CHAPTER-III

POLITICAL AND ECONOMIC CHANGES AND FOREIGN DIRECT INVESTMENT IN SINGAPORE
Singapore's economic development strategy has been based essentially on attracting foreign direct investment (FDI) for the past three decades. It has made a tremendous contribution to the economy in terms of GDP, employment and direct exports.¹

During this period the rapidly expanding Singapore economy has also nurtured numerous large private firms and public enterprises for 'Government-Linked Companies' (GLCs). This strategy of promoting inward investment and outward investment continue to be a prevailing priority. However, fundamental constraints in labour, land and resources have resulted in rising unit business costs and a loss of competitiveness in labour-intension exports in Singapore. For the longer term, it will inevitably up serious limits to further growth within the physical economic space of Singapore. Hence, there is the urgent need for Singapore to expand its economic space overseas through the promotion of outward investments. Furthermore, the competitive pressures of lower business cost in the neighbouring countries in the ASEAN compounded by their high growth and subsequent outward investments have also greatly simulated Singapore's outward investments in recent years.²

The mainland Southeast Asian countries with their recent economic reforms (adaptation of market oriented policies) and external sector liberalisation, particularly in rolling out the red carpet to foreign investment, could become an increasingly attractive growth frontier for capital rich Singapore. Indeed, Singapore's officially endorsed "going regional" policy and related Economic Development Board" (EDB)" regionalization programme" have been stimulated by the opportunities and challenges of the economic liberalisation and opening up of the Asian transitional economies.

¹ V.R. Panchmukhi, "Capital Formation and Output in the Third World," RIS for the Non-Aligned and Other Developing Countries, India Habitat Centre, New Delhi, 1985, p. 93.
including Indochina and Myanmar as well as the huge economies of China and South Asia.³

In the 1990s and after, the role of government in infrastructure development has changed much. The government continued to look ahead and build the infrastructure needed to ensure that Singapore retains its status as a premier location in Asia for high technology and high value added activities.

The FDI has played a significant role in popularizing Singapore's economy and extending its links with the rest of the world, particularly the developed countries. Its attraction to Singapore did not happen by chance. It is the outcome of intensive promotion by efficient state agencies and the creation of a pro-business environment.⁴

Over the years, the government has never been reluctant in its wooing of foreign investment to widen and deepen Singapore's industrial structures. By the end of the 1980s foreign companies had invested over S$47.1 billion in Singapore's economy. The huge inflow of foreign investment occurred because foreign investors could operate easily in an environment that gave them high returns⁵ besides the Singaporean government through various incentives and infrastructure provision attracted MNCs, and in addition supplied an abundance of educated workers.⁶ Initially were initially drawn to Singapore by the availability of low cost labour that could be used to assemble products. Gradually they upgraded the task conducted by Singaporean subsidiary to include more complex operations engineering support and

³ Ibid.
personnel training. Thus these subsidiaries of MNCs began producing more sophisticated products and facilitated further technology transfer into the country.\textsuperscript{7}

Since 1990, Singaporean investment commitments in China have soared to over US$1 billion. Large investments are also flowing into Vietnam. The investment pattern suggests that Singapore based firms are more familiar and aware of opportunities in the region than elsewhere in the world. Singapore's outward investments, both direct and portfolio amounted to about US $19 billion between 1981 and 1990. These investments are likely increase rapidly in the future, as the cost and labour pressures that have motivated firms to relocate production aboard appear unlikely to abate. Also, the growing market-led economic integration in the region will create new opportunities for cash-rich Singapore based firms to venture abroad.\textsuperscript{8}

So far, markets forces have derived Singapore's investments abroad. But as with inward investments the government increasingly realizes that it must revise polices to maximize the contribution of such flows to Singapore's economy. In particular, it recognizes that there is a need to assist Singapore firms, especially small local ones, to invest abroad. Such firms venture abroad by entering into tie-ups with state-owned and foreign firms operating in Singapore. The government supported their strategies to tie-up with other firms to access new technologies and capture economies of scale.\textsuperscript{9}

A different track the Singapore government has taken to promote outward investments and the economy's links to the region is the "growth triangle". Proposed by Singapore in 1989, the triangles bring together the neighbouring Malaysian state of Johar, and Singapore to quicken sub-regional economic cooperation and economic

\textsuperscript{7} Ibid.  
\textsuperscript{8} Pang Eng Fong, and Linda Low, Ibid. op cit, p. 410.  
\textsuperscript{9} Ibid.
growth. The triangle is market driven with the authorities in three areas playing an important initiating and fabricating role.\textsuperscript{10}

Though only three years old, the triangle has already boosted the region's economic dynamism. Firms have relocated activities out of Singapore to Batam and other Riau island. The long establishment complementary relationship between Singapore and Johor has strengthened further. One reason the Growth Triangle has taken off quietly is that economic politics are covenanting in the three participating areas. All three areas recognize that trade liberalization and economic cooperation benefit all parties, although not equally in the beginning. For Singapore perhaps more than the other two parties, the triangle is helping it to transcend the constraints imposed by its small size and population.\textsuperscript{11}

In 1989, the then Deputy Prime Minister of Singapore Goh Chok Tong, stated that Singapore, Johor and Batam (in Riau) could form a "Triangle of Growth". The Johor-Singapore link was not new, having been driven initially by market forces. The Singapore-Riau Link, however, was entered by government led initiatives. Thus, it can be said that JSR was formed as a result of both economic imperatives and the political will of the participants.\textsuperscript{12}

The triangle had to contend first with land and labour constraints that resulted in sharp increase in the cost of business in Singapore. This was compounded by the appreciating Singapore dollar.\textsuperscript{13}

The growth triangles facilitate such redistribution, and proximity became a key factor as it implied lower travel and transportation costs, comparative advantage

\begin{footnotes}
\item[10] Ibid.
\item[11] Ibid.
\item[13] Ibid.
\end{footnotes}
arising form differences in factor endowments are complementary rather than competitive within the three areas of triangles. Johar has land and skilled medium-cost labour, Singapore has well-developed infrastructure and highly skilled labour cost $90 a month in Batam, $150 in Johar, and $350 in Singapore. Singapore with its developed infrastructure and skilled base was still attractive to MNCs for their capital intensive and high technology operations were attracted to Johar and Bantam.14

<table>
<thead>
<tr>
<th></th>
<th>Johar</th>
<th>Singapore</th>
<th>Bantam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (per sq.m)</td>
<td>4.08</td>
<td>4.25</td>
<td>2.30</td>
</tr>
<tr>
<td>Labour (per month)</td>
<td>150</td>
<td>350</td>
<td>90</td>
</tr>
<tr>
<td>Unskilled</td>
<td>220</td>
<td>420</td>
<td>140</td>
</tr>
<tr>
<td>Skilled</td>
<td>400</td>
<td>600</td>
<td>200</td>
</tr>
</tbody>
</table>


The proximity of these areas to Singapore facilitated monitoring and control of operation and kept down the costs of trans-shipment of intermediate and fiscal goods. Table 2, gives an example of industrial redistribution done by a multinational company with a history of operation in Singapore.15

