CHAPTER-IV

CROSS BORDER TERRORISM AND

FUTURE PROSPECTS AFTER CHINA SIGNING THE WTO
"Transnational terrorism poses a serious and prolonged threat to Singapore's national security. Because of the strong stand we have taken against terrorism in Singapore and in the region, and because of his part we have played in the global effort against terrorism, Singapore will remain a prime target for terrorists. Therefore, we have to prepare for a long drawn campaign against terrorism, and we need to learn to live with the seal prospect that a terrorist attack could occur in this country".1

The religio-political situation in Singapore is dramatically opposite of Malaysia. While in Malaysia, Muslim Malays are a political dominant majority in a multi-ethnic state but officially 'Islamic' state. In Singapore Muslims are minority within an officially multi-ethnic state in which ethnic Chinese are predominant. In Singapore, the authorities have sought to blur ethnic religious and religion distinction. Singapore's founding Prime Minister Lee Kuan Yew, explicitly rejected state discrimination in favour of ethnic Chinese. The administration has made efforts to remove the impediments and disabilities that in the past relegated the local Malays periphery to the socio-economic scale. Over the past two decades, this has resulted in Singapore in significant improvements of Singapore's Malays in the level, income and standard of living.

Following the seminal events of September 11, 2001, SE Asia, especially Malay Archipelago, has come into focus as the 'second front' in the war against international terrorism. Subsequent events have brought home the fact that the events of 9/11 had great resource within the region. The existence of Al-Qaida affiliated network in Southeast Asia was dramatically highlighted by the arrest in Singapore since January, 2002 of 31 members of the extremist group Jemaah Islamiyah (JI)

The radical Islamic group planned to attack American military personnel at a local subway station, US naval vessels at Singapore's 'Changi Naval Base,' the US commercial interests, western and Israeli embassies and Singaporean military facilities.²

It is thus clear that apart from New York and Washington attacks on 9/11, 2001, Singapore was also a prime Al-Qaida target. Had the planned attacks succeeded, they would have resulted in many casualties and could have immense political psychological and economic impact on Singapore that would reverberate throughout the region and elsewhere. It would have been the largest terrorist attack after 9/11, 2001. Singapore is a prime Al-Qaeda target as it is seen as a major US ally, since it hosts a naval logistics facility that has been conical to US naval and military operations in Indian Ocean, the Persian Gulf and Afghanistan. As a consequence, Singapore's response to war on international terrorism has been the most vigorous of Southeast Asian States, and as an ally closely identified with US, it has come to share many of its assumptions and perspectives on the issue of radical Islam.³

The mindful of the impact on communal relations in Singapore, given that 15 percent of the population are Malay Muslims, some of whom have already been caught up in the world under Islamic revival, Deputy PM Lee Hsian Loong (now PM) commented on 1 October, 2001 that:

"We are bound to be tugged in different directions and we have to make an extra effort to stay together," Again, aware of the presence of militant muslims in the region, substantial US commercial interests in Singapore and the Use of Changi Naval Base by US warships, we also observed that 'life has to go on... we take

precautions, we make sure that our airports is secure', We make sure that our installations are secure... We make sure that we are a bit more alert".4

Despite such concerned, Singapore government came out strongly in support of the US in its declaration of war against international terrorism. Singapore stands with the United States and the international community in this struggle. As Kishore Mahbubani, Singapore's ambassador to the UN, stated on 1 October, 2001:

"Americans are not alone in this fight against terrorism. Singapore stands with the US and the international community in this struggle. This is a fight between people who stand for civilized society, and those out to destroy it". He further added that "the opportunity before us today is to channel the global outrage of the following events of 11 September into a strong global commitment and action to eradicate the scourge of terrorism... divisions among us will hand victory to the terrorists".5

A number of Singaporeans leaders also publicly affirmed Singapore's backing for the US effort to hunt down the terrorist responsible for the 9/11 atrocities in New York and Washington.6 On 23 September 2001, at a huge memorial organised at Singapore's national stadium attended by some 15,000 people, PM Goh Chok Tong affirmed that "Singapore would stand with the US in the fight against terrorism, even though it has to manage both regional and domestic sensitivities in doing so".7

But subsequent events brought home the fact that the international war against terrorism, indeed the very events of 11 September, had great resonance within the region. The existence of an Al-Quida affiliated network in Southeast Asia was

4 The Straits Times, 1 October 2001.
7 Ibid.
dramatically highlighted by the arrest in Singapore since January 2002 of 31 members of the extremist Jemaah Islamiah (JI) group, which operates a clandestine network of cells in Malaysia and Indonesia. Some of the JI operatives attended training camps in Afghanistan run by Al-Quida. The smashing of the group stemmed from ongoing investigations into local militant activity and also the recovery of a videotape from an al-Quida house destroyed by US bombing in December 2001. The tape revealed that the group planned to attack American military facilities.\(^8\) Seventeen tonnes of ammonium nitrate was to be procured for these purposes, under the direction of two foreign directing figures, ‘Mike’ and ‘Sammy’.\(^9\) An additional four tonnes was already procured and stored in Malaysia.\(^10\)

It was later uncovered that the JI had also planned similar attack on US embassies in Singapore, Jakarta and Kuala Lumpur, to take place on 4 December 2001.\(^11\) A Singaporean member of Al-Quida was among those detained by US forces and their local allies in Afghanistan in late 2001, following US military action there.\(^12\) Singapore’s Prime Minister Goh Chok Tong acknowledged that ‘quite a few members’ of the JI remained at large as of mid-January, 2002.\(^13\)

Had the planned attacks been successful, they would have caused many American and local casualties, and seriously affected business confidence in Singapore, which is home to several thousand foreign multinational corporations. Worse, they would have demanded communal relations, given the existence of a fairly large Malay Muslim minority in Singapore.

