potential for improving Singapore competitiveness mainly because they were fundamentally sound. Therefore, one conclusion that could be drawn is that a transnational interventionist state would benefit more from global opportunities than nationally-oriented interventionist states, but could at the very same time could suffer more from negative global exposure. As the transnational interventionist state leaves the relatively safe confines of its national borders, the risk levels increase, bringing the potential for much greater returns if successful, or much greater failures if otherwise.

Could other interventionist states follow in the footsteps of the Singapore government and engage in transnational interventionist economic strategies. The answer would have to depend on whether there were internal and external factors that would 'encourage' these states to transnationalize. Furthermore, no government would engage in unnecessary risks; thus, states would only attempt transnational interventionist strategies if they felt that they had the economic, political and social resources to be successful. The Singapore government made the choice to transnationalize at the beginning of the 1990s. One consolation is that this strategy has come up against some of its toughest tests within the first decade. This experience ought to give the Singapore transnational interventionist state an opportunity to learn and make any necessary adaptations for future transnational strategies.

END NOTES

[1] While private enterprises—especially the large family owned *zaibatsus* in Japan and *chaebols* in South Korea—were targeted by the respective Japanese and South Korean developmental states, in Taiwan's case, the state sought to encourage the collaboration of both private enterprises as well as state-owned enterprises (see Wade 1990, and Fields 1997).

[2] See Bello and Rosenfeld (1990) and Rodan (1997) for details about the Second Industrial Revolution. Interestingly, Chiu, Ho, and Lui (1997) argue that although the Revolution was not effective in the short term, by the early-1990s, many of the Revolution's objectives were met.

[3] This paper makes a distinction between the regional investment programme—where the Singapore government itself is a financial investor in the region—as opposed to the regionalization of Singaporean enterprises programme—where the state encourages Singaporean enterprises, regardless of whether they are financial, industrial or other business enterprises, to invest in the region.

[4] Size of official reserves was estimated at S$130 billion in 1999 (*Singapore Business Times* 15 Oct 1999).

[5] The state was not very concerned about the fallout from the loss of lower value added jobs because it was trying to upgrade the industrial structure within Singapore, attracting higher value added operations (see Chiu, Ho and Lui 1997).

[6] Although not explicitly state, the regional industrialization programme was viewed by the government as a long-term project (also see Perry and Yeoh 2000).

[7] The Thai park, known as TS 21, did however begin operations in January 1999 (see *Bangkok Post* 'Back to the Land,' 5 May 1999).

[8] Construction for the Thai-Singapore 21 Industrial Estate was originally planned for 1996; however, it only began building works in September 1998 (*Bangkok Post* 10 September 1998).

[9] Although the project's managers then had to assure the farmers that all chemical operations were subject to the country's stringent regulation, most opponents of this project did not accept this assurance. They pressed the Thai Prime Minister on this issue (see *Bangkok Post* 11 May 2000).

[10] The Park's management company announced that it had leased or sold 92 percent of the properties for the first phase of the Bangalore Technology Park (see *Singapore Straits Times* 12 June 2000).

[11] *Channel News Asia* reported that 'Singapore JTC's Industrial Parks in Asia see improving occupancy rates,' 7 Oct 1999.

[12] See Chiu, Ho and Lui (1997) for an analysis of Singapore's 'better late than never' industrial upgrading programme.

[13] This mission statement was published in the *Singapore Business Times*, 23 May 2001, as part of a special supplement celebrating the GIC's 20th anniversary.

[14] The GIC website is essentially a graduate recruitment platform. However, within these information pages, there are 'job descriptions' that hint very strongly. For example, candidates are required to have excellent knowledge and experience in regional financial markets. See http://www.gic.com.sg/

[15] Between 1980 and 1997, the GIC functioned almost like a 'secret' organization in Singapore, operating outside the boundaries of public scrutiny and governance. It was only on specific occasions where the GIC 'appeared' in public. During this period, one high profile occasion the GIC was forced to go public was when the Minister of Finance had to inform Parliament that one GIC employee had been charged with corruption (*Singapore Straits Times* 3 Dec 1996).

[16] Opposition Members of Parliament raised the issues after a television report by an Australian company (see 'Is Government linked to Myanmar drug lord?' *Singapore Straits Times* 1 Nov 1996).

[17] Two such prominent internet websites which have political discussions include the 'Open Singapore Centre' website (http://www.gn.apc.org/sfd/link%20pages/link%20folders/osc/OSC.html) and the 'Singapore Window' website (http://www.singapore-window.org/). Both these websites apparently do not originate from Singapore.

APPENDIX 1

A SUMMARY PROFILE OF SELECTED SINGAPOREAN INDUSTRIAL PARKS IN THE REGION (EXCLUDES KARIMUN AND BANGKOK)

Location	Start-up Year (a)	Size (b)	No. of investors	Investments (c)	Nationality of investors (d)
Batam, Indonesia	1991	500 ha	87	US$306 m	Japan 48 percent, S'pore 26 percent, Europe 13 percent, US 5 percent, others 8 percent
Bintang, Indonesia	1992	4 sq km	25	US$88 m	S'pore 74 percent, Japan 22 percent, others 4 percent
Suzhou, China	1994	70 sq km (e)	85	US$2.86 b	US 34 percent, S'pore 27 percent, Europe 15 percent, Japan 14 percent, others 10 percent
Wuxi, China	1995	1 sq km	48	US$585 m	Japan 37 percent, Asia 31 percent, Europe 17 percent, US 15 percent
Ho Chi Minh, Vietnam	1997	500 ha	25	US$312 m	S'pore 56 percent, Japan 16 percent, Europe 12 percent, others 16 percent
Bangalore, India	1997	100 ha	16	US$167 m	Europe 43 percent, India 28 percent, S'pore 18 percent, Japan 10 percent, US 1 percent

Source: *Singapore Investment News* (May 1998: 7)

Notes:

a. 'Start-up year' refers to when the industrial park began or was proposed to begin operations.

b. 'Size' refers to planned size, rather than actual complete size.

c. 'Investment commitments' refers to amount pledged and is cumulative.

d. 'Nationality' is a simplification of investor's country of origin done by the SEDB.

e. Suzhou Industrial Park began with Phase One, which was 7 sq km.

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