14 Ibid.
15 Ibid, p. 194.
Table 2: Comparative Advantage in JSR:

<table>
<thead>
<tr>
<th>Business or Activity</th>
<th>Singapore</th>
<th>Johar/Riau</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics</td>
<td>Major regional base for manufacturing, major international procurement office</td>
<td>Lower labour/land costs for labour/land-intensive assembly operations</td>
</tr>
<tr>
<td>Oil</td>
<td>Refining/retro chemical processing, trading, storage, and distribution</td>
<td>Riace island (e.g., Kavisum Island) offer environmentally isolated space for oil storage</td>
</tr>
<tr>
<td>Maritime services</td>
<td>Full range of ship building, repair and maintenance activities</td>
<td>Johar and Rian island (e.g., Single) offer sites for ship building/repair</td>
</tr>
<tr>
<td>Telecommunications and Business services</td>
<td>World wide information technology infrastructure and wide range of business services, operational head quarters of many large MNCs</td>
<td>Many manufacturing, marketing, procurement, technology support activities by MNCs requiring coordination.</td>
</tr>
<tr>
<td>Logistics and Distribution</td>
<td>Excellent telecommunications/transportation facilities and logistic management services</td>
<td>Wide range of export manufactures of requiring transportation and logistic management support.</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Large pool of R&amp;D scientists and engineers; R&amp;D human resources raining facilities and supporting infrastructure</td>
<td>MNC producers requiring applied R&amp;D and design for local market adaptions, MNC operations requiring processing improvement R&amp;D</td>
</tr>
<tr>
<td>Tourism</td>
<td>Excellent air travel gateway for tourists; emerging regional sea cruise centre; corporations shopping culture, multicultural city</td>
<td>Abundant leisure resources such as beach resorts, golf course, etc. cultural diversity.</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>Food processing technology and biotechnology R&amp;D capacity</td>
<td>Abundant land resource for agriculture and animal husbandry</td>
</tr>
</tbody>
</table>


JSR's wide manufacturing base and different factor endowments have drawn MNCs both to the triangle itself and to nearby areas. In Riau, it has resulted in the
development of islands such as Batam, Karimum, and Singkep. In Johar, industrial activity has expanded towards the Melaka. \(^{16}\)

The JSR growth triangle can be seen as a launching pad for Singapore's internationalization strategy. The redistribution of industrial and services activities to Johar and Riau gives local entrepreneurs the opportunity to understand different business and cultural norms prevalent within the region. Although there are concerns that Singapore's role may diminish if or when the straits of Melacca become congested. Such fear seems unfounded given the strong and growing need for sophisticated shipping services in the region. While it is conceivable that Singapore's international strategy could choke off investments within the triangle, it must be understood that such internationalization is being carried out primarily to strengthen Singapore's pivotal role in the region and in the growth triangle. \(^{17}\)

It is likely that some investment diversion from existing sources of FDI occurred as a result of intensive competition from the Pearl River Delta area in the People's Republic of China and the low-cost production in bases in Vietnam. The movement of industries hollowing out in Singapore, and it is in this light that the strategies to foster capital intensive manufacturing of replace such redistribution industries should be seen. Singapore's objective has been and continues to be to have a strong manufacturing base within its territory. \(^{18}\)

The public sector has played an important role in the development of Riau, where both the Indonesian and Singapore governments have been actively involved in developing infrastructure and managing resources such as labour. Infrastructure

\(^{16}\) Ibid, p. 194.
\(^{17}\) Ibid, p. 196.
\(^{18}\) Ibid, p. 198.
development in Batam has been undertaken by government linked companies (GLCs) of Singapore that are in cooperation with an Indonesian private company.\textsuperscript{19}

The private sector has been the main engine of growth on the Johar side of the triangle, where companies have relocated as a result of "push" factors such as rising business cost in Singapore and "pull" factor such as lower land and labour costs in Johar.

Ethnic Chinese family lives and cultural affinities in all three areas of the triangle have also been particularly important in the flow of private investment for Singapore.

Singapore's GLCs have been actively involved in developing infrastructure such as industrial townships on a joint venture basis with Malaysian companies. The private sector, has invested not only in industries but also in large scale resort development. Japanese and local investors have committed large sums for the development of hotels, golf courses, and seaside facilities in the state. Traditional, low value added and labour-intensive in manufacturing such as electronics, assembly of consumer products, air conditioner, automobile parts, surgical gloves and proceeded foods.\textsuperscript{20}

Not only did the Growth Triangle aim to enhance inflow of investment, it also intended to facilitate sub-regional cooperation in business and tourism. The growth triangle was envisaged as a move to draw tourism, for there were advantages, to be gained from combining the natural advantages of Johar Riau with Singapore's tourist throughout.\textsuperscript{21}

\textsuperscript{19} Ibid, p. 199.
\textsuperscript{20} Ibid, p. 204.
Economic imperatives, however, were not the only contributing factor for the growth Triangle. Cooperation in the development of Riau also reflected increasing cooperation at all levels between Singapore and Indonesia. The forging of better relations between Indonesian and Singaporean leaders had brought the two countries closer together. Although the personalities of and relationship between, Suharto and Lee Kuan Yew dominated, the institutionalization of Indonesia-Singapore relations, in security, military and economic fields played a major part. The rapid increase in Singapore's investments and the regular exchange of views between Singapore and Indonesian officials not only indicated a far more sustentative relationship than was to ease twenty years earlier, but also that ties would be sustained when Lee and Suharto were gone. Singapore Deputy PM, Lee Hsein Loong, observed: "Each individual project makes sense but more than the individual projects themselves is a habit of cooperation between officials on both sides".22

In recent decades, a new breed of business conglomerates has emerged in Asia. These rising business entities are mostly controlled and owned by Chinese immigrants. The sheer diversity and powers of their economic activities has enabled some of them to become very foundations of their national economies.

With the emergence of Chinese business conglomerates, a whole new interest has been re-linked to study their corporate governmental, organizational structures, business strategies and investment patterns. These governance and management issues are also particularly relevant for two other reasons.

1. The 1997/1998 Asian economic crisis has shown that economic liberalisation/ globalization may bring both opportunities and rises for Chinese business. It becomes imperative to understand how Chinese business conglomerates

experience internal transformation to cope better with the inherent risks and opportunities associated with globalization.

2. The rise of the so-called "new economy" has raised further questions on the viability of traditional governance and practices of Chinese businesses. 'Asia's tycoons are coming under pressure to adopt a more Western style of business.' The change is gradual but Asia's companies have started to shift away from their old patriarchal cultures those prevailing in America and Britain. 23

The two schools of thoughts grew out of research undertaken in seven years to explain the East Asian Miracle. The "market supremacy" school, which is primarily based on the neoclassical theory of markets and prices, has again produced two fairly distinct views on the role of market and government in generating extraordinary growth, as experienced in the East Asian NIEs including Singapore. 24

One view, which largely occupied the mainstream of the economics profession in the 1970s, suggests that the superior economic performance of the region can be attributed to their reliance on free markets. This "free market (FM)" theory of East Asian success claims that in countries such as Singapore growth is the result of more efficient allocation of resources which comes from more freely functioning markets. 25 State intervention in these countries is largely absent and what state provides is simply a suitable environment for the entrepreneurs to perform their functions more freely, as argued by the proponents of theory. 26

Another view, which can be considered a variant of the core Neoclassical theory and is often known as the "stimulated free market (SFM)" theory of East Asian

26 Wahid, Abu N.M., Ibid.op cit, 102.
success, believes that the governments of East Asia intended fairly indelibly to offset various distortions but the result of activist policies were very close to those that would have prevailed under free market situation in any way. The main reason for the success of the NIEs, according to this theory, is the adoption of a 'neutral' trade regime (as opposed to free trade regime advocating the FM theory), which ensures that the effects of import control measures would be counterbalanced by export promotion measures. 27

The key to rapid economic success/growth in East Asia is a strong and autonomous state, providing directional thrust to the operation of the market system. The market is guided by the long term national interests and key investment decisions are made by government officials. It is the 'synergy' between the state and the market which provides the basis for rapid economic growth. 28

The static model of East Asian Political economy emerged from the concept of 'developmental state' which embodies the following characteristics:

- Economic growth constitutes the foremost and single-minded priority of state action. Conflict of goal is avoided by the absence of any commitment of equality and social welfare.

- There is an underlying commitment to private property and market. State intervention is firmly circumscribed by this commitment. The market however is guided by an elite bureaucracy staffed by the best available managerial talent in the system. The bureaucracy, plays a key role in policy formation and implementation.

28 Wahid, Abu N.M. Ibid., 105.
• Close institutionalized links are established between the elite bureaucracy and private business for consultation and cooperation.