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\(^12\) Straits Times, 8 January, 2002, p. 1.
But the JI is not the only threat to Singapore or the region. Singapore authorities revealed in June 2002 that the Shiite group backed by Iran, the Hizbollah, had recruited Singaporeans to attack on Israeli ships in Singapore. Surveillance of possible target and of the Singapore coast was carried out in 1995 but in the end, the plot failed when the five Singaporeans backed out. In 1998, a Hizbollah cell was disrupted in Singapore and its operatives were arrested in 1999 and 2000 in the Philippines.

The 9/11 event quashed the prospects for any early upturn in the US economy and the outlook seemed black, with the possibility that the situation might not improve before the August 2002 deadline for the general elections. The government moved swiftly to respond to the worsening conditions.

In their statement on 10 October, the finance and trade and industry ministers announced that advance estimates for the third quarter suggested that on a year-on-year basis is real terms. The GDP growth was a negative 5.6 percent. In annualized quarter-on-quarter terms, the economy fell by 9.9 percent. Manufacturing output fell 21 percent in August is the sharpest fall since the 1985 recession. Electronics output declined sharply by a record 37 percent in August, compared with 33 percent in July. Over 5000 workers had been laid off in the second quarter with news of finance and airlines companies making further cutbacks. The trade and industry ministry downgraded its growth forecast for the year to 3 percent, "a totally different year" from when it started out with its forecast for 5-7 percent growth. Grim estimates were for 20,000 jobs courses with not many new ones created for the year. A major off budget stimulus packages was in the pipeline.

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15 Straits Times, 11 October, 2001, p. 5.
Indeed, later in the week, on 12 October, the Deputy PM, Lee Hsien Loong unveiled the government's second off-budget package of $11.3 billion convening tax rebates, reduction in duties and government financing schemes, and a tightening of criteria for admission of foreign workers into Singapore in order to offer the local workers, especially new graduates, some "protection". It offered help for the lower income and unemployed through a new economic downturn relief scheme which would disburse, through citizens' consultative committees, $200 per month for three months to those who faced hardship. The launch of the New Singapore shares scheme was announced. But Lee added that Singapore "could not spend its way to propriety". Instead the government and people had to "remake Singapore and stay relevant in a changed world".16

This package exceeded the $10.5 billion introduced during 1997-98 Asian Financial crisis. It was reported that for two weeks preceding the announcement of the 2001 package, the government feedback unit held a series of dialogue sessions and a poll was taken to get a sense of the sentiment on the ground. Of the 700 people polled it, was reported that 91 percent were confident that the government would steer them through the crisis, in spite of 55 percent feeling that the prospects of getting a new job or starting a new business were bad.17

The attack in the US was a test of Singapore multiracialism and again, the spotlight was on the Malay-Muslim community. It was also a test of the consonance that the community found in the government's national and international response to the incident.

The government's stance was to condemn the 9/11 attack as acts of terror and violations of the international regime of law and as a threat to open societies and cities

17 Ibid.
such as Singapore. The government stood strongly with the US in the anti-terrorism war but made it clear this was for Singapore’s own national interests.

Muslim leaders in Singapore publicly condemned the attacks and participated fully in a multi-faith memorial services for the victims. It was said that there were no reports of hate crimes against Muslims in Singapore but only minor incidents or appropriate behaviour “especially in schools”. Guidelines were issued to schools to help students view the events “in perspective”. Among the points was that the Osama Bin Laden, the alleged mastermind behind the attacks, was neither to be glorified nor verified as this would pit one group against another, but that attack on America had to be condemned and were unjustified. Non-Muslims were argued not to put Muslims on the defensive about the attacks, nor the latter to be too sensitive and react to imagined slight. 18

On the ground, it is understood that there were several strands in the thinking of Muslim’s reaction. First that the terror attacks were the actions of a Muslim minority that had a pathological hatred for Americans and that in their violence they contravened all that the Islamic message of peace and world harmony stood for.

Second, that it is nevertheless possible for Muslims to feel ambivalent about supporting the US in any counter-attack. It was important to understand what motivated the attacks and the people that perpetrated or supported it a deep antipathy for a world hegemony that had little moral authority for its leadership.

Third, Singapore should be wrong about aligning itself too closely with the US, and giving it a "blank cheque" to inflict further violence when what were required were long-term political solutions.

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18 Ibid.
As it was, the reason why Singapore hosted facilities for the US navy, even if merely for logistics and maintenance support were little understood and a source of discomfort at home and among other Muslim constituent in the neighbouring region. Finally, they hope that the event would not exacerbate the level of distrust of the Muslim community in Singapore.  