• An authoritarian political system in which the bureaucracy is given sufficient scope to take initiatives and operate effectively. The politicians "reign" while the bureaucrats "rule".

• A cordial industrial relations system is established by implementing tough laws against union militancy and by adopting a sophisticated labour management style which encourages workers loyalty to their bosses and competition among the workers themselves.29

Based on the broad framework provided by Johnson's developmental state model30 proposed a new theory, which he calls the governed market (GM) theory of East Asian success, as an alternative to the neoclassical free market or stimulated free market explanations. Unlike other theories, the GM theory is formulated in such a way that it can be tested with real-world data. It suggests that the superiority of Singapore's performance is due in large measure to a combination of:

• Very high levels of productive investment, making for fast transfer of newer techniques into actual production;

• More investment in certain key industries than would have occurred in the absence of government intervention, and

• Exposure of many industries to international competition, in foreign markets rather than at home.

The Singapore government had no ideological commitment to any particular economic system. It is only concern was the betterment of living for Singaporeans. In

29 Ibid.
order to achieve these objectives, it implemented a host of pragmatic policies which involved extensive government interventions in several areas such as population control, housing, education, medical and health service's compulsory savings, industrial relations, wage policy etc. The economic promotion also motivated the government to adopt an open-door policy not only to foreign investment and technology, but also to foreign managers, engineers and technicians.31

Singapore never suffered from xenophobic post-colonial hangover. Moreover, there was a realization that, given its small size, it could not possibly develop a critical pool of high-level manpower required to run the economy. The same pragmatism also prompted the government to reject any prestigious project which has little returns e.g., steel mills and in sovereign foreign investment to proper MNCs from USA, Japan and West Europe over MNCs from Hong Kong and Taiwan.32

The political leaders in Singapore firmly believe in the principle of meritocracy which dictates the system of reward and advancement at various socio-political levels. The perception is that the country's progress depends quite heavily on its ability to identify the talents and groom them so as to develop their potentials to the fullest extent. The belief in meritocracy has created a system by which only the 'best' in terms of educational qualifications and training can move up the ranks into the positions of power and responsibility and this in turn according to many, has given rise to "elitism". Another by product of meritocracy is the government knows best" attitude, which is often reflected in the statements made by government officials and political leaders. Such an attitude may be the result of the fact that the government has access to data and information. That provides vital inputs to decision-making and

evaluation of policies best suited to Singapore. The meritocracy style has also given rise to "paternalism" which characterizes the political leaders in Singapore. The paternalistic approach has led to government intention, in all areas including marriage, procreation, education and so on.\(^{33}\)

It is clear that the government of Singapore played a strong role in the economic development of the city-state republic, although the share of government in GDP is not particularly large.\(^{34}\) The qualitative import of government's predominance can be felt everywhere. The government in Singapore has in fact played the roles of goal-setter, producer, regulator, and fiscal urgent, in addition to its traditional roles as the custodian of the nation. While the rules of market mechanism remain paramount in Singapore, the government has interfered in a big way to ensure the fruits of economy. Singapore's political and economic stability, its strategic location in the region and the availability of sophisticated infrastructure continue to attract foreign investment. There was however, a big drop in foreign investment in 1985 when the government pushed its high wage policy too far in order to force investment in priority sectors. The rise in real wage and the consequent decline in profitability were disgorges as the main factors behind the drop in foreign investment which eventually led to the 1985-86 recession.\(^{35}\)

In recent years, more and more foreign investment has been going to financial and business services. For example 18 percent of foreign equity investment went to financial and business services in 1980. But the proposition of foreign equity investment in the financial and business sector in 1991 stood 44 %. The main areas that are attracting most foreign investment are information technology related services

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and medical, engineering and hosting regional headquarters of international companies. There is also a trend for new companies to move beyond mere manufacturing into design and engineering, as well as research and development activities, especially in the electronics, precision equipments, precision tools and dies, and metal engineering industries.

The US, the EU (in particular the UK and the Netherlands) and Japan are the major sources of FDI in Singapore. Together they accounted for 62% of cumulative FDI in 1991. The US investment grew more significantly in the petroleum refinery and aerospace industries. Japanese firms are increasingly investing in services. Growths are more equally distributed. There is a progressive income tax where by most taxes are paid by the upper and middle income groups. The subsidies public housing, education, wealth and medical services benefit mostly the lower income groups.

Like other successful East Asian Countries, Singapore has adopted policies which have been highly selective favouring contains industries or sectors in line with broad macroeconomic objectives. Projects are selected after careful evolution, implemented with extreme precaution, and performances of the selected projects are then continuously reviewed. Another feature of government policies is the high degree of coherence amongst them. There has always been broad agreement on economic goals and policies that have been coordinated to achieve these goals.36

The government policies in Singapore have been directed toward the promotion rather than the regulation of private enterprises and have been market friendly rather than market repressing. Even the public enterprises more run on a commercial basis. They are expected to be efficient, make profits and expand

whenever feasible. Government does not provide them with special privileges or subsidies. If they lose money they are allowed to go bankrupt. It is the stated policy of the government not to buy failing firms-public or private just to save jobs.\(^{37}\)

**FDI**

Multinationals and foreign investments have played a crucial role in Singapore's industrialization. Even today, multinationals supply more than 80% of investment in the manufacturing sector. Over 3000 MNCs operate in Singapore and many of the world's biggest companies such as Shell, GE, Hewlett Packard, NEC, Phillips, ICI, Du Port, Exxon and Hitachi. These companies have their regional headquarter in Singapore.\(^{38}\)

The government is encouraging Singaporean firms to exploit the opportunities in the region. In 1993, Singapore was the biggest foreign investor in Indonesia with total investment of US$1.3 billion. Singapore comprises invested US $20.2 billion in Malaysia, making it the forth largest source of foreign investment in 1993. Singapore is the fifth largest foreign investor in both China and Vietnam and is reportedly the largest in Myanmar (DFAT, 1994b:2).\(^{39}\) By the end of 1994, Singapore cumulative over seas investment stood at US $37.3 billion representing a rise of 29% than recorded in the previous year. According to official estimates Singapore's investment in the region by late 1995 stood a nearly US $36 billion.\(^{40}\) China with US$17.3 billion topped the list, followed by Malaysia (US $73. billion) the next largest recipients are Hong Kong (US $ 4.6 billion) and Indonesia (US$3.5 billion). Thailand and Vietnam received US$1.7 billion and US$1.2 billion respectively. Singapore investors are also looking at the increased opportunities offered by

\(^{37}\) Ibid., p. 116.  
\(^{38}\) Iyanatul Islam, and Anis Choudhary, Ibid.op cit, p. 203.  
\(^{39}\) DFAT, 1994 b, p. 29.  
liberalisation in India. In 1995, Singapore ranked eight among those investing in India.

Table 3: FDI in Singapore by Source Country and Year during 1995-2000.

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</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>503.2</td>
<td>332.9</td>
<td>2131.3</td>
<td>136.5</td>
<td>283.7</td>
<td>157.8</td>
<td>3545.5</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>6705.1</td>
<td>8651.2</td>
<td>8202.7</td>
<td>5654.7</td>
<td>6684.7</td>
<td>6232.4</td>
<td>42130.8</td>
</tr>
<tr>
<td>Asian NIEs</td>
<td>224.0</td>
<td>505.8</td>
<td>589.3</td>
<td>994.9</td>
<td>417.7</td>
<td>594.2</td>
<td>3325.9</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>-35.4</td>
<td>361.9</td>
<td>191.2</td>
<td>150.6</td>
<td>94.8</td>
<td>147.0</td>
<td>910.1</td>
</tr>
<tr>
<td>S. Korea</td>
<td>83.5</td>
<td>-43.6</td>
<td>-6.8</td>
<td>534.1</td>
<td>176.4</td>
<td>53.7</td>
<td>797.4</td>
</tr>
<tr>
<td>Taiwan (ROC)</td>
<td>175.9</td>
<td>187.6</td>
<td>404.8</td>
<td>310.2</td>
<td>146.5</td>
<td>393.5</td>
<td>1618.5</td>
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<tr>
<td>China</td>
<td>73.5</td>
<td>80.7</td>
<td>-60.5</td>
<td>160.8</td>
<td>18.6</td>
<td>22.5</td>
<td>295.6</td>
</tr>
<tr>
<td>India</td>
<td>-20.5</td>
<td>21.6</td>
<td>19.3</td>
<td>18.9</td>
<td>10.9</td>
<td>5.0</td>
<td>55.3</td>
</tr>
<tr>
<td>Japan</td>
<td>899.1</td>
<td>1930.9</td>
<td>1710.9</td>
<td>499.6</td>
<td>604.9</td>
<td>429.3</td>
<td>6074.4</td>
</tr>
<tr>
<td>EU-15</td>
<td>1487.0</td>
<td>1978.0</td>
<td>213.4</td>
<td>1270.5</td>
<td>2864.8</td>
<td>1916.0</td>
<td>9729.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>991.2</td>
<td>1207.1</td>
<td>1391.9</td>
<td>35.2</td>
<td>108.7</td>
<td>222.5</td>
<td>3956.5</td>
</tr>
<tr>
<td>USA</td>
<td>1441.7</td>
<td>1440.4</td>
<td>1633.2</td>
<td>973.0</td>
<td>471.9</td>
<td>1380.2</td>
<td>7340.6</td>
</tr>
<tr>
<td>Australia</td>
<td>-26.1</td>
<td>596.6</td>
<td>56.8</td>
<td>105.2</td>
<td>74.0</td>
<td>119.0</td>
<td>925.5</td>
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<tr>
<td>New Zealand</td>
<td>-59.4</td>
<td>20.8</td>
<td>14.2</td>
<td>1.5</td>
<td>27.1</td>
<td>4.6</td>
<td>8.8</td>
</tr>
<tr>
<td>All others</td>
<td>1578.7</td>
<td>758.5</td>
<td>2463.4</td>
<td>1529.0</td>
<td>1656.6</td>
<td>1535.4</td>
<td>9521.7</td>
</tr>
<tr>
<td>Total</td>
<td>7208.3</td>
<td>8984.1</td>
<td>10334.0</td>
<td>5791.2</td>
<td>6968.4</td>
<td>6390.2</td>
<td>45676.3</td>
</tr>
</tbody>
</table>


Notes: 1. Negative sign means disinvestments.

2. Singapore's figure is based on government inflow of FDI in Singapore and excludes repartition of dividends, royalties and loans.
Table 4: FDI in Singapore from ASEAN by Source Country and Year during 1995-2000.

<table>
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</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>12.7</td>
<td>4.3</td>
<td>1.8</td>
<td>-19.4</td>
<td>1.2</td>
<td>1.0</td>
<td>1.6</td>
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<td>Cambodia</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>94.2</td>
<td>-34.7</td>
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<td>26.7</td>
<td>82.4</td>
<td>44.9</td>
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<td>6.1</td>
<td>73.5</td>
<td>4.1</td>
<td>25.9</td>
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<td>283.7</td>
<td>157.8</td>
<td>3545.5</td>
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Sources: ASEAN Statistical indicators, 2001.

Notes:
1. Negative sign means disinvestments.
2. Brunei Darussalam's figure is based on the international transaction Reporting system (TRS).
3. Cambodia's figure is estimated aggregate figures, not available by source countries (estimated jointly by the national bank of Cambodia and the IMF Mission Team).
4. Lao PDR's signs are based on the seal inflow of investments, provide by the Bank of the Lao PDR.
5. Myanmar's figures are in fiscal year which ends in March of the following colander year.
6. The Philippines figures are based on the BOP records, excludes reinvestment earnings.
7. Singapore's figures are based on government inflows of FDI in Singapore and exclude repatriation of dividends, royalties and loans.
8. Brunei Darussalam, Indonesia, Malaysia, Myanmar, Thailand and Vietnam figures comprise of equity and loans.
Historically outward FDI from Singapore has been small compared to other forms of investment (e.g., portfolio). Most Singaporean firms have had neither the financial strength nor the firm specific advantage to extend their operations abroad. From the mid-1970s, however a tendency in the Singapore economy began to surface. Singaporean firms now invest directly in other parts of the world. The department of statistics (1991, 1996, and 1998) estimated that the end of 1976, FDI from Singapore was slightly above S$1 billion. This figure subsequently grew to S$1.7 billion by 1981 and S$2.6 billion by 1986, then it skyrocket to S $21.2 billion by 1993 and S$55.7 billion by 1996. The doubling of FDI from Singapore during the 1990s surpassed that in the 1980s. During the 1980s the state remained preoccupied with consolidating the domestic economy, particularly in the post-1985 recession period and devoted little attention to promoting outward investment. 41

Most FDI from Singapore during that decade came from the private sector. As Singapore moved into the 1990s, however the state began to recognise the importance of developing an "external wing" of its increasingly saturated and crisis prone domestic economy. Since then, the state has undertaken many direct and indirect measures to make sure that public and private capital will not concentrate in the domestic market at the expense of potentially higher rates of return on investments in other regional economies. 42

The geographical distribution of Singapore's FDI is highly uneven over space. A significant proportion of it occurs within the Asian region. The rather complex ownership of outward FDI from Singapore differs from that in other NIEs. Because of

42 Ibid.
the heavy foreign presence in its domestic economy, a large proportion of Singapore's FDI originate from companies mostly or wholly owned by foreign firms.\textsuperscript{43}

During the 1980s, wholly or mostly local-owned companies in Singapore accounted for more than half of total outward FDI by the 1990s, foreign owned companies accounted for more than 56% of total FDI from Singapore. The latter corporations' investment decisions, however, were primarily controlled and made by regional headquarters and regional offices in Singapore, deeply embedded in the social and institutional fabric of the Singapore economy. They received as much state and institutional support during Singapore's recent rationalization drive as did local companies.\textsuperscript{44}

\textbf{Singapore's Regimes of Accumulation}

A regime of accumulation involves the production-consumption link and serves as a macro-economic structure of any capitalist society. Singapore's early regime of accumulation can be broadly conceived as a form export-led development with three particular characteristics: \textsuperscript{45}

1. Heavy dependence on foreign investment in the labour-intensive industrialization process;

2. Active involvement of state owned enterprises in the domestic economy; and

3. Regionalization as a key form of economic restructuring.

Under this regime of accumulation, economic growth occurs predominantly on the basis of labour intensive production methods and the expending size of the labour force.\textsuperscript{46}

\textsuperscript{43} Ibid.
\textsuperscript{44} Ibid.
\textsuperscript{45} Ibid, p. 253.
\textsuperscript{46} Ibid.
First, the Singapore economy was and still is heavily dependent on inward foreign investment.\(^{47}\) In 1966, foreign investment represented some 45% of total gross fixed assets in manufacturing. By 1978, this figure had grown to 79%. Largely foreign owned companies also accounted for 87% of all manufactured exports in 1976–1988. The department of statistics estimated that by 1989 foreign trans-national corporations (TNCs), more than 700 of them in the manufacturing sector.\(^{48}\) Three sectors had high percentages of assets controlled by foreign interests: financial (80%), manufacturing (67%) and commerce (52%).