The more intemperate and disparaging views of the government were being circulated via Internet and private e-mail networks. A website www.fetha.com run by the same group, carried views of its leadership that Osama Bin Laden was a “a practising Muslim” whose “family follows Islam as best they can”, “better than some of the supposed Malay leaders in Singapura”.  

It is acknowledged by the PAP that its electoral support in the past was weak within the strategic constituency. The 2001 elections, however, suggests that the party must have received substantial support from Malay-Muslim community for it to have achieved the margins it did on Election Day.  

The PAP a very attractive and well-selected group of Malay Muslim candidates in its renewal of the ranks. Among them was Ms. Halima Yacob, who has been generally recognized in the national community as a woman of substance, a seasoned union leader and someone who took her Muslim religious convictions seriously and donned a tudung. It was a surprising but effective gesture for the party to admit her in spite of the party and governments preference for a secular bearing among those associated with it. Another candidate Ahmad Khalis, a lawyer was also profiled by his religious credentials as the madarash co-coordinator of the Muhammadiyah Islamic Association. Two other candidates were academicians with

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immense contributions to other grassroots activities and they would appear good role models for the modern professional Malay with a heart.

The Malay-Muslims would have benefited significantly from the government's "New Singapore Shares" scheme. This was a $2.7 billion scheme that gave the less well-off Singaporeans more shares than the better off, that would pay a guaranteed non-taxable dividend of 3 percent per annum with additional dividend pegged to the economic growth rate five years from March, 2002. The most immediate attraction was that the 50 percent of the shares could be turned in from ready cash before 1 November, 2002. Each share was worth of S$1 million and the earliest date for doing so was 2 November 2001, which in event was the eve of Election Day. The lowest income earners contributing to the CPF, receiving less than S$1,200 per month, were given the largest allotment of 1400 shares, those in the S$4000 and above bracket, 200 shares. The non-employed CPF members living in 1-3 room public housing flat were entitled to 1400 shares. With the Malays generally being in the lower socio-economic classes, and more likely to have been retrenched in the economic recession at the time, and with larger family sizes, it was possible that many would turn in their shares for ready cash and find it a useful bounty, although there are no official figures to verify this.21

In early January 2002, the government revealed that fifteen people detained, between 9 and 24 December, under the Internal Security Act, for activities that could have led to terrorist attacks. Two were later released but the thirteen who remained under detention were identified as members of a clandestine organisation called Jemaah Islamiah (JI). Authorities revealed details showing that the JI operatives had

made plans for terrorist attacks against American military and civilian targets in Singapore.

There are clear operational links between Al-Qaida and the JI. The Singapore investigation showed that when the JI planned the bombing of American targets in Singapore, the initiative came from Al-Qaida. According to Singapore White Paper, an Al-Qaida operative made contact with a regional syurah (council) member in Kuala Lumpur, Malaysia, Faiz Abu Bakar Bafana.22

Because of the menace of terrorism, Southeast Asia has been considered as a the ‘second front’ in the war against international terrorism. There has been growing regionalization that multi-lateral security co-operation is required in order to manage emerging security threat better. The 11 September incident and the subsequent war on terror had galvanized militant Islamic terrorism, which compelled the south east Asian nations to step up urban terrorist campaign in the Philippines, Malaysia and other parts of the region, when American commercial and military interests are the main targets. The fear that this state of affairs would spread terror and contribute to loss of confidence in security, with negatives impact for regional economy, was realized in the deadly Bali attack of 12 October 2002.23

Singapore, in particular, is very much aware of the need for regional and international co-operation, given the transnational character of modern terrorism. This was made clear by Singapore’s Deputy Prime Minister and Defence Minister, Tony Tan:

"International cooperation is vital because the terrorist networks and their operations area everywhere...no country is immune, and no country, on its own, can

destroy all the tentacles of the global organization that is the terrorist threats today."24

In recent months, therefore, a number of initiatives had been taken to improve multilateral security and intelligence co-operation, with Singapore at the forefront. Prior to 11 September, the infrastructure in Southeast Asia for Transnational regional co-operation in countering terrorism was rather weak but the events of 11 September and the growing dimension of international terrorism has meant that enhancing regional co-operation has become an urgent imperative.25

The ASEAN states condemned the 11 September attacks and supported the global war against terrorism, as expressed through UN Security Council Resolutions 1368 and 1373. ASEAN issued a joint statement condemning terrorism and agreed to co-operate in combating it following the events of 11 September.26 It agreed on common measures in an action plan against terrorism such as strengthening national mechanisms, enhancing intelligence exchange and supporting the UN in combating it.27 In January 2002 ASSEAN intelligence chiefs discussed the threats to the region posed by militant Islamic groups.28

ASEAN members have become central players in the fight against international terrorism. Even before the 11 September 2001 attacks, a number of Muslim militants were arrested in the region. With the September 11 attacks and the ousting of the Taliban regime in Afghanistan, more information came to light and further arrests were made in Singapore and Malaysia. These arrests brought the number of people detained in the two countries to around 100 alleged members of

what the governments claim to be a major regional terrorist network. In the Philippines, military operations were undertaken with US help, to deal with the internationally linked Abu Sayyaf group based largely in southern Mindanao. In Indonesia, pressure was put on the government to arrest and interrogate suspected leaders of militant Islamic organizations, however, the government was reluctant to move fearing a backlash from the country’s influential Muslim organizations.29