With independence and changing global economic conditions, Singapore attracted a huge inflow of foreign investment from the US and Western Europe, which took advantage of Singapore's exploit policies towards export-oriented industrialisation. Singapore perceived this strategy of counting foreign capital as "essential in view of the weak domestic technological base and the long lead time needed to transform domestic traders and small-scale entrepreneurs into a dynamic industrial entrepreneurial class able to compete in the global market".\(^{49}\)

The early wave of inward FDI was largely Taylorist in nature, as foreign manufacturing times looked for low-cost production sites. By resulting its domestic labour and capital markets, the state created favourable conditions for global capital to locate labour intensive, export-oriented production in Singapore. The share of foreign investment in Singapore GDP rose steadily from 9% in 1966 to 18% in 1970 and 28% in 1980 (Department of Statistics). The industry has dominated Singapore's


manufacturing sector since then. It accounted for 38% of the value of total manufacturing output.\(^{50}\)

Second, the role of state-owned entire prices in the Singapore economy should not be underestimated. In the early phase of the export-led regime of accumulation, the state played a leading role in the creation of suitable conditions, including direct state control of industry. State owned enterprises participated directly in the capital accumulation process through the provisions of credits and loans, subsidization of labour costs and expansion of land supply. In Singapore's early phase of industrialization, there was a high degree of integration between the financial sector and manufacturing sector.

A third defining characteristic of Singapore's regime of accumulation in recent years has been regionalization through outward FDI. Virtually undisturbed growth of the Singapore economy in the 1960s and 1970s brought increasing pressures to bear on its export led regime. By the early 1980s, the Singapore economy faced a serious accumulation crisis, which culminated in a sense recession in 1985. Output in the electronic industry fell by 5.4% and the industry shed between 10,000 and 13,000 workers.\(^{51}\)

The growth triangle formed the antecedent of Singapore's regionalization programme. It was officially inaugurated in 1993. In January of same year Senior Minister Lee Kuan Yew announced that the state was taking new initiatives to generate a bigger pool of local entrepreneurs and to build up to the external wing of the Singapore economy. This national strategic thrust is known as "Regionalization 2000". The state wanted to develop this external wing because most advanced  


\(^{51}\) Ibid, p. 116.
industrialized countries had a large number of this national firms globalizing to profit from the resources, talents and markets of the rest of the world.\textsuperscript{52}

According to the Ministry of Finance\textsuperscript{53}, an external economy can help overcome Singapore's small domestic market and limited resource base. It generates business and economies of scale for companies based in Singapore making the domestic economy more productive.

The regionalisation the Singapore economy should be seen as an institutional response to the limits on the growth resulting from an over reliance on inward investment from North America, Western Europe and Japan and from the structural rigidity yielded by the domestic domination of state owned enterprises. In the first instance, the dependence on foreign capital has rendered the Singaporean economy more susceptible to the export of accumulation crisis from advance developed countries. Regionalizing Singapore's corporate sector could the city state economies to generate national incomes from more geographically diversified locations, particularly from emerging markets in Asia.\textsuperscript{54}

Singapore is a superb example of a country that has succeeded in attracting desirable foreign investments and harnessing them to its development programme. The attraction and development have taken place despite the country's lack of natural resources or large domestic markets. Instead they have been focused on manufacturing and service industries of the type that could be attractive to any country. The country's success has been largely a matter of sensible and effective policies. For example it was one of the first countries to switch from import-substitution policies to export-oriented ones. Despite its unique size and history, other developing countries are learning lessons from Singapore. They are emulating the

\textsuperscript{52} Henry Wai Chung Yeung, Ibid, op. cit. p. 257.
\textsuperscript{54} Henry Wai Chung Yeung, Ibid.
Increasing benefits sought from foreign investment

Country is unattractive to foreign investment

- a) Governments provides subsidies, protection etc to attract investment
- b) Country's market grows; foreign companies invest for local markets
- c) Skills lines are greater than relative wages, labour intensive investment occurs

Governments seek to upgrade investment:
- Capital intensive
- Wished technology
- Manufactured exports
- Local ownership
- Local personnel
- Social programmes

As country develops further need for subsidies, protection, incentives, etc. to attract investment decreases

Investors seek out investment opportunities (haven seeking)

Figure: Evolution of "stages" of Developing Country's Policy towards Foreign Investment
model presented by Singapore in terms of attracting direct investment and using it for their development needs.

**Framework for Analysis**

Singapore's foreign investment is analysed within the framework represented schematically in the figure. This figure is a modified version of the "stages of developing country policy" proposed by William A. Steven in 1985.

The framework postulates that there is typical pattern of changes (stages) in an LDC government's policy toward foreign manufacturing investments as the country grows and develops. This pattern includes the following four stages.

Stage I: at the lower left in figure I indicates countries that are too small, poor or underdeveloped to attract much investment.

Stage II: outlines three primary ways through country can begin to attract manufacturing investments, as shown in the figure state II a, IIb, and IIc.

In Stage IIa, the government offers incentives, subsidies, tariff protection and so on, to bring in foreign companies that import components for final production and sale in the local market. This type of import-substituting investment would usually not be able to survive without constant government support. This type of policy is sometimes justified on the ground that such investments will eventually grow large enough to become efficient and economically viable (an infant industry argument).

Stage II b (an alternative to Stage IIa) comes about as the country's market grows, making it attractive to foreign companies to begin producing there even without excessive to foreign companies to begin producing there even without excessive government subsidies or protection.

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Stage IIc occurs when wage levels are low enough that foreign companies bring in components or materials to do labour intensive production or assembly and then re-export the finished goods.\textsuperscript{56}

Stage III policies arise when the country has become sufficiently attractive to foreign investment and the government begins to impose conditions or seek added benefits. Higher technology, greater capital intensity, steering of investments into particular industrial sectors, local minority or majority ownership, mining or promotion of local citizens or of particular ethnic groups, location in remote or poorer geographic regions and restrictions on capital repatriation or dividend outflows the most commonly sought benefits. Stage III is important to study because the government's policies can have a tremendous influence on how successful the country is in harnessing foreign investments to its own development needs. Some countries have tried to implement stage III type policies but have not been able to stick by them.\textsuperscript{57}

Stage IV comes about as LDCs' economy strengthens and diversifies so that it is able to rely more on market mechanisms and "correct" prices signals to steer investments into the most economically and socially productive areas. The need for regulations incentives, subsidies, protection and so on to attract foreign investors and direct them into desirable areas decreases.\textsuperscript{58}

Singapore was fortunate to have had moderate Political and Economic leadership has made an enormous contribution in the success of Singapore's economy. PM Lee had a clear idea of what his country could and could not hope to achieve. As a strong leader, he was able to retain the backing of his people without making extreme promises or bowing to popular whims. This enables him to take a

\textsuperscript{56} Ibid.
\textsuperscript{57} Ibid.
\textsuperscript{58} Ibid., p. 319.
long-term view of political and economic decisions that another, less secure leader might not have been able to afford. The government was able to make a realistic assessment of the country’s needs, endowments and capabilities, and it avoided grand projects and expensive socialist development schemes. While political stability and strong leadership one not essential for bringing in foreign investment, they certainly make a country more attractive especially for the kind of footloose, labour intensive manufacturing plants that can shop around for the best site. 59

Another reason of why Singapore was successful in attracting foreign investment was that its priorities were limited in number and clearly spelled out, although they did broaden out overtime. Initially its main priority was employment creation, and it rapidly adopted the strategy of promoting labour-intensive manufacturing industries. For a while high growth, a selectively short-run goal, became a priority, but later the emphasis shifted towards diversification and sustainable long-term growth. 60

Because the goals were limited, foreign companies were reassured that they would not be subjected to an ever escalating set of demands. Because the policies designed to achieve the goals remained fairly constant, the investment environment was seen as stable and predictable. 61

The government worked hard to keep Singapore an attractive pace to invest. It tried to maintain contacts with investors. It patiently listened to their complaints and problems and took all possible corrective measures. As a sign of its willingness to safeguard foreign companies’ interests, it signed investment guarantees with a number of countries.

59 Ibid.
60 Ibid, p. 333.
61 Ibid.
With the conducive investment climate, Singapore had the advantage of being free of the anti-foreign, anti-multinational bias of many former colonies and thus it felt neither a political nor an economic need to restrict or tightly control the entry of foreign companies. Its welcome was unambiguous, unlike many countries that impose restrictions on foreign investors even while granting incentives to them. The almost total lack of restrictions was a fairly unique feature of the country's foreign investment policy.62

Singapore's policy makers recognized the importance of manpower development, particularly for a country without natural resources. Their policies emphasized the need to invest heavily in education and vocational training at all levels. Consequently, the skills and abilities of the workforce, both operative and managerial, moved up more or less in tandem with the increasing demand.63

The government clearly signalled its intention of preventive labour strife by adopting a succession of pro-business laws and directives. Trade unions were kept docile and good industrial relations were maintained. The unions generally accepted the government's policies such as the wage restraints. These conditions helped keep labour costs competitive and they greatly increased investor's confidence in the country.

Foreign investment was actively promoted not only by the EDB but also by senior government ministers, who often undertook investment promotion missions. These missions helped EDB officers convey Singapore's competitive advantage to a higher level of executives than they would normally have met in day to day

62 Ibid.
63 Ibid.
operations. The fact the EDB had the discretion over a wide range of innovative policies greatly enhanced the effectiveness of its investment promotion efforts.  

**Singapore and the East Asian Financial Crisis**

The financial crisis in East Asia which began in mid-1997, unfolded unexpectedly for Singapore, as it did everywhere else. Its effects, by March 1998, were far less severe for the Republic than for many East Asian countries may be traced in large part to the particular nature of Singapore’s development. Even so, Singapore could not remain unaffected from the turmoil in East Asia.  

The most important reason why Singapore differed from much of East Asia was the dominant role of foreign multinationals in its development programme. In Thailand, Malaysia, South Korea, and Indonesia, local banks and firms, on the whole small and undiversified by international standards, had by 1997 contracted huge amounts of short term, US dollar denominated debt. The resistance thus made available within these national economies, together with large foreign inflows of portfolio investment in rapidly expanding local stock markets, had the effect of dramatically bidding up real assets price, a process further encouraged by historically high East Asian growth rates and soon also taking on a dynamic of its own. But by 1996 a slowing in Asian growth rates became apparent (New York Times 1996), and than beginning with Thailand in July 1997, confidence in what had been seen as a remarkably successful East Asian growth model collapsed. International banks refused to renew loans and portfolio investment moved decisively out of East Asia, causing earlier asset price spirals too catastrophically. At the same time, the withdrawal of international capital led to precipitate falls in the values of some East

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64 Ibid., p. 335.
Asian currencies so that loan repayment in US dollar became difficult if not impossible.66

By contrast, the foreign multinationals operating in Singapore either had not borrowed significantly to finance expansion there or insofar as they had borrowed were globally diversified and earned a substantial part of their profits in dollar so that the repayment of past borrowing posed no difficulties. Similarly, foreign banks had their base very largely outside Singapore and lent like to local Singaporean firms. An extreme reliance on foreign multinationals, which could be regarded as a weakness of the Singapore model, was also considerable strength so long as the financial crisis remained confined to East Asia and did not spread to the West.67

Singapore's total trade in goods and services reached US $327 billion in 1997, or more than its GDP and external demand accounted for 2/3rd of total demand. The crisis plunged the Singapore economy into recession. But the impact was not as serious as for other SE Asian economies. The banking system remained intact and the corporate sector did not collapse.68

The following are the some indicators of the impact of the economy:

**GDP growth rate:**

The GDP growth rate plummeted from 8.4% in 1997 to 0.4% in 1998 as a result of the crisis-induced fall in regional demand as well as fall in global demand for electronics, Singapore's major export to the world. Domestic consumption demand also weakened with playing stock and property prices, falling incomes, and jobs retrenchments, while domestic investment demand was affected by excess capacity economic uncertainties and fight liquidity. The economy rebounded in 1999 with a

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66 Ibid.
67 Ibid

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growth rate of 5.4% reflecting the upturn in the global electronics cycle, some recovery of regional demand and the cost-cutting measures undertaken in 1998-99 to regain cost competitiveness and restore investor's confidence.\textsuperscript{69}

**Unemployment**

Since the last 1985-86 recession, Singapore had been enjoying full employment and experiencing growing labour shortage. With the crisis, the unemployment rate rose to 4.4% by December 1998. Retrenchments and job losses were concentrated in manufacturing, commerce and construction. With the economic recovery, job retrenchments eased and the unemployment fell to 2.9% by December 1999. However, economic restructuring continues to lead to shedding of jobs at the lower and of the skill-spectrum.\textsuperscript{70}

**Exchange Rate:**

In the first year of the crisis, the Singapore dollar depreciated against US dollar by about 15% but rose sharply against the devalued currencies of Indonesia, Malaysia, Thailand and South Korea. The MAS reported that the Singapore dollar had not been subjected to strong speculative attack. MAS reiterated that Singapore would not restrict the movement of short-term capital and would continue to manage the exchange rate but within wider band because of the increased market volatility.\textsuperscript{71}

**Asset Prices**

Heavy investment by local and foreign capital in the stock and property markets in the economic euphoria of the early 1990s led to market overheating and asset bubbles. Stock and property prices peaked in mid 1996 and declined before the onset of the crisis, as a result of increasing caution on the part of investors and buyers as well as efforts by the Singapore government to cool the property market through

\textsuperscript{69} Ibid.
\textsuperscript{70} Chia Siow Yue, \textit{Ibid.,} op cit, p 2.
\textsuperscript{71} Ibid.
restricting bank credit for housing loans and other anti-speculation measures. The outbreak of the crisis saw further price falls the stock price index fell by over 60% of its peak by 1998 third quarter, while the property price index fell by over 30% by mid-1998. Falling asset values under mined the balance sheets and profitability of property companies and financial institutions.\footnote{72}

**Trade Sector**

Export of goods did not decline as much as exports of services, as the former were more dependent on global demand and the latter on regional demand. The decline in goods exports to the region was somewhat offset by the continuing buoyancy of the US and EU markets. Service exports were more severely affected, for example trade turned negative and tourist arrivals from the region fell sharply. However, imports fell sharper than exports, so the trade balance and current account actually improved.

**Capital Account**

There was a dramatic reversal in the flow of funds, from an inflow of S $53.6% billion in 1997 to an inflow of S $26.5 billion on 1998. Foreign banks in Singapore which had traditionally declined on funding form head offices and Asian dollar market for their credit activities in Singapore and the region sharply sealed back such funding and credit activities. Apart from the outflow of bank funds, there was also a net repayment of offshore loans. The balance of payments surplus fell from S$11.7 billion in 1997 to S$ 5 billion in 1998, with a corresponding slowdown in growth of official foreign reserves.\footnote{73}

\footnote{72}{Ibid.}  
\footnote{73}{Ibid.}
Financial Sectors

In contrast to the buoyancy of earlier years, the financial services sector contracted, albeit marginally in 1998, reflecting the sharp contractions in the offshore Asian Dollar Market. Loans to the region's crisis-economies contracted as investment projects were postponed or cancelled, Japanese banks in Singapore consolidated their regional lending activity because of mounting non-performing loans and the need to raise capital adequacy ratios at headquarters to meet BIS requirements. Local financial institutions were weakened by non-performing loans. Largely because of regional loan exposures on a prudential basis, total cumulative loan provisions of these banks rose sharply, causing net profits to plunge 32% in 1998. However, balance sheets remained fairly healthy and capital adequacy ratios remained substantially above the 12% minimum specified by MAS and the 8% minimum of BIS. There were no bank failure or bank runs.74

Corporate Sector

Business slowdowns and uncertainties led to fall in corporate earnings and downsizing of business operations. For example, deteriorating demand conditions and provisions for non-performing loans and bad debts reduced the reported profits of the 190 companies listed on the stock exchange of Singapore. Financial prudence led to a growing number of these companies making record provisions for non-performing loans, as well as providing for reduced values of their investment and potential losses on their projects. In particular, listed property companies wrote down the values of assets by some S$1.5 billion. Liquidity was tight, with the domestic

74 Ibid.
prime lending rate rising to 7.8% by May 1998 and banks fighting loan criteria. Interest rates started to downtrend only from 1998 third quarter.  