In response to the pressure on the region to undertake a coordinated campaign against regional terrorist organizations, some of which have committed themselves to creating a Southeast Asian Islamic state, Indonesia, Malaysia and the Philippines signed an anti-terrorism agreement to swap intelligence and launch joint police operations. In addition, ASEAN signed three anti-terrorism agreements with the USA, Japan and China at the ASEAN Summit meeting in Brunei at the end of July 2002. The most important agreement was with the USA as Southeast Asia has been considered by the USA as a major front in their war on terrorism. The framework agreement, was designed ‘to prevent, disrupt and combat international terrorism’. The USA pledged to offer technical assistance to the local security forces, but did not insist on deployment of US troops in the region.30

Hamnbali on August 2003 as well as two other Malaysians of a JI cell etc. The Malaysian police captured two other members of Hambali’s cell. The cell had been set up by Hambali at the behest of now-detained Al Qaida operational commander, Khalild Sheikh Mohammad in order to hijack an aircraft.31

Muslim leaders in Singapore stood behind the government crackdown. “We should support efforts to extinguish extremism within our midst and protect the interests of the vast majority of Muslims and also of our fellow Singaporeans” said Yaacob Ibrahim, a Muslim cabinet minister, told at Hari Raya holiday tea party organized in a local hotel after the end of the month long Ramzan fast.32

Singapore condemned the 11 September attack as an attack on the ‘civilized world’ and supported retaliation against the perpetrators. Singapore’s leaders extended their support for the US on the following words:

“We have to stand up for our principles. It’s not an attack just on the US. Its 7,000-odd casualties and more than 2,000 were from 80 different countries. So it’s an attack on all civilized, open countries in the world. Singapore is also vulnerable. We are a financial centre, we are an economic hub, we are an open city. It happened in the US. We can take precautions but we can never say it will not happen in Singapore. And indeed, such things have happened in Singapore.”33

Singapore’s Deputy Prime Minister, Lee Hsien Loong said ‘we have to participate in the international efforts against terrorism because it is our responsibility as an international citizen. This is something all countries have to do together.’

Singapore made clear its stance on this issues when its Foreign Ministers, Professor S.

Jayakumar, delivered a speech during the Ministerial Meeting on Counter-Terrorism at the United Nations Security Council:

*Countering the threat of terrorism is clearly and rightly now a central global priority. The perpetrators of these horrendous crimes just not go unpunished. They must be brought to justice to deter others from contemplating similar horrific crimes.*

Lee Hsien Loong further said:

"........*the US has to form a broad coalition, so that it’s not America against the Taliban-or worse, America against the Muslim countries, but many nations, non-muslim and muslim, in an international coalition against terrorism. If they can do that, then our position in Singapore is easier. But still our problem won’t completely disappear........*...these are trends that we have to be aware of, and try to guard against in Singapore."\(^{35}\)

As Singapore is very closely intertwined with the global strategic, political and economic grid, there are few sensitive countries who intended to shift their foreign and defence policies international paradigm as does Singapore. Integrating closely into the world economy and viewing it as a ‘global city’ has been an important plank of Singapore’s security and growth. Its strategic outlook has always been shaped by the balance of power in the international system. When the World Trade Centre and the Pentagon were attacked on 11 September 2001 and the United States responded with a new global policy there was an immediate impact on Singapore’s strategic outlook, all the more when this took place against a backdrop of an economic slow-down world wide.\(^{36}\)

There is evidence that regional counter-terrorist co-operation has improved. Previously sympathetic to the Moros, the Malaysian government deported renegade


\(^{35}\) Ibid.

\(^{36}\) Ibid, p. 111.
Moro leader, Nur Misauri back to the Philippines in January 2002 to face charges of armed rebellion. Multilateral cooperation in intelligence sharing, establishing uniform laws and counter-terrorism were stepped up under an action plan adopted by the ASEAN states in May 2002. The projects adopted under the action plan were training on anti-terror intelligence gathering and psychological warfare to be provided by Malaysia, a workshop on combating international terrorism to be hosted by Indonesia, and logistical support for training in bomb detection, airport and document security by Singapore. Singapore’s proposal that each member should form a special anti-terrorist team to act as the contact point on such matters was also accepted.

In July 2002, the US and ASEAN signed a joint declaration to provide for ‘greater cooperation in intelligence exchange and other joint actions to deal with international terrorism’. While the ASEAN made this commitment to fight terrorism describing that terrorism cannot be defeated without addressing the root causes, it made clear that it was doing so for its own security, not on behalf of the US.

Regional security co-operation has encountered obstacles from some ASEAN states like Myanmar and Vietnam, who have been reluctant to compromise on the principle of non-interference in internal affairs, fearing that this would allow foreign intervention into the internal affairs of ASEAN member states. Indeed, the failure of

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in dealing with a range of recent economic and security issues was a blow to regional co-operation against terrorism.

As far as India is concerned, a Joint Working Group was established after the visit of former Deputy Prime Minister, L.K. Advani to Singapore in March 2003 for discussing international terrorism and organised crime. A Treaty on Mutual Legal Assistance in Civil and Commercial Cases was signed in New Delhi in June 2005. Discussions on an Extradition Treaty are still underway between the two governments.42

Rise in Bilateral Tensions

Despite the above mentioned efforts, regional co-operation in countering terrorism has not been well co-ordinated due to conflicting national interests and mutual distrust. Whilst Singapore, Malaysia and the Philippines are actively pushing for a regional security mechanism to deal with the latest forms of terrorism, there is palpable resistance from Indonesia, which is having world’s largest Muslim population. Its reluctance to crack down on militant Muslims has to do with domestic political considerations, given the dependence of President Megawati on coalition support from Muslim parties, and the efforts by Muslim parties themselves to use Islam to bolster their positions. Megawati feared that tough actions such as the preventive detentions carried out in Malaysia and Singapore could imperil the her government.

Indonesian government resent Singapore’s economic success and believe that Singapore had been too cosy with Suharto-era Chinese conglomerates, and that Singapore lacked any understanding of Indonesia’s problems. Singapore-Indonesia relations have been affected by Singapore’s allegations that Indonesia is not doing

enough to stem militant Islam, specifically in arresting the leaders of the JI.\textsuperscript{43} In particular, Senior Minister, Lee Kuan Yew’s public statement referring to the likely existence of Al-Qaida-connected terrorist networks in Indonesia sparked anger and indignation. Part of the problem has to do with Indonesian perceptions of Singapore.\textsuperscript{44}

Indonesia countered that there is insufficient evidence linking Abu Bakr Bashir with the alleged plots to attack vital installations in Singapore. Indeed, a meeting of academics, politicians and officials from both the countries in July 2002 revealed deep differences over this and other issues. For instance, while Singapore is unhappy with Indonesia for harbouring terrorists, Indonesia in turn accuses Singapore of harbouring economic offenders wanted in Indonesia on charges of corruption.\textsuperscript{45}

Malaysia-Singapore relations also continue to be stymied by a range of bilateral issues which stem from their historical relationship following Singapore’s separation from Malaysia in 1965. Mutual suspicion and a resultant mutual deterrent relationship were barriers to enhance security co-operation before 11 September 2001 and continue to be so. It must be noted here that security co-operation between the police forces of the two countries and internal security department have been excellent, which is a legacy of combating communism in the past.\textsuperscript{46}

\textbf{Limitations to Singapore’s Counter-Terrorism Strategy}

It is clear from the above mentioned facts is that, the Malay Archipelago, as the ‘second front’ in the war against international terrorism, has now achieved a prominent position in the post-11 September era. In the wake of their ouster from Afghanistan following US military action in late 2001, there are genuine fears in

\textsuperscript{43} Straits Times, editorial Calling on the Indonesian Government to ‘Rein in Militants’. Straits Times, 1 October 2001.
\textsuperscript{46} Andrew Tan, (December 2002), Ibid, op cit., p. 10.
Washington and around the region that the militant terrorists will, find safe heavens in the vast Malay Archipelago, especially in a politically unstable Indonesia, which is right next door to Singapore.  

There is growing recognition that the fundamental causes of terrorism stem from political, economic and social conditions in both Middle East and also in the south east region. But the problem is that such fundamental causes, be they corrupt and despotic regimes in the Middle East, the plight of Muslims in many parts of the world, the Israeli-Palestinian conflict, or, closer to home the economic malaise afflicting Indonesia, and the grievances of the Moro Muslims and Acehnese, are not easy to be sorted out.

There is also growing concern among terrorism analysts that Osama bin Laden may have pioneered a new form of ‘post-modern’ terrorist organization which would lead to the emergence of much more lethal forms of terrorism.

In the context of Singapore’s close identification with the US and the West on security, political and economic issues, and its undoubted prominence on the Al Qaida target list, the Singapore leadership has recognized this Singapore will face a continuing, even increasingly menacing, threat from international terrorism. The leadership in Singapore believes ‘the war against terrorism will be long and arduous...terrorists, the existence of weapons of mass destruction, and the continuing Israeli-Palestinian conflict, will be threats for many years’.

Singapore is also aware that it has to improve regional and international counter-terrorism co-operation in order to deal with the new form of terrorism. But events in the Middle East and around the region, particularly in Indonesia and

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47 Ibid.
48 Ibid.
49 Andrew Tan, Ibid, op cit., p. 16.
50 Speech by Senior Minister Lee Kuan Yew at the IISS-Asia Security Conference, Singapore, Reported in Straits Times, 1 June 2002.
Malaysia, will be beyond its control. The best it can hope for is to try to assist moderates in the neighbouring countries in checking of militant Islam.  

Impact of 11 September terrorist Attacks

When the New York Stock Exchange reopened on 17 September 2001, after the terrorist attacks of 11 September, the Dow Jones Industrial Average plunged 7.1 percent to 8,920.7 points. All major equity and financial markets fell sharply in the days after the catastrophic event. In Japan, the Nikkei 225 fell 6.6 percent which was on 12 September 2001 at 9,610 points a seventeen-year low. Regional stock market indices also dropped significantly on the next trading days after 11 September.  