Singapore did not succumb as seriously as several regional economies even though it has the most open economy. Openness and vulnerability to external changes and shocks rendered the task of macroeconomic management more difficult. At the same time, smallness and single-tier purposeful government made for more flexible and speedy policy responses. Both fundamentals and policies explain why the Singapore economy escaped the full contagion effect of the crisis.  

**Strong Economic and Financial Fundamentals**

Singapore's sound fundamentals, which helped to sustain investor confidence during the crises, are seen in the following indicators, high savings and investment rates, with the national savings rate averaging over 45% of GNP in recent years, strong current account surpluses, reaching 15% of GNP in 1997, strong BOP position and official foreign reserves which reached US $81 billion at end-1997, one of the highest in the world and which acted as a deterrent to currency speculation, no official foreign debt, attractive location for FDI and MNCs, strong government budget any positions with budget surpluses for most years; low corporate debt to share holder capital and sound banking system.  

**Sound Macroeconomic and Financial Policies**

Singapore's strong economic and financial fundamentals reflect the decades of pro-development economic polices and prudent and efficient public economic management industrial and trade policies. Except for a short period in the early 1960s, when import substitution was introduced temporarily to jump start industrialization, Singapore has pursued export manufacturing and a free trade policy with minimal

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75 Ibid.  
76 Ibid.
restrictions in imports and exports. Along with market oriented policies and the large presence of foreign investments, these have ensured domestic and international competitiveness. Investments did not go into protected industries lacking competitive advantage and companies did not receive political patronage.\(^77\)

**Fiscal Discipline**

A prudent fiscal policy is viewed as the foundation for macroeconomic stability and sound financial position, resulting in low inflation, low interests rates, and stable currency. The government has had consistent budget surpluses. There is no foreign debt incurred by the public sector. As a precautionary measure against future profligacy, the constitution was amended to constrain the ability of an elected government to use the country's accumulated official reserves to finance budget deficits. With a buoyant economy and fiscal prudence the government has been able to invest heavily in infrastructure and education and yet able to reduce the income tax burden on businesses and individuals over the years.\(^78\)

**Social Safety Net and Social Equity**

The government eschewed the Western welfare state for its rain on the public purse. Instead, the social safety net is provided by robust economic growth and full employment and by a self-funded Central Provident Fund (CPF) of subsidized housings as well as the use of CPF savings enabled 85% of the population to enjoy home-ownership in modern housing. Social equity has been maintained with rapid economic growth, full employment low incidence of absolute poverty and upward social mobility.\(^79\)

\(^{77}\) Ibid.

\(^{78}\) Ibid, p. 3.

\(^{79}\) Ibid.
Monetary Policy

In a small open economy, the exchange rate and interest are inter-dependent. As such, Singapore chose to target the exchange rate variable rather than the interest rate. Thus monetary policy plays a secondary role in maintaining price stability. It is the confidence in the Singapore dollar and the exchange rate that have allowed interest rates to decline.

Exchange Rate Policy

Singapore has been on a managed float system since June 1973. The exchange rate policy is to achieve a low inflation rate and a strong and stable Singapore dollar. With the lifting of all exchange controls by 1978, the policy response to the large capital inflows occurred through management of the exchange rate, a sound financial system capable of intermediating the capital inflows, and strong fiscal discipline. The Singapore dollar is managed against a trade-weighted basket of currencies of Singapore’s main trading partners. MAS set a target band for the exchange rate. Before the Crisis, MAS allowed an upward appreciation of the Singapore dollar to contain inflationary pressures. Since the Crisis, MAS adopted an easier policy stance and widened the target band for intervention because of the volatility and uncertainty in financial markets. While the Singapore dollar has depreciated by about 15% against the US dollar, it has remained relatively stable against the nominal trade-weighted basket.\textsuperscript{80}

Open Capital Account and Currency Internationalization

The crisis has highlighted the imprudence of capital account liberalisation without strengthening the domestic financial sector and putting in place an adequate prudential supervisory and regulatory framework. For Singapore, financial

\textsuperscript{80} Ibid.
liberalisation has been progressive since the early 1970s, marked by decontrol of exchange rates and interests rates. With an open capital account, direct control of capital flows has been replaced by close supervision and regulation of financial institutions. In the absence of capital and exchange controls, funds can move freely into and out of Singapore, whether in Singapore dollars or foreign currencies. Various policies were put in place to insulate the domestic economy from the financial centre’s offshore activities and prevent the internationalization of the Singapore dollar and its potential establishing effect. The separation of Asian Currency Units (ACUs) and domestic banking units (DBUs) enables official monitoring of the use of ACU funds, especially the extent to which they are lent to domestic operations. ACU activities are confined to non-Singapore, dollar transactions. By 1997, ACU assets, denominated largely in US dollars, stood at US $ 479 billion, much larger than the domestic banking system. Lending to non-residents in Singapore dollars is restricted, to pre-empt de-stabilizing currency speculation. MAS requires approval for loans exceeding S $ 5 million to non-residents or to residents where the Singapore dollar is to be sued outside Singapore.

**Sound Banking System**

The crisis has highlighted financial sector weaknesses in several East Asian economies. In Singapore, banks had been generally prudent in their lending practices. MAS have been noted for its strict prudential regulations and supervision to maintain a sound domestic banking and financial sector, which helped contain non-performing loans (NPLs). Before the crisis, NPLs were 3% of loans, during the NPLs rose only to 12% most of which was on account of lending to the region. Singapore banks are required to have capital adequacy ratios (CAR) that well exceed the BIS standard. MAS requires fortnightly reports on capital funds of foreign banks and inter-bank
indebtedness with banks outside Singapore and monthly reports on loans and advances to bank directors. Loan regulations restrict credit to any individual or group of individuals to not more than 25% of a bank's capital. Equity investments of banks are also restricted. MAS approval is required for the appointment of bank directors and senior executives.\textsuperscript{81}

**Political Governance and Rule of Law**

The crisis has highlighted governance, or lack of it, as a major contributory factor or at least as an aggravating factor. The lack of good governance is manifested in corruption, cronyism and nepotism in some of the crisis-countries. In contrast, good governance has helped Singapore escape the worst ravages of the crisis. The competence, integrity and probity of the Singapore political leadership and bureaucracy are well known, helping to transform Singapore from a stagnating entrecote economy of the early 1960s into showcase of economic development, and brought social cohesion into the multi-ethnic and multi-religious society. Singapore's success in combating political and bureaucratic corruption and nepotism may be attributed to several factors. The moral code of the PAO political leadership and their determination to stem out corruption in public service, severe penalties for corrupt practices; reduced discretionary power of the public service and it's ability to "dispense favours" in an economic system characterized by openness and transparency, minimal restrictions and regulations, and efficiency in service delivery. The best and ablest are attracted into the public service through a meritocratic reward system of attractive salaries and benefits and promotion based on performance.

\textsuperscript{81} Ibid.
Policy Response-Cost Cutting Measures

At the outset of the crisis, so as to maintain investor confidence and strong country credit ratings, the Singapore government reiterated that it would continue to rely on market forces, maintain free capital flows and foreign investments, and remain connected with the global economy. It eschewed capital control and competitive currency devaluation and continued to manage the exchange rate against a trade-weighted basket, albeit with greater flexibility with a widened target band. With the heavy dependence on exports of good and services and the high import leakage of domestic consumption and investment demand, Singapore eschewed Keynesian pump priming to relate the economy. The government did not bail out failed companies. Instead, Singapore's response to the crisis was to focus on cost cutting and tax relief's to reduce operating cost soft business enterprises to help offset the losing competitiveness posed by the massive depreciation of regional currencies and so to save jobs, as well as to lower the reliving costs of individuals and households in the face of falling incomes and job retrenchments. Measures in the form of rebates in taxes and government charges across the board, and reduced employers monthly contributions to employees retirement funds, amounted to 7% of GDP.\textsuperscript{82}

Three "relief packages" were announced in 1998. Initially, the February 1998 government budget contained minimal relief measures as the government did not anticipate major fallout from the regional crisis. As the economic downturn worsened, $2 billion of budget package of cost-cutting measures targeted at job maintenance was announced in November.\textsuperscript{83} A major feature of these cost cutting measures was the target cut in wages and benefits, involving halving of 20% compulsory Central...

\textsuperscript{82} Ibid., p. 4.
Provident Fund (CPF) contributions by employers as well as 5-8% wage cut recommended by the tripartite National Wages council; together these amounted to a 15% reduction in the earnings of workers and wage costs of businesses. Other elements of the cost-cutting package included lower tariffs and user charges of government agencies and tax rebates for businesses and individuals. The various cost cutting measures were estimated to reduce business costs by about 15%.  

Policy Response Banking Sector Reforms

While Singapore's stringent prudential supervisory and regulatory framework helped shield its financial sector from the full burnt of the Asian Crisis, there had been growing pre-crisis concerns that protection of local banks and stockbrokers from foreign competition, and over-regulation had shifted the development of the financial centre. Singapore would need a radical change in approach. The main thrusts of financial sector reforms are to create a more conducive regulatory environment, and for MAS to play a more pro-active role in financial sector development.

A five year liberalisation programme for the domestic banking sector was launched in May 1999. Its aim was to move towards a more open and competitive environment so as to spur the development of local banks to strengthen the banking system provide Singaporeans with quality banking services, and enhance Singapore's position as an international financial centre. The government warned local banks that they will be progressively marginalized if no radical change is undertaken.

Unlike the open policy pursued for the manufacturing sector, the Singapore government has protected local banks, especially in retail banking, to enable them to expand and contribute to the resilience and stability of Singapore's financial system. As in other Asian countries, the local banks started as family banks. Although they

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84 Ibid.
85 Ibid.
have become publicly listed companies, they are still largely run by their controlling shareholders. Fortunately, strict prudential supervision by MAS has enabled them to grow into soundly managed and well capitalized institutions by Asian standards. But the local banks have not measured up to international standards of size, expertise, range and quality of service, as well as shareholders' returns. Therefore in 1999 the move was made to open up the Singapore market to foreign competition, in an effort to spur efficiency and innovation among the local banks. To prevent the liberalisation from weakening these banks and destabilizing the financial system, the big bang approach was eschewed and a phased liberalisation was put in place. The liberalisation programme has 3 elements:

First, MAS implements a five year programme\(^{86}\) to liberalize access by foreign banks to Singapore's domestic market. A new category of full banking license known as Qualifying Full Banks (QFBs) has been introduced and MAS will issue up to QBFs over the 1999-2001 period,\(^{87}\) incumbent foreign full banks not awarded QFBs will retain their existing privileges. MAS will also increase the number of restricted banks, and give offshore banks greater flexibility in Singapore Dollar wholesale business.\(^{88}\)

Second, to survive in the new liberalized environment, local banks have to increase emphasis on efficiency, quality of service and shareholder returns. Most importantly, they must strengthen corporate governance, attract leadership talent endowed with the necessary autonomy to make professional management decisions. MAS requires all local banks to appoint Nominating Committees within their board to ensure the appointment of the most competent individuals to their boards and key

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\(^{86}\) MAS Report, Basic Economic Indicators, Singapore, Various Issues.  
\(^{87}\) Gavin Peebles, and Peter Wilson, op cit, pp. 45-136.  
\(^{88}\) Ibid.
posts; the majority of board members must be Singapore citizens or permanent residents and comprises mainly independent directors.\textsuperscript{89}

Third, MAS lifted the 40\% limit on foreign investor's total shareholding in local banks. It viewed that the requirement for nominating committees and for board members to comprise a majority of Singapore citizens and permanent residents are adequate to ensure national control.\textsuperscript{90}

\textsuperscript{89} Ibid., pp. 90
\textsuperscript{90} Ibid., pp. also see
Figure 1: Redistribution of Fishhook manufacturing in the JSR Triangle.
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Source: Estimated from UN; World Investment Report, 1996 and 2000 issues.
Table 7: Foreign Direct Investment in ASEAN Countries and Region: Intflow
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Source: Estimated from UN; World Investment Report, 1996 and 2000 issues.
Table-8: Trend if India’s Approved FDI Inflows by Countries
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<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.20</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>ASEAN-6</td>
<td>214.46</td>
<td>828.39</td>
<td>630.20</td>
<td>220.60</td>
<td>75.71</td>
<td>103.60</td>
</tr>
<tr>
<td>Total FDI in India  Share of ASEAN-6</td>
<td>10510.85</td>
<td>15302.86</td>
<td>7800.89</td>
<td>6753.94</td>
<td>8613.83</td>
<td>6249.00</td>
</tr>
<tr>
<td>(percent)</td>
<td>2.04</td>
<td>5.41</td>
<td>8.08</td>
<td>3.27</td>
<td>0.88</td>
<td>1.66</td>
</tr>
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</table>

### Table 5: FDI in Singapore by Source Country and Year during 1995-2000

<table>
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<tr>
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<tbody>
<tr>
<td>ASEAN</td>
<td>503.2</td>
<td>332.9</td>
<td>2131.3</td>
<td>136.5</td>
<td>283.7</td>
<td>157.8</td>
<td>3545.5</td>
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<tr>
<td>Asian NIEs</td>
<td>224.0</td>
<td>505.8</td>
<td>589.3</td>
<td>994.9</td>
<td>417.7</td>
<td>594.2</td>
<td>3325.9</td>
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<tr>
<td>South Korea</td>
<td>-35.4</td>
<td>361.9</td>
<td>191.2</td>
<td>150.6</td>
<td>94.8</td>
<td>147.0</td>
<td>910.1</td>
</tr>
<tr>
<td>China</td>
<td>73.5</td>
<td>80.7</td>
<td>-60.5</td>
<td>160.8</td>
<td>18.6</td>
<td>22.5</td>
<td>295.6</td>
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<tr>
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<td>-20.5</td>
<td>21.6</td>
<td>19.3</td>
<td>18.9</td>
<td>10.9</td>
<td>5.0</td>
<td>55.3</td>
</tr>
<tr>
<td>Japan</td>
<td>899.1</td>
<td>1930.9</td>
<td>1710.6</td>
<td>499.6</td>
<td>604.9</td>
<td>429.3</td>
<td>6074.4</td>
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<tr>
<td>EU-15</td>
<td>1487.0</td>
<td>1978.0</td>
<td>213.4</td>
<td>1270.5</td>
<td>2864.8</td>
<td>1916.0</td>
<td>9729.6</td>
</tr>
<tr>
<td>Switzerland</td>
<td>991.2</td>
<td>1207.1</td>
<td>1391.9</td>
<td>35.2</td>
<td>108.7</td>
<td>222.5</td>
<td>3956.5</td>
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<tr>
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<td>115.9</td>
<td>110.8</td>
<td>171.1</td>
<td>66.1</td>
<td>429.5</td>
<td>3.5</td>
<td>896.9</td>
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<tr>
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<td>1441.7</td>
<td>1440.4</td>
<td>1633.2</td>
<td>973.0</td>
<td>471.9</td>
<td>1380.2</td>
<td>7340.6</td>
</tr>
<tr>
<td>Australia</td>
<td>-26.1</td>
<td>596.6</td>
<td>56.8</td>
<td>105.2</td>
<td>74.0</td>
<td>119.0</td>
<td>925.5</td>
</tr>
</tbody>
</table>

Source: ASEAN Statistical Year Book 2001, ASEAN Secretariat: ASEAN FDI Database (BOP Basis)

Notes:
1. Negative Sign Means disinvestment.
2. Singapore’s figures are based on gross inflow of FDI in Singapore and exclude repatriation of dividends, royalties and loans.