TABLE-1

Performance of ASEAN-5 Stock Market Indices after 11 September 2001

<table>
<thead>
<tr>
<th>Market Index</th>
<th>Percent Change, Next Trading Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangkok SET</td>
<td>-6.7</td>
</tr>
<tr>
<td>Jakarta Composite</td>
<td>-3.7</td>
</tr>
<tr>
<td>KLSE Composite</td>
<td>-3.8</td>
</tr>
<tr>
<td>Manila PSE Composite</td>
<td>-4.1</td>
</tr>
<tr>
<td>Singapore ST 55</td>
<td>-7.4</td>
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</tbody>
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Source: CEIE Data

At this stage, it may be too early to tell what has been the impact of the 11 September attacks on ASEAN economies as the war on terrorism is still going on and

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51 Andrew Tan, (December 2002), Ibid, op cit., p. 16.
its implications are still unfolding. Some possible economic effects of 9/11 incident on the region are as in the following:53

- The 11 September attacks disrupted both economic and financial activities in the United States and other major economies. With no engine of growth in the world economy, the regional economic slowdown may continue.

- The nature of the terrorist attacks in the United States will deter many from flying. Consequently, not only will the airline industry be affected, but also tourism and other service industries will be affected. Much needed foreign exchange revenue from tourism will most likely fall over the short term.

- The sizeable Muslim populations and mounting concerns about Islamic militancy in the region raise the risk premium – making ASEAN a less attractive location for foreign investors (which have become increasingly risk-averse since the 11 September attacks).

- Over the mid and longer term, the attraction of Northeast Asia (particularly China) as a foreign direct investment (FDI) destination may increase further at the expense of Southeast Asia.

**Risks to Regional Recovery**

As the region gradually recovers from the slowdown, the challenge for the ASSEAN countries is to undertake policy measures that will hedge the countries against future external shocks. It is important to take note that while economic recovery will be fragile, several risk factors could easily cause an economic relapse.54

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53 Ibid, p. 36.
54 Ibid, op cit, p. 38.
• Possible future terrorist attacks in the United States could further undermine consumer confidence and business investment, pushing the US economy into a deep recession. Besides, a prolonged campaign against terrorism could continue to disrupt world trade and investment.

• Rising unemployment and slow progress in structural reforms in Japan would weaken domestic demand and keep East Asia's largest economy in chronic recession. Moreover, worsening economic conditions in both the United States and Japan could lead to a global recession in 2002.

• Depreciation of the Japanese yen could cause another regional financial crisis. The Japanese currency has been rapidly weakening against the US dollar since September 2001. This may prompt China to devalue the Yen, triggering a "beggar like the neighbour" devaluation of regional currencies.

• Slow progress in financial and corporate reforms in the region could jeopardize an early economic recovery. For example, rising NPLs, if left unchecked, could trigger another systemic banking crisis.

• Inability of ASEAN's largest and most populous country, Indonesia, to address its economic and political problems could have tremendous negative implications for the region.

• Growing concerns of Islamic militancy and its reverberations across Southeast Asia may deter foreign investments in the region as a whole. The recent arrest of Al-Qaida-linked militants in Malaysia and Singapore are particularly a cause of concern.
Managing the Recession

The second critical challenge in 2001 came from the economy. The year 2000 ended on a high note, with fourth quarter estimates suggesting that Singapore had enjoyed 10.5 percent growth. Later, the overall figure for Gross Domestic Product (at 1990 market prices) confirmed that the economy managed a growth rate of 9.9 percent in 2000.\(^5\)

Outlook for 2001 was, however, described as fair with some uncertainties the government said that while anticipating 5 to percent growth in GDP, two important factors would shape actual performance. First was the negative perception of Southeast Asia’s general business prospects because of the region’s economic and political problems. This was in contrast to the perception of Northeast Asia, especially China as an attractive, competitive production base and burgeoning market place. Investments were being attracted northwards. Second was a global slowdown in the electronics industry especially lower demand from a slowing US economy. Weak sales and a massive inventory and capacity build-up meant a sharp moderation in demand for new production. Prices of semiconductors were also depressed. For a country much dependent on electronics and semiconductor sales, this threatened to stave 2.3 percent off Singapore’s predicted GDP growth rate. Actual performance hinged on whether the US economy would achieve a “hard” or “soft” landing.\(^6\)

The budget announced in February 2001 was billed as a generous, “pro-business” with a 1 percent point cut in corporate tax rate to 24.5 percent, even below the government’s “long-term target rate”. A new corporate tax regime was

\(^6\) Ibid.
announced, which increased the tax exemption to three-quarters of the first $10,000 of chargeable income and to half of the next $90,000, and the remaining chargeable income taxed at 24.5 percent. It raised the tax exemption limit for Central Provident Fund (CPF) contributions by these self-employed, including entrepreneurs who were both employer and employee from 16 percent to 36 percent of earnings up to a maximum income of $72,000. These were a boon especially for small companies and entrepreneurs in the New Economy. Representatives of the small and medium-sized business sector nailed it as “the best budget for business for many years”. The government’s considerations were not only to prepare for an economic slowdown and to keep the tax rates competitive vis-à-vis other developed economies. It was also sending the signal that it was prepared to be helpful to local business in particular.

In November 1999, China and the US signed the historic agreement under which China would be permitted to join the WTO. The US negotiating team was led by Charlene Barshefsky, who was the leader of the US team for negotiating the World Telecoms Agreement in 1997. The Agreement was of great importance for US foreign policy and inspired intense national debate. President Clinton was heavily involved in their campaign to persuade the US people of the benefits for the US that would flow from the Agreement.

The US-China Agreement formed the bedrock of the terms under which China was to be formally admitted to the WTO. This was not only a decision of great importance for China, but also for the whole developing world, and indeed for the development of global capitalism. Through this decision, China was bowing before the extraordinary force of global oligopolistic capitalism. Under the terms of the

58 Gillion Koh and Ooi Giok Ling, Ibid, op. cit. p. 266.
Agreement, China agreed to dismantle almost the entire range of mechanisms that has formed the core of industrial policy in the past two hundred years as a succession of countries has supported the growth of large domestic corporations. China has accepted that there will be enormous changes in its dealings with the global markets. However within the WTO it will be extremely difficult for China to limit access to its domestic market.\textsuperscript{60}

The US-China Agreement, which is the most detailed agreement yet signed by any country on its entry to the WTO, constitutes a massive programme of economic reforms. Nine hundred Chinese laws will need to be changed and/or adapted for China to enter the WTO. The US is providing 'extensive legal and technical assistance' with a view to 'helping China in making its laws comply with the WTO obligations in an effort to ensure that Beijing lives up to its obligations.'\textsuperscript{61} China has been granted only a five year adjustment period before which it must implement the rules of the WTO. Many important changes will have effect from the day that China joins the organization. Most of the significant changes will have been completed within only three years of China's entry. Moreover, there will be strong incentives for multinational business houses to push their participation in the Chinese economy. This has already been widely observed in the shape of the large-scale illegal entry of foreign capital into the Chinese telecoms industry through the 'China-China-foreign' formula.\textsuperscript{62}

After 15 years of arduous negotiations, China became the 143rd member of the World Trade Organization (WTO) on 11 December, 2001. The opening of an

\textsuperscript{60} Ibid, op. cit.
\textsuperscript{61} Financial Times, New Delhi, 2001.
\textsuperscript{62} Peter Nolan, Ibid, op. cit, p.195.
economy as large as China's can be disruptive to some developing countries in the short run, but, in the long run, it would benefit China as well as its trading partners. 63

In the context of China's joining the WTO and with the global economic recession, many ASEAN-based MNCs have started downsizing in response to the fall in global demands. At the same time, they are moving to China to take advantage of low-cost labour and the presence of a huge domestic market unaffected by the global recession. However, Singapore does not respond creatively to the slighting of manufacturing companies to China, which means it could lose it competitive advantage of keeping and encouraging FDI. Thus, the FTAs should help ensure that MNCs continue to maintain their presence in Singapore, using its services as a hub to support labour-intensive operations in China. 64

China's entry into the WTO will dramatically cut import barriers currently imposed on American agricultural products. This agreement locks in and expands access to a market of over one billion people. China's economy is already among the world's largest and over the past 20 years, it has expanded at a phenomenal growth rate of nearly 10 percent per year. During this period, America's total exports to China have grown from negligible levels to about $14 billion a year. Agricultural exports in the fiscal year 2000 were nearly $1.7 billion. 65

The Chinese government, which has been charting out its own internally-directed reform programme for almost two decades, would voluntarily give up its autonomy in charting the complex path of economic reform with its entry into the WTO.

63 See URL: http://www.wto.org
The entry of China into WTO has been a major cause of concern for Singapore. George Yew, Singapore's Minister for Trade and Industry, has urged economic union leaders to continue to nurture a trade relationship with the ASEAN region. His comments were aimed at balancing China's emergence as a global trade leader.

Power after its accession to the WTO, "Southeast Asia is going through a difficult period of transition: EU interest has shifted to China, Korea and Japan. With its entry to the WTO, China is the big story and is attracting a lot of attention". Yeo told EU leaders at the "Europe in Asia" conference in Brussels on June 27th, 2002 "ASEAN competes with China in many markets a prosperous China will mean prosperity in the long term for everyone, but in the short term we see a divergence of investment from SE Asia to China".66

ASEAN business leaders emphasized the region's efforts to become increasingly focused on regional economic cooperation and a growing commitment to trade liberalisation. On the other hand, prohibitions, quantitative restrictions or other measures maintained against imports from China in a manner inconsistent with the WTO. Agreement would be phased out or otherwise dealt with in according to the neutrally agreed terms and timetable specified in an annexure to the Protocol of Accession.

Goods

The inclusion of the negotiations for market access on goods represents a commitment undertaken by China to gradually eliminated trade barriers and expands marked access to good from foreign countries. China has bound all tariffs for imported goods. After implementing all the commitments, China's average bound

66 Ibid. op. cit.
tariff level will decrease to 15 percent for agricultural products. The range is from 0 to 65 percent with the higher rates applied to cereals. For industrial goods, the average bound tariff level will go down to 8.9 percent with a range from 0 to 47 percent with the highest rates applied to the photographic film and automobiles and related products. Some tariffs were eliminated and other reduced by 2004 but in not later than 2010.67

Textiles

China now becomes a party to the agreement on textiles and clothing and is subject to US rights and obligations. As for all WTO members, quotas and textiles ended at 31 December 2004, but there will be a safeguard mechanism until the end of 2008. Permitting WTO member governments in take action to curbing imports in case of market digestions caused by Chinese exports of textile products.

Agriculture

China agreed to limit its subsidies for agricultural production to 8.5 percent of the value of farm output (as per Article 6.4 of the Agricultural Agreement). China also agreed to apply the same limit to subsidies covered by Article 6.2 of the Agriculture Agreement.68

Telecom

Upon China's accession, Foreign Service suppliers will be permitted to establish joint venture enterprises without qualitative restrictions, and provide services in several cities. Foreign investment in the joint ventures shall be not more than 25 percent. Within one year of accession into the areas will be expanded to include services in other cities and foreign investment shall be not more than 35 percent. In

68 Ibid.
2004, foreign investment shall be not more than 49 percent within five year of accession, there will be no geographic restriction.

During the thirty years of Lee Kuan Yew's premiership of Singapore, he spectacularly transformed the island into a tightly controlled corporatist state that mirrored his own beliefs about the nature of society, especially on matters of race, language, democracy and welfare. His successor Goh has tried to make his own mark on Singapore, but his early experiences left lingering doubts about the capacity to bring about fundamental changes.

Partly as a result of Prime Minister Goh Chok Tong's failure to differentiate himself from Lee in his dealings with the opposition, there has been a popular tendency to see his reforms as being cosmetic or purely functional. Such assessments, however, underplay the radical nature of some of Goh's initiatives. This does not refer to his efforts to create a public space for non-confrontational civil society, but to the weakening of the PAP's hard line stand against 'welfarism' and changes to the approach to matters of race and ethnicity.

These developments raise an important question: what are the parameters of likely change in Singapore? To put it another way: where are the 'out-of-bounds' (OB) markers within the Cabinet? Making a distinction between Lee Kuan Yew's personal legacy and the core ideological premises of the regime, it argues that some of the reforms being implemented by Goh are significant challenges to the former, but are well within the bounds of the latter.

There is no question that WTO accession will benefit Chinese consumers and lead to greater economic efficiency, even though some heavily protected sectors will suffer as trade barriers fall. Empirical studies estimate that welfare gains from the
liberalization of merchandise trade are on the order of $4-30 billion a year for China and $20-56 billion for the global economy and that China's GDP increases range from 1.5 percent to more than 10 percent. The benefits of services liberalization are difficult to quantify, but some studies suggest that in the medium term, a one-third reduction of trade barriers could bring a welfare gain of $7-12 billion a year. 69

Sino-Singapore economic relations are expanding rapidly. Singapore is eying China’s WTO membership and its hosting of 2008 Olympic Games as opportunities for development of bilateral economic ties. Between 1990 and 2000, bilateral trade between Singapore and China increased at 15 percent per annum, tripling from 23 billion RMB (S$5.2 billion) in 1990 to 96 billion RMB (S$21.6 billion) in 2000., Sino-Singapore trade expanded by 32 percent same year. Forty percent of Singapore’s bilateral trade is accounted for by Guangdong province of China alone. 70 China is Singapore’s top foreign investment destination since 1997 and its fifth largest trading partner. Singapore’s cumulative investment in China amounts to US$37.7 billion out of which US$830 million were invested in the first quarter of 2002. 71 Singapore seeks to be the gateway to Southeast Asia for increasing Chinese economic activity in the region and is China’s second favourite destination for its investments in Southeast

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Asia. The abiding belief in the advantage that co-ethnics have in cross-border transactions has also seen Singapore seeking to partake in the booming Sino-Indian trade.

Not content with the coastal regions, Singapore seeks to tap the first offering of China’s strategic “Look West” policy with the initial focus being on business opportunities in the relatively uncharted inner province of Xinjiang and Shaanxi. In order to develop Singapore’s niche in the Chinese economy Singapore government allowed scholars to spend a year in China to work with their counterparts and acquire intimate knowledge of China; The Ministry of Trade and Industry’s (MTI) newly launched Asia Business Fellowship Programme, which aims to develop a core of future business leaders who have deep knowledge and strong links to the region, especially China and India; the creation of an International Business Division within MTI with a focus on China; and the resource and network information platform such as “Network China”. Beyond the economic sphere, Singapore has initiated several other endeavours on research and public education on the Chinese overseas, seeking to carve “a role in the development of Chinese culture and its evolving civilisation.”

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73 “S’pore as partner in the Sino-Indian Trade Story,” Business Times (Singapore), 15 April 2002.
75 “Govt to find ways to enter China market,” Straits Times, 26 July 2001, p. 3.
76 The Singapore government sponsored up to 100 students annually for MBA and business-related postgraduate studies in the best universities in China, India and other Asian countries. After graduation, these Asia Business Fellows will be required to serve Singapore-based enterprise in their internationalization drive.
77 Network China’s website can be accessed via http://www.ventureboard.org.sg.
78 Speech by George Yeo, Minister for Trade and Industry, at the launch of Huayinet, 11 Feb 2002, also see Straits Times, 12 February 2